



*A water service provider marketer gets customer feedback from a residential caretaker.
Photo credit: Rose Odengo, WASH-FIN*

COVID-19 and the Looming Financial Crisis for Water Utilities

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Water, sanitation, and hygiene (WASH) is the first line of defense against the spread of COVID-19. Safe WASH practices can help stop human-to-human transfer of the virus at the household- and community-level. Recognizing the crucial role of WASH services during a pandemic, national and county governments, especially in low- and middle-income countries, have deemed WASH as essential services and have directed water utilities to ensure uninterrupted supply to all consumers, *regardless of their ability to pay*. While important for public health, this directive can compromise the financial health of utilities over the long-term.

Averting Financial Crisis for Water Utilities During the COVID-19 Pandemic

As a result of the COVID-19 pandemic, water utilities are caught in a perfect storm of declining revenue coupled with rising costs. In Kenya, the government's directive to water service providers (WSPs) includes the following requirements: water should be provided for free in informal settlements and public places, disconnected customers should be reconnected, and no disconnections for nonpayment of bills should be carried out during the pandemic. In addition, WSPs also have to comply with social distancing guidelines and use personal protective equipment (PPE) and other infection control measures. While these directives serve important public health needs, they also amplify the economic effects of the COVID-19 pandemic on water utilities. WSPs, which rely on fees from customer tariffs, new connections, and reconnections to cover their operations and maintenance costs, stand to incur huge losses in revenue from these directives. This sharp decline in revenue collection, combined with the cost of COVID-19–related compliance, increases the financial stress on utilities.

The Nzoia Water Services Company Limited (NZOWASCO), a Kenyan utility organization providing water and sewerage services within the County Governments of Bungoma and Trans Nzoia, is one such utility that is facing a looming financial crisis due to the pandemic. “Our revenue collection is low, and customers are not paying for water. Following the directives given by the government, we cannot disconnect them. We have not paid our power bill for the last month as a result of this,” notes Mathew Wakhungu Maruti, Managing Director of NZOWASCO.

NZOWASCO's experience is not unique. The Kenya Water Service Providers Association estimates that water utilities' revenue collection has dropped from 94 percent to 30 percent since March. Based on Kenyan Water Services Regulatory Board projections of the primary financial impact of COVID-19 on two large WSPs, USAID estimates that collection efficiency will fall to 50 percent in a best-case scenario. The worst-case projection sees this number falling to 20 percent. When expenditure changes are required to meet the directive of providing free water, the worst-case scenario predicts a two-fold increase compared to pre-COVID-19 monthly expenditures. (For more details, see [Water Service Provider COVID-19 Financial Stress Testing and Mitigation](#).)

“Immediate financial support is very much needed and will be critical for sustaining water and sanitation service provision that underpin public health measures in responding to the pandemic,” notes Barbara Kazimbaya-Senkwe, USAID WASH-FIN's senior WASH governance advisor.

How USAID and Partners are Helping Water Utilities Keep the Lights On
Providing support to WSPs to ensure continuity of services enables communities to maintain access to WASH — a crucial pillar of USAID's response to COVID-19, and a part of the Agency's larger framework of short- and long-term recovery and resilience.

Financial Stress Testing of WSPs in Kenya

USAID's Water, Sanitation, and Hygiene Finance (WASH-FIN) project is conducting financial stress testing of large WSPs in Kenya using the World Bank's [COVID-19 Financial Impact Assessment Tool for Water and Sanitation Providers](#). Through as-

assessments of revenue, debt, operational expenditures (such as wages and rent), and additional costs associated with the crisis (such as chemicals, PPE, additional water points, and tanker services), the tool allows WSPs to quantify the financial impact of the pandemic on their operations and helps prioritize potential response options.

For its first cohort, USAID WASH-FIN selected two large WSPs that had previously been relatively well-performing, financially stable, and among those best-positioned to weather a financial crisis. The third WSP is smaller and representative of WSPs that despite not being financially creditworthy, had still procured commercial loans through an output-based aid approach. Such WSPs are likely to experience significant pandemic impact.

The results of the analyses are stark. The three selected WSPs will require around KES 155 million (US\$1.4 million) to sustain their operations through the next six months. If no action is taken, all three WSPs assessed are expected to run out of cash by September 2020 and, in some cases, even earlier. To continue to serve the public, the WSPs must, at a minimum, have enough cash to cover their most basic operational and maintenance costs. Given that they are presently unable to fully collect revenue from most of their customers, additional financial resources will be required to close the gap and ensure they can continue to provide essential services and support the government's public health objectives.

To help mitigate financial stress, USAID is working closely with these WSPs to consider a mix of actions, such as increase in collection efficiency, internal cash preservation, liquidation of assets, and debt restructuring. Even with all of these mitigating factors, however, it will be critical to provide financial support to these WSPs. "Due to reduced revenue from water sale, we have accumulated debt to our suppliers, including those supplying water treatment chemicals," notes David Ndumo, Corporate Manager of NYEWASCO.

USAID WASH-FIN is also performing a crucial coordination role for the Council of Governors (COG) concerning national-level dialogue and action following the onset of the COVID-19 pandemic in the WASH sector. Following the facilitation of a high-level meeting by USAID between COG and WASH development partners, UNICEF committed US\$100,000 for the provision of water treatment chemicals for WSPs in 13 counties.

All of these efforts will be extremely beneficial to companies like NYEWASCO, which must meet their obligations not just for chemicals but also other inputs, including electricity and labor costs required to keep water and sanitation services flowing.

Financial Stress Testing of WSPs in Indonesia

As in the case of Kenya, the Government of Indonesia required that local WSPs provide free or discounted water to customers, free connections for new customers from low-income households, and greater flexibility on payments to ensure residents' uninterrupted access to water. This mandate has severely impacted the financial situation of local water utilities.

Using the World Bank's financial assessment tool, USAID's IUWASH PLUS (Indonesia Urban Water, Sanitation, and Hygiene *Penyehatan Lingkungan Untuk Semua*) project is conducting financial stress testing for its 25 local partner utilities. The results, which are expected by the end of July, will help to better focus the needed assistance, including getting reduced tax for the year of 2020. In the next quarter, USAID IUWASH PLUS will continue the analysis for all of the 32 assisted water utilities, while continuing to help them improve performance, reduce operational cost, and adjust their business plans to get operations going while expanding coverage. Additional data collection is ongoing to assess COVID-19's impact on the operational activities of WSPs, which will in turn inform the local government's planned investment in their utilities.

Three months' worth of data from the Bogor District's water utility are already projecting a 12.5 percent decrease in the utility's revenue this year, which is largely attributed to commercial entities' reduced water use. The billing collection rate is also down from 98 percent to 85 percent, and capital expenditure has been reduced by 70 percent.

Building on efforts in Kenya and Indonesia, USAID plans to further roll out the stress testing tool in Mozambique and Zambia, with the possibility of expanding to other countries.

Rapid Assessment of the Impacts of COVID-19 on WSPs and Business Continuity Planning in the Philippines

To assist WSPs in the Philippines with their emergency response and recovery planning, USAID, through its Strengthening Urban Resilience with Growth and Equity (SURGE) project, conducted online surveys from April 23 to May 12, 2020, to identify the impact of COVID-19 on WSPs. USAID and its partners used the findings from the rapid assessment to identify appropriate assistance and interventions for WSPs, such as providing training and mentoring to develop business continuity and recovery plans (BCRP). The purpose of the BCRP is to ensure continuity of water services during the pandemic while maintaining the safety of the WSP employees and consumers. The project is also working with its partner WSPs to identify their interest in electronic billing and payments following the findings on low collection efficiency. SURGE is also advocating and promoting the institutionalization of proper handwashing with soap by completing concept designs of handwashing stations.

Short-Term Operating Cost Subsidies to Private Water Providers in Mozambique

As part of a coordinated response to the COVID-19 pandemic, many governments have issued decrees suspending water tariff charges for low-income households. While these decrees may be beneficial and are a form of targeted subsidies for at-risk households, they will also lead to lowered revenues for water utilities. This will result in the WSPs having reduced ability to pay for the energy and water treatment chemicals, in effect compromising the ability to provide quality water services over the long-term. USAID is partnering with UNICEF and key government partners in Mozambique to provide short-term operating cost subsidies to private water pro-

viders in peri-urban areas and small towns. This initiative will help ensure they are able to balance the need to meet short-term public health mandates with the risk of financial insolvency over the long-term.

Intervening at a Critical Juncture

The COVID-19 pandemic has already shown in just a few months the devastating impact it has had on water utilities globally. If these shocks are not addressed urgently, the consequences of utility deficits will be felt immediately and long after the virus subsides. We are also at a critical juncture in the progress toward universal access to water and sanitation by 2030. Falling utility revenues and ballooning national budget deficits in many countries could set back the advances in universal access that have been made in recent years.

Mobilizing resources to counter falling revenues and rising costs will require a concerted effort from governments, development partners, and water utilities themselves. “It’s clear that water is critical to mitigating the impact of COVID-19. As importantly, we also recognize that many of our service providers weren’t operating in a technically and financially viable manner, even before the crisis,” notes Joel Kolker, program manager for the World Bank’s Global Water Security and Sanitation Partnership. “Therefore, we must enhance our efforts to deal with the crisis and improve the long-term viability of the service providers.”

USAID is committed to using the results of financial stress tests and other approaches to not only keeping vital water supplies flowing but also ensuring water utilities remain operational now and well into the future. By supporting water utilities, USAID can ensure that the WASH sector not only maintains its critical role in fighting COVID-19, but is also on course to help countries achieve universal access in WASH by 2030.

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Additional Resources:

- [USAID Water, Sanitation and Hygiene \(WASH\): Strategic Approach to COVID-19 Response](#)
- [Globalwaters.org: WASH and COVID-19 Resources](#)
- [Globalwaters.org: WASH-FIN](#)

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