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WATER UTILITY CORPORATIZATION

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CORPORATIZATION

Corporatization is a process by which a public sector service provider is transformed to one with the commercial orientation of a private company.

The transformation would typically include these steps:

- **Establishment of a distinct legal identity for the company under which the government's role is clearly identified as the owner;**
- **Segregation of the company's assets, finances, and operations from other government operations; and**
- **Development of a commercial orientation and managerial independence while remaining accountable to the government or electorate.**



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CORPORATE GOVERNANCE

Central to the corporate transformation is the adoption of sound corporate governance.

A fundamental goal of corporate governance is to protect and enhance the long-term value of the company for the shareholders. If consumers and investors have confidence in utility management it creates a platform for financial viability and sustainability.

Corporate governance has to protect against the siphoning of revenue and profits by politicians or others.

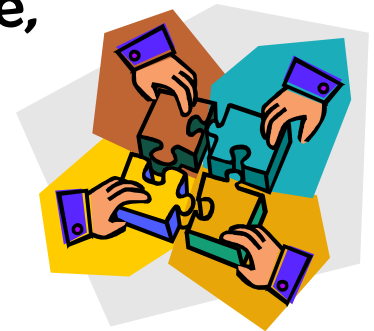
A corporatized water company has a narrowly defined service obligation, i.e. delivery of water.



CORPORATE GOVERNANCE

A **governance model** refers to allocation of performance obligations among stakeholders and a related allocation of monitoring and enforcement obligations.

A **system of corporate governance** sets out the objectives, rules, mechanisms, and procedures by which all stakeholders will engage with the utility. Tools and mechanisms are used to achieve, monitor, and enforce performance.



CORPORATE GOVERNANCE

Sound **corporate governance** is supported by:

- ❖ Modern accounting and financial management practices;
- ❖ Customer orientation;
- ❖ Transparency;
- ❖ Use of data to assess and monitor performance.



These characteristics are interwoven and mutually supporting.

CORPORATE GOVERNANCE - Mechanisms

Corporate Governance is achieved through mechanisms employed at a range of levels internal and external to the company:

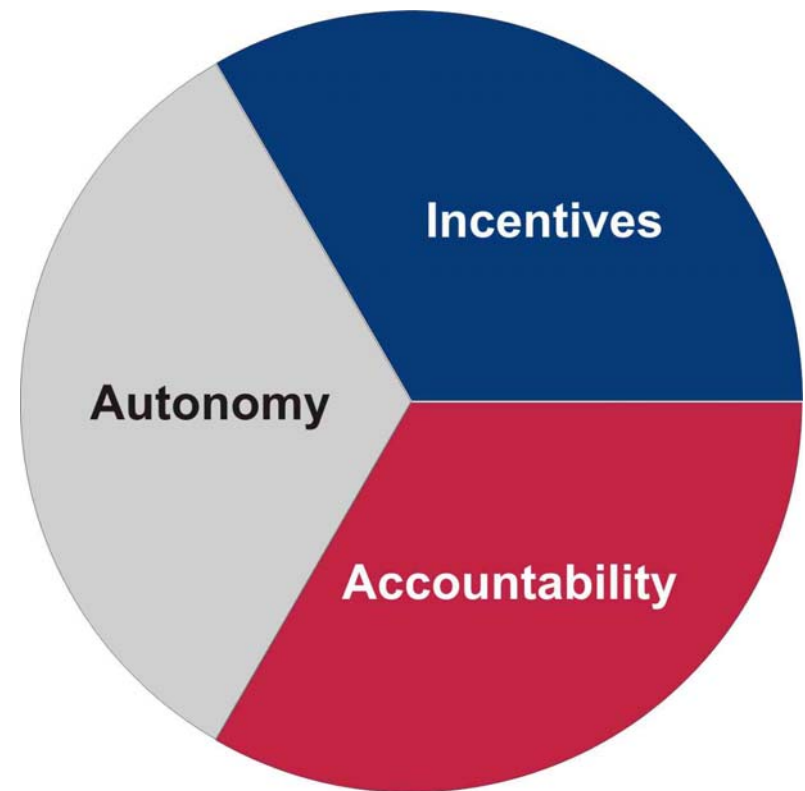
- Establishing the commitment
- Enacting a contract
- Establishing a Board
- Giving the Board the powers and tools needed to discharge responsibility
- Linking personnel to performance
- Establishing accountability and assigning the powers and tools needed to assess performance



CORPORATE GOVERNANCE - Characteristics

In developing these characteristics, the utility should strive for a framework of:

- **Autonomy.** Corporate management needs autonomy to make required decisions and to take needed actions.
- **Incentives.** Corporate goals should be reinforced by a system of performance targets and incentives.
- **Accountability.** The company should be externally accountable for achievements.



Framework of a Corporatized Company



CASE STUDY COUNTRIES

The experiences of seven water utilities were examined for examples of good practice in corporatization:

- Aqaba, Jordan
- Aqua, Poland
- Copasa, Brazil
- Johannesburg Water, South Africa
- National Water and Sewerage Company, Uganda
- Public Utility Board, Singapore
- Sydney Water, Australia.



For each Case Study, sample documents were collected which served as instruments in structuring the specific corporatization and which might be tailored by other countries engaging in corporatization.

ENABLING FRAMEWORK

There is often a stated commitment to commercialization and improved corporate governance at a national level....



- **In South Africa, the King Report on Corporate Governance 2002 set out a Code of Corporate Conduct which was widely adopted among the government-owned companies.**
- **Australia implemented the Council of Australian Governments' Strategic Water Reform Framework (1994) which set out goals for economic and environmental sustainability.**

CONTRACTS & AGREEMENTS

The corporate governance regime is clearly spelled out in a contractual document between government and the utility....

- **The relationship between the Municipal Government of Bielsko-Biala (Poland) and Aqua is set in a performance agreement which is reviewed and updated annually. A key provision is:**

a tariff adjustment with the ultimate tariffs to be approved by the municipal body.

- **The City of Johannesburg developed a service delivery agreement with Johannesburg Water which reflects its municipal goals. The service delivery plans indicate:**

Key Performance Indicators (KPIs) including quantifiable targets for UFW, revenue collection, and training targets.



INDEPENDENT BOARD

The corporate expectations are enacted through a qualified and independent Board...



- AQUA has a Supervisory Board and a Management Board—a two tier board structure. The Supervisory Board must have at least five members and oversees the company’s activities and reports to shareholders. Three members are designated by the municipality and the other two by the strategic partner.
- The Management Board is typically appointed by the Supervisory Board, but the company articles can stipulate that the Management Board be appointed (and dismissed) at a shareholders meeting. The latter is true of Aqua. The Management Board is responsible for day-to-day operations of the company.

BUSINESS ORIENTATION

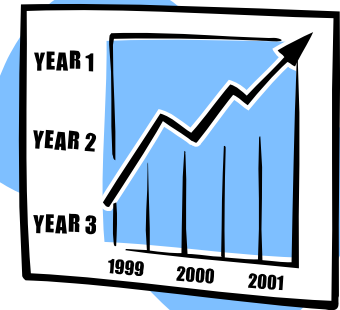
The emphasis is on planning for long-term financial sustainability...

- The Memorandum of Understanding among the Jordanian Ministry of Water and Irrigation, the Water Authority of Jordan, and the Aqaba Special Economic Zone Authority sets out an agreement that all parties agree that the Aqaba water Company will be...

”operated as a financially viable, self-sustaining entity that will be run under commercial principles and promote private sector participation.”

- National Water & Sewerage Corporation (NWSC) of Uganda has a performance contract with the Government of Uganda which commits to:

increase efficiency by consolidating and enhancing the financial and commercial sustainability of NWSC...And to...permit full financial freedom to NWSC in all areas of operation....



MANAGEMENT TOOLS

Board and management have appropriate tools to achieve goals...

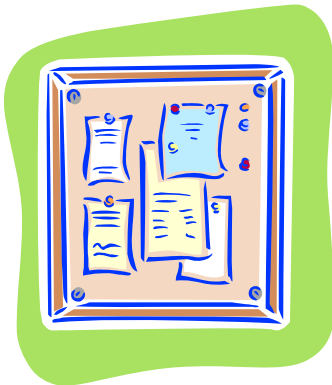
Within a corporatized utility, it is more likely that:



- ✓ The utility has defined goals to recover, at least, O&M and possibly investment costs, depreciations, debt service.
- ✓ Financial information is accessible and used for improved planning, management and oversight.
- ✓ There is an improved ability and incentive to collect accurate financial data.
- ✓ Government accounting methods are replaced and international standards are adhered to.
- ✓ Board and management have access to appropriate training.

TRANSPARENCY

The appointment and activities of the Board are transparent to the public...



- **In some countries the Board interviews and/or meetings are televised.**
- **Minutes of board meetings can be published**
- **Newspaper announcements of shortlists, openings, appointments**

PERFORMANCE INCENTIVES

There is an established system of staff incentives to support corporate objectives.....

- NWSC system of linking executive compensation with performance***
- Profit sharing at COPASA***
- Union negotiations in Singapore to support merit based pay***



ACCOUNTABILITY

Transparent framework for setting and measuring achievement against government objectives establishes public credibility, confidence, and accountability...

- Information provided to oversight bodies allows for Board and management to be held accountable for results.
- Information flows within a company allow better management and targeted activity.
- Data can be used effectively to create a system of incentives linking personal goals (compensation) and corporate performance.



JORDAN: Aqaba and Amman

AQABA WATER COMPANY

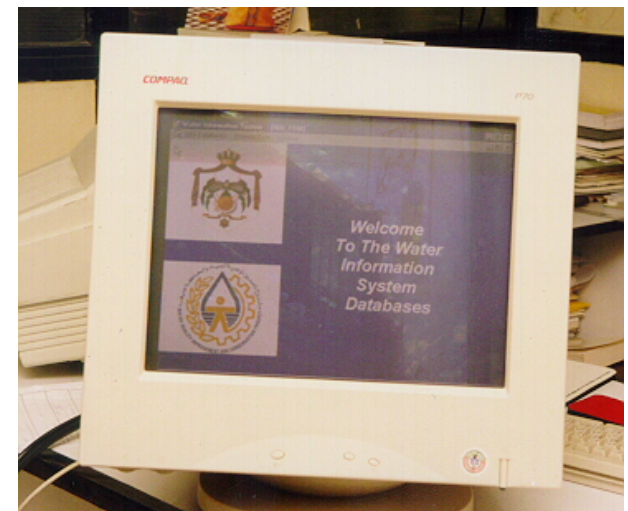
- Established June 2004
- Limited Liability Company
- Co-ownership: Water Authority of Jordan (85%) and Aqaba Special Economic Zone (15%)
- Assignment Agreement w/WAJ; Development Agreement w/ASEZA
- Co-regulated by WAJ and ASEZA
- Management Committee appointed by WAJ (4 members) and ASEZA (2 members)
- Assets transferred to AWC
- Investment is full responsibility of AWC

ACHIEVEMENTS - AWC

- New water connections installed in less than 10 days, 85% less than 4 days
- Increased revenues & collections by 20%
- Net Profit: 23% after covering operational and capital costs
- NRW: reduced to 26% from 34%
- Employees Transferred
- Customer Relations/Awareness Program started
- Improved financial and information management systems in place
- Preventive Maintenance Program and Rehabilitation of rural networks

JORDAN WATER COMPANY

- Established January 2007
- Limited Liability Company
- Single owner (WAJ)
- Assignment & Development Agreement between WAJ and Miyahuna
- Regulated according to contract by WAJ/PMU
- Management Committee appointed by WAJ
 - 6 governmental + 1 private sector



ARMENIA - Yerevan Water Company

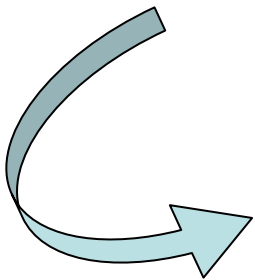
The Problem: Financial collapse of the water and sewerage sector. Collection rates of 15%. No funds for maintenance or capital investment. Steady decline in services (only 3-7 hrs/day); none of the 22 wastewater treatment plants working.

Sector Reform: Broke up the Armenia Water Company into 5 companies using various management approaches; oversight by State Water Committee; tariffs regulated by the PSRC.

With support from USAID and the World Bank, the **Yerevan Water Company** was put under a **6-year management contract**.



Armenian Wastewater Treatment Plant – Before Reform (2004)



- **Progress in O&M Cost Recovery**
- **Energy Efficiencies**
- **Improved service to average of 18.4 hrs/day**
- **Increased Collections from 21% to 79%**
- **Customer Metering increased from 2% to 91%**

INDIA - Orissa

The problem: Limited coverage with high level of illegal connections and UAW; less than 25% O&M cost recovery; focus on bulk water rather than distribution; low collection rates except from industry.

Corporatized Operating Entity (COE) carved out from the Public Health Engineering Organization (PHEO) will function as **a public water and sanitation services operator, accountable to the municipal government of the city, regulated through a contracting framework,** and operates as a **financially viable entity** with declining financial support (subsidy) from the State Government of Orissa:

- Management contract to COE
- Defines rights, liabilities for managing WS & SS
- Rights include fees for running contract and return on equity
- Incentives defined for improving efficiencies
- Liability to include penalty for non-performance
- Security deposit (if needed) from COE
- Termination clauses
- Force Majure clauses
- Employees transferred or on deputation from PHEO, or staffing from other sources.

