

Innovative practices in the Drinking Water Supply in The Netherlands

--Private Business, Public Owners--

UNEP/GMEF
Jeju, Republic of South Korea
March 29-31, 2004

by Pieter van Geel,

Netherlands' State Secretary of Housing, Spatial Planning and the Environment

- The challenge facing many developing countries and countries with an economy in transition nowadays is how to supply sufficient water of good quality at a reasonable price? On the one hand, demand for water is rising exponentially due to continuing population growth and rising standards of living, while on the other hand water supply companies frequently have to cope with water shortages or pollution of water resources. Furthermore, many water supply and sanitation systems are in a deplorable state due to insufficient upkeep.
- Discussions on competition and private sector involvement in the Dutch water sector are not only influenced by similar discussions concerning other services, but also by developments in the water sector in other countries. For this reason the issue of drinking water supply in public or in private hands is an outstanding one. Especially private sector involvement is at this moment very much on the agenda in countries where drinking water supply and sanitation as a public service is still not developed or where ownership of management has resulted in inadequate or even failing services.
- In many countries water supply is a public service controlled by the government. There is a lot to be said for this, even if it is only that good water supply and sanitation is in the public interest. The other side of the coin is that government-operated utilities are not always a 'shining example of efficiency'. In recent years privatisation and liberalisation of the water supply sector has therefore been advocated as the favoured option. Market forces must ensure that supply and demand are efficiently matched. Private business however has tended to focus on areas where demand is backed up by purchasing power. That means that there are still sections of the population who do not have access to affordable, good quality water. Another important concern is the lack of assurance of continuity of a high quality water supply in a cost driven private operation of water services. Privatised water supply companies operating on a commercial basis have the risk of creating a tension between costs and quality and a strain on necessary investments in infrastructure and innovation.
- On one hand there is the objective of having sufficient water for all at an affordable price, on the other hand water should also be treated as a scarce commodity and has a price. Customers should pay a reasonable price for the cost of service provision, the

water supplier is obliged to keep his costs as low as possible by improving operational efficiency. How to come to an optimum solution?

- Both government and water supply companies consider drinking water quality and reliability of supply as the most important indicators for the level of services. This relates to the whole process of extraction, purification, transport and distribution of water, including investments in infrastructure and innovation.
- Drinking water is considered in the Netherlands a **public service**. The governments view is that drinking water supply being a natural monopoly should **not** be privatised and drinking water policy is aimed at guaranteeing a high quality drinking water for everyone at a reasonable price for now and in the future. The discussions on the new Water Supply Act in the Netherlands have been very much triggered by the ongoing political debate on efficiency, competition, liberalisation and privatisation in other public service domains. Services like public transport, health care, energy production and the collection, treatment and disposal of waste.
- The Dutch Water Supply Act combines in reality the best of both worlds: **Public ownership married with operation according to cost effective business principles**. It is an organisation that is a cross between a public owned utility and a private company: the PLC's (governments owned public limited companies). Public Water PLC's are incorporated as private companies and are also subjects to the rules and regulations governing commercial business. The majority of their shares are owned by local or national governments. These PLC's as such are relatively common in the water supply business. Examples can be found in Europe, as well as in North America, Asia and Africa but must not be confused with corporatised parastatal utilities.
- Public Water PLC's can be an interesting alternative for water supply in developing countries combining the best of both worlds. This combination offers all the necessary advantages. As a public limited company, it is required to provide optimum watersupply services for everyone in its service area. The fact that it operates on a commercial basis means that the cost of services provided have to be recovered from the users. Another advantage is the financial transparency of a Public Water PLC, which is required to open its annual accounts to public scrutiny.
- Since water companies have a (regional) monopoly on the supply of drinking water, attention needs to be given to efficiency. To guarantee an efficient water supply the instrument of **benchmarking** is used in the Netherlands. In this benchmarking the performance of water companies is compared, using performance-indicators on water quality, customer service, environment and finance & efficiency. The aim of the benchmark is threefold: 1) increase transparency, 2) give account to the public, shareholders and the Board of Directors and 3) generate information to improve performance. Two benchmark studies have been carried out so far. In the near future the benchmark study will be compulsory.
- In summary: the issue of drinking water supply in public or in private hands is an outstanding one in many countries. Public ownership married with operation according to commercial business principles as used in the Netherlands can be applicable to other countries and other regions of the world. In a nutshell it can contribute to realise WSSD targets as they relate to water directly as well as indirectly

relate to finance and governance. Lessons can be drawn from the Dutch national experience. Of course the Netherlands is willing to share its experiences with others active in the field of national drinking water policy and national legal frameworks.

--0--