



We will begin shortly.
Participants, kindly note the following for this seminar.

**Please rename your Zoom name to: Name, Org or Project
(e.g. Las Fernando, ADB)**



PLEASE TURN YOUR MIC
OFF DURING THE
PRESENTATION



RAISE HAND WHEN YOU
WANT TO TALK



USE THE CHAT BOX FOR
QUESTIONS/CONCERNS



WE HAVE A Q&A PORTION
AFTER THE PRESENTATION

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Financial sustainability of water utilities & the impact of COVID-19



23 Feb 2021

TA6551-REG: Strengthening WASH practices and hygiene behavioral change in the Pacific
TA9685-REG: Implementing a Differentiated Approach to Urban Development in the Pacific



Schedule

Allotted time	
10 min	Introductions: Leah Gutierrez, Director General, Pacific Department, ADB Lusia Sefo-Leau, CEO, Pacific Water & Wastewater Association Alex Conroy, co-team leader, ADB WASH Pacific Regional TA
50 min	Presentation: Paul White, ADB Consultant, Wedgewood White (NZ)
10 min	Presentation: Frédéric Petit, Director of Development, UNELCO, Vanuatu
15 min	Discussion & Q&A
5 min	Closing remarks Alex Conroy, co-team leader, ADB WASH Pacific Regional TA



Wedgewood White Ltd



Paul White



Paul Webber



Agenda

- What “Financial Sustainability” Means
- Financial Impacts of COVID-19
- Balancing Expenditure and Income
- Systematic Framework for Planning
- Case Study
- Questions



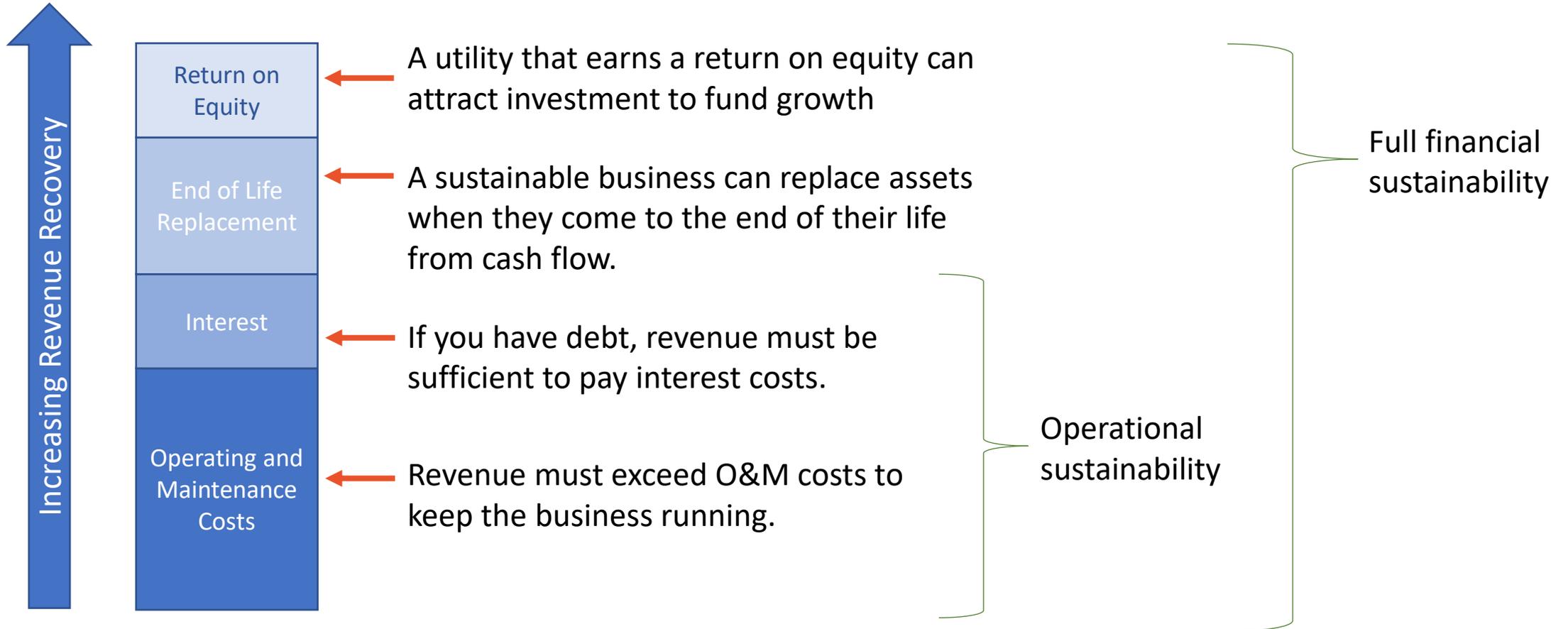
Quick Poll #1

- What was the reduction in revenue for your business in 2020 as compared to 2019?
 - 1) Don't know
 - 2) Less than 5%
 - 3) Between 5% and 15%
 - 4) Between 15% and 25%
 - 5) Greater than 25%



What is Financial Sustainability?

- Ability to fund business operations over time





Impact of COVID-19

- Main financial impact is lower income
 - reduced demand (industrial and commercial customers) and reduced ability to pay (all customers) = reduced cash income
 - changes in disconnection policy
- Other impacts
 - delayed project = higher cost (e.g. financing costs, escalation)
 - increased NRW (e.g. leaks not being fixed, increased hardship-related theft, higher proportion of domestic consumption)
 - higher chemical dosing costs for potable water and/or wastewater
- “Balancing the books” requires
 - reducing expenses and/or recovering lost cash income while maintaining 24/7 operations; and
 - drawing on reserves



Quick Poll #2

- Have you changed your disconnection policy in response to COVID-19?
 - 1) Don't know.
 - 2) No - water is an essential service and we never disconnect customers.
 - 3) No – we are still disconnecting customers who don't pay their bills.
 - 4) Yes – we have softened our disconnection policy
 - 5) Yes – we are reconnecting customers to make sure everyone has access to water at home.

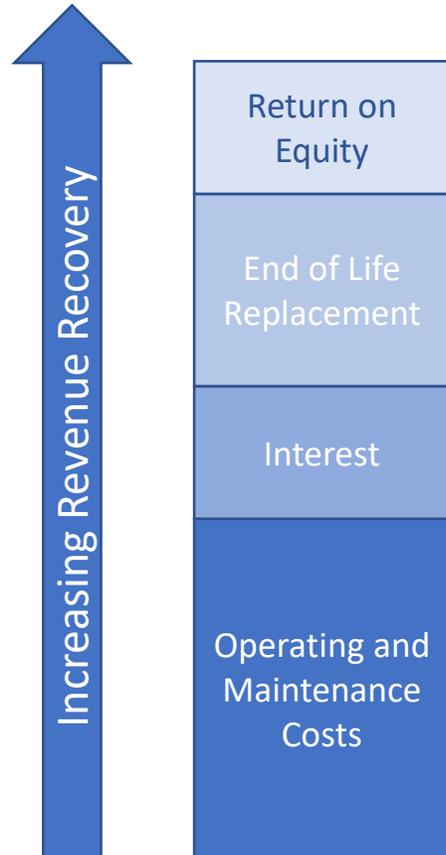


Particular Issues for Pacific Water Utilities

- For most Pacific island nations, COVID-19 has been primarily a commercial crisis rather than a health one
- Small revenue base, heavily dependent on a few large customers
- Water and wastewater tariffs are often low and have no fixed component
- Dependent on government for tariff setting, capital and operating budgets
- No independent regulator
- Less automated – more requirement for manual meter reading, bill delivery and bill payments



Reducing Expenditure



- Defer cash distributions to shareholders
- Delay or cancel capital projects
- Defer debt servicing
 - Negotiate (with government and/or debt provider) for relief
- Defer non-essential operating and maintenance costs
- Lower staff costs
 - furlough staff – but this might be difficult
 - pay reduction (better to reduce pay by 20% than reduce workforce by 20%)
 - careful work planning to avoid unnecessary over-time



Replacing / Recovering Revenue

- These need to be put in place before the emergency/disaster (we'll discuss this later)
- Some regulatory arrangements allow for risk sharing between customers and the utility and some tariff structures protect the utility more than others
- Similarly, access to disaster response/recovery funds requires putting the facility in place before the emergency/disaster



Replacing / Recovering Revenue

- Investigate access to government stimulus funds
 - infrastructure is usually a good candidate for stimulus (large proportion of the benefit stays in the region, long lived assets provide lasting benefit to the community, etc.)
- Get creative...
 - Use of water tankers and staff for sanitation / cleaning of public areas



Systematic Approach

- We support using the systematic approach adopted in the “Business Continuity Planning” workshop
 - Prevent / Prepare / Respond / Recover
- Add a dimension to your Business Continuity Plan to consider financial implications, interaction with regulator, owner and government
 - Can be a separate section or a separate column in your plan
- Bear in mind that COVID-19 is not entirely like other disasters; duration is one year and counting!



Prevent / Prepare / Respond / Recover

- Obviously, we can't prevent the current COVID-19 pandemic. And it's difficult for a single utility to prevent future pandemics or similar global emergencies/disasters
- But it is possible to prevent (reduce) financial damage to your organization arising from future emergencies/disasters
- This is covered under "Prepare"



Prevent / **Prepare** / Respond / Recover

- Financial Reserves
 - cash buffer
 - lines of credit
 - disaster response fund (built into regulatory framework, shared across utilities)
- Review regulation and pricing
 - Build contingencies into regulatory determinations (regulatory regime re-openers)
 - Revenue cap might allow recovery of a portion of lost revenue in the future
 - Make tariffs / revenue more robust (e.g. fixed charges)
- Identify critical people/skills, assets, processes and develop contingencies / redundancy (i.e. improving operational and financial resilience)
 - How do we keep billing and collections operational?
- Conduct exercises



Prevent / Prepare / **Respond** / Recover

- Review expenditure
 - Immediately (and then periodically) revise expenditure (capex, opex, salaries, staffing levels, etc.)
 - Discuss with lenders to get immediate relief (e.g. defer debt repayment)
- Review income
 - Discuss with govt to get access to emergency funding, economic stimulus projects, etc.
 - Discuss with your bank short-term credit lines



Prevent / Prepare / Respond / **Recover**

- Discussion with regulator and government re recovering lost revenue and extra costs
 - balancing requirements of utility and customers
- Consider refinancing opportunities
- Review 5-year capex and opex plans
- Consider changing tariff structure / regulatory arrangements to reflect the “new normal” operating regime, new capex and opex program, etc.



Vanuatu: UNELCO Engie

- Our case study for today



COVID-19 & Vanuatu

- Vanuatu, as for many Pacific countries, did not experience any COVID-19 case for the time being
- Cruise ships can't land since 5 March 5th, 2020.
- The borders were closed on March 26th, 2020.
- State of Emergency was declared on March 26th and has been extended until July 31st, 2021.
- Residents are allowed to come back.
- Quarantine is compulsory.



COVID-19 impact on Vanuatu

- **40% of the GDP** is linked to **tourism**
 - All the **resorts are closed**.
 - Many restaurants shut down.
 - Some **industries were impacted** (brewery & soft drink factories).
 - Some **retail stores are struggling**.
 - **Prices are increasing**.
- Many **expats left** the country.
- **Seasonal workers** could not leave the country.



COVID-19 impact on UNELCO

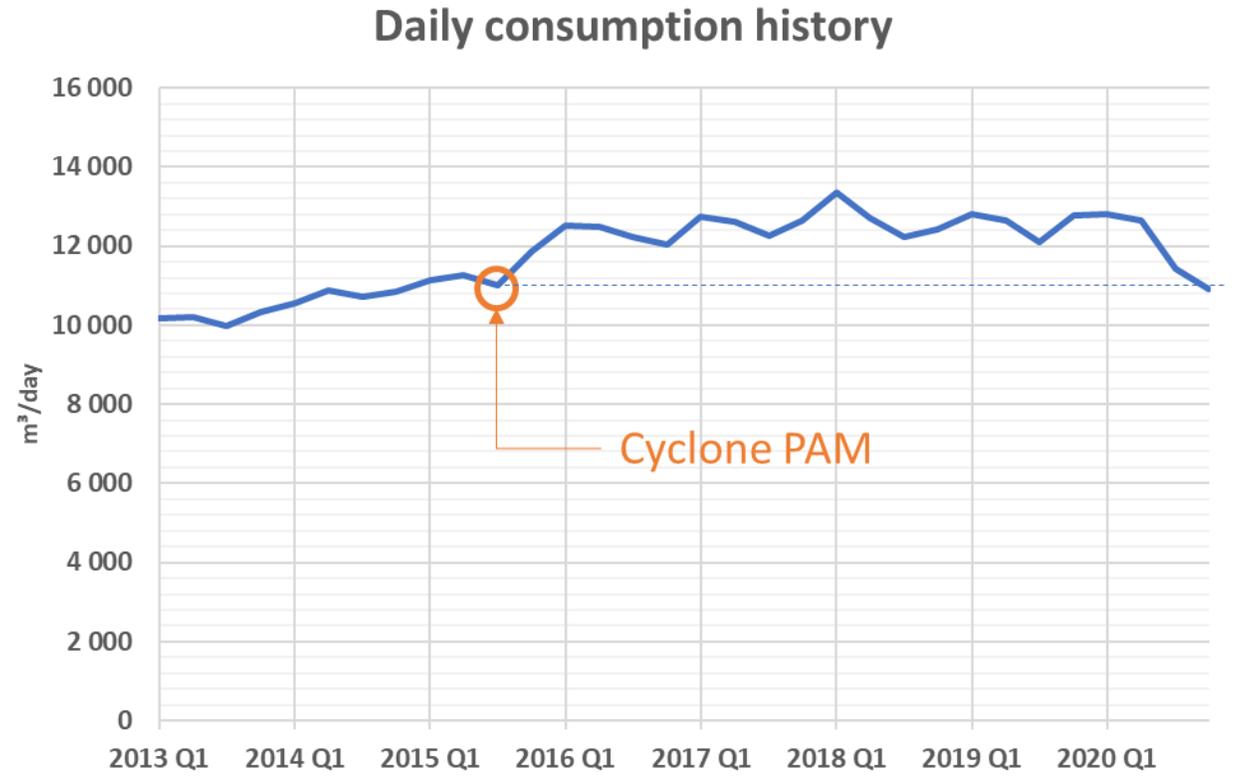
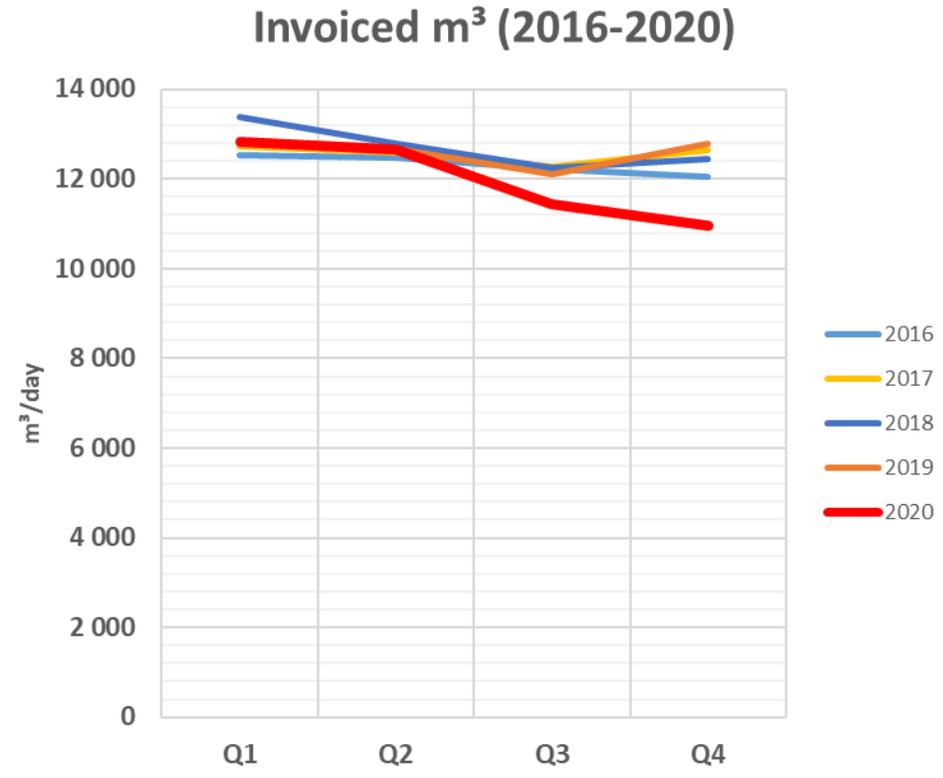
Being a power & water utility, both activities were affected

Consumptions	2020 vs 2019	March to December 2020 vs 2019
Energy HV kWh	-16%	-21%
Energy LV kWh	-5%	-6%
Water m ³	-5%	-7%



COVID-19 impact on UNELCO water consumption (1/2)

Situation is worsening at the end of the year

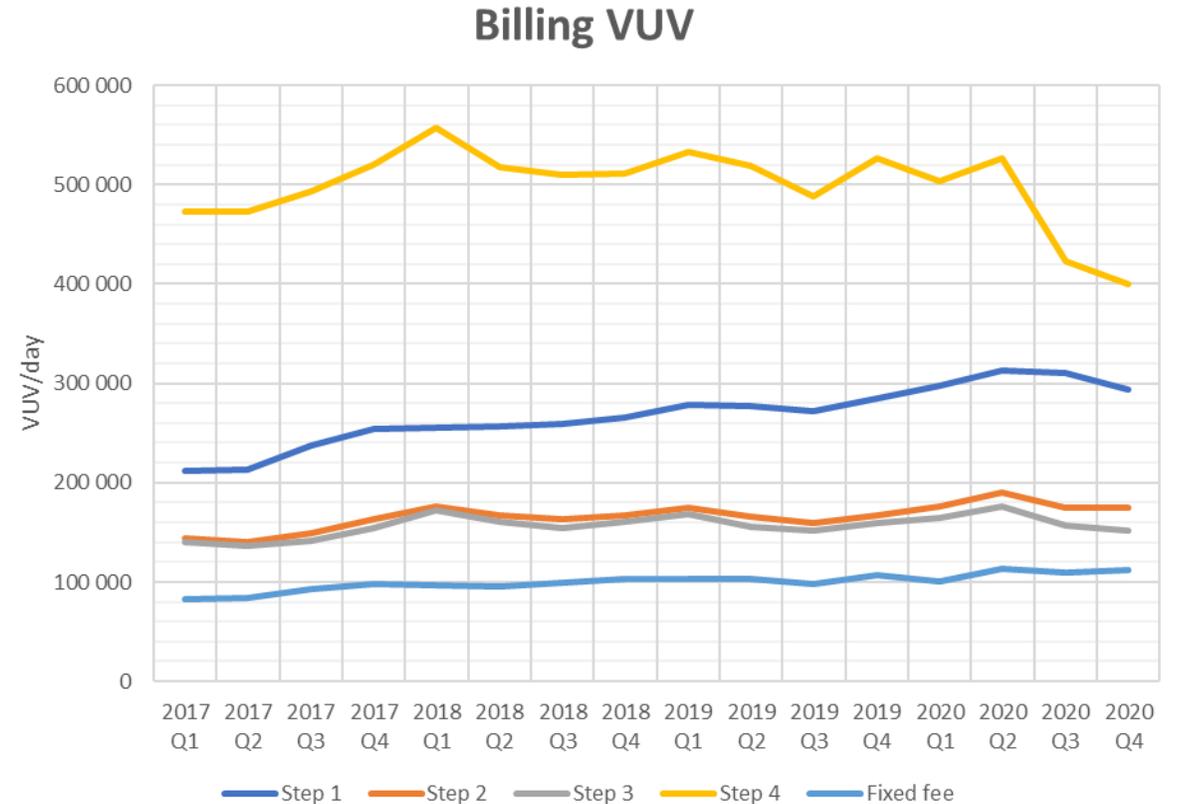
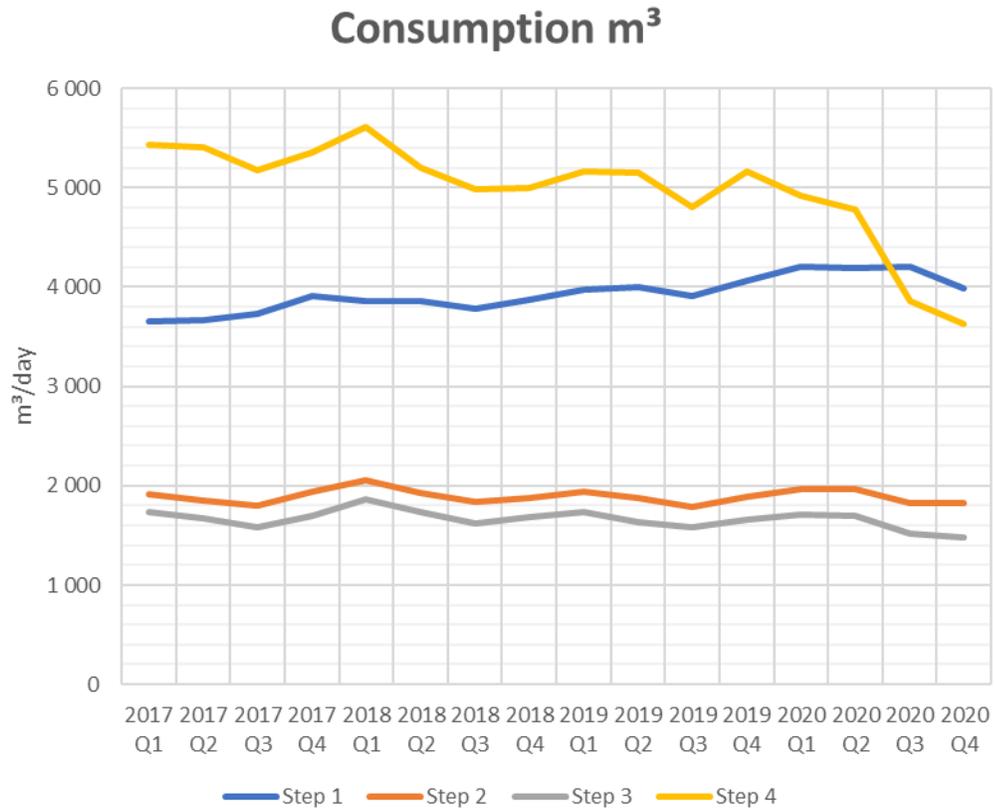


Consumption is down to the level it was after 2015 cyclone PAM



COVID-19 impact on UNELCO water consumption (2/2)

Situation is worsening at the end of the year



Globally -1% on water income 2020 vs 2019.



Managing the crisis

UNELCO management quickly took decisions

Revenues

- Keeping high level of recovery
- ✓ The number of water cuts have doubled.
- ✓ Bad debt increased by 30%

Expenses

- Reducing the volume of investments.
- Preferably using in-house capacities versus sub-contracting.
- Improving leak detection.
- ✓ For the time being no action staff expense.

There are talks with the Government on options in the time of the pandemic.



Questions

Thank you.

