

# Reforming Public Water Utilities

**Capacity Building Module**



# Why focus on public utility reform?



- ◆ Most people remain served (or not) by public utilities
  - ~ Private involvement is limited, and unlikely to increase
  - ~ Greater interest from local private sector but limited capacity at present
  - ~ Move to less “deep” modes of PSP leave major responsibilities with public sector
- ◆ Public WSS utility reform is an area where little knowledge is available
  - ~ Lack of standard terminology and structured approach
  - ~ Lack of tools for those wanting to reform
- ◆ Need for pragmatic, local, solutions from all actors

# The backbone of this module: 11 case studies

- AQUA S.A. (Bielsko-Biala, Poland)
- Haiphong Provincial Water Supply Company (Vietnam)
- Johannesburg Water (South Africa)
- National Water and Sewerage Corporation (Uganda)
- ONEA (Burkina Faso)
- Public Utilities Board (Singapore)
- Philadelphia Water Department (USA)
- SANASA (Campinas, Brazil)
- SIMAPAG (Guanajato, Mexico)
- Scottish Water (Scotland)
- SONEDE (Tunisia)

# Outline of presentation



- Part A: A framework
  - ~ What constitutes a well run public utility
  - ~ How to balance accountabilities
  - ~ Reform as a staged approach over many years
- Part B: Approaches for implementation
  - ~ Corporatization
  - ~ The use of performance agreements
  - ~ Enhancement of customer involvement
  - ~ Financial turnaround
  - ~ Institutional capacity building

# Critical dimensions of a well run (public or private) utility – basis for reform



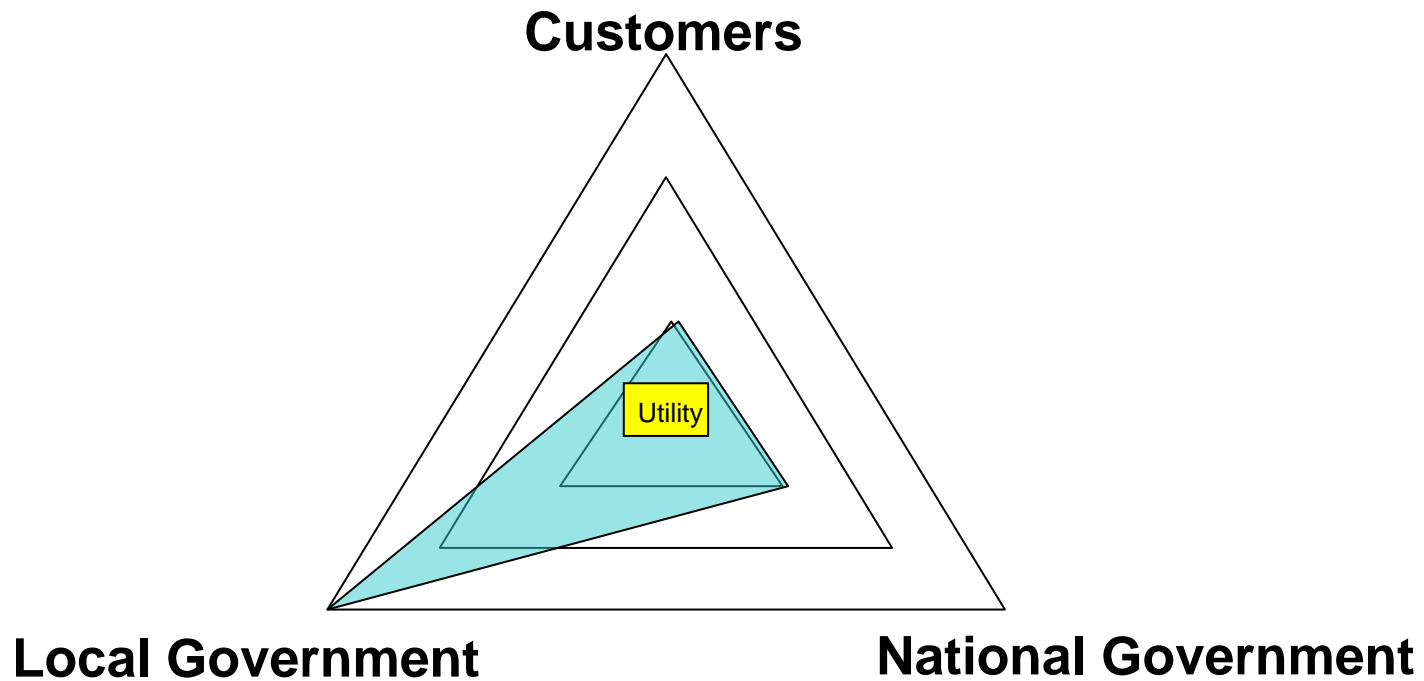
- ◆ **Autonomy** ~ being independent to manage professionally without arbitrary interference by others.
- ◆ **Accountability** ~ being answerable to another party for policy decisions, for the use of resources, and for performance.
- ◆ **Customer orientation** ~ Reporting and “listening” to clients.
- ◆ **Market orientation** ~ making greater use of markets and the introduction of market-style incentives.

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# A traditional utility: accountability skewed towards local government



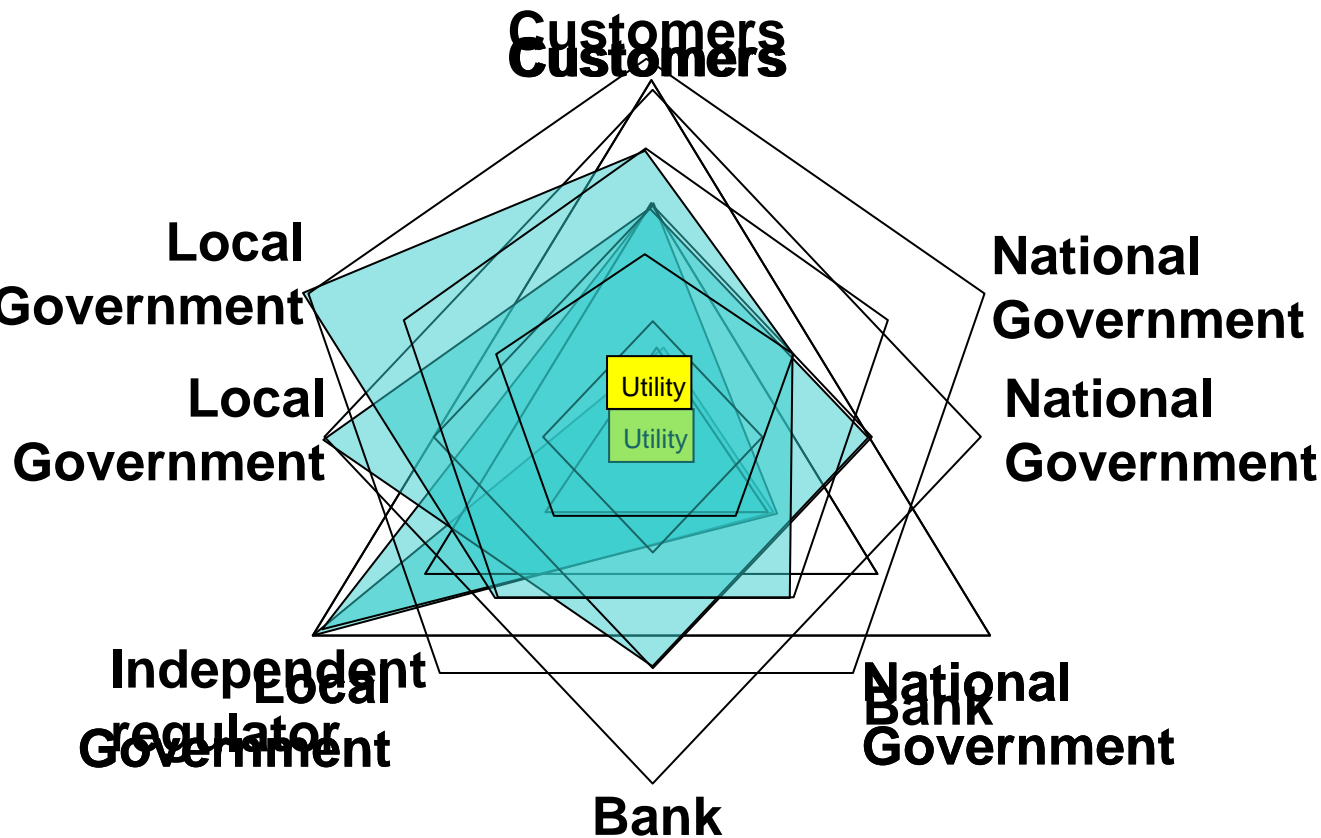
# What is the correct balance of accountabilities?



- ◆ Each situation is different
  - ~ Diversify accountability (from triangle to rectangle to pentagon)
  - ~ Balance accountability (maximize the surface area)
- ◆ Depends on the stage of development
- ◆ Expansion of the “web” of accountability will take many years
- ◆ Accountability to customers is consistently a critical success factor
- ◆ Private financiers provide long term balance



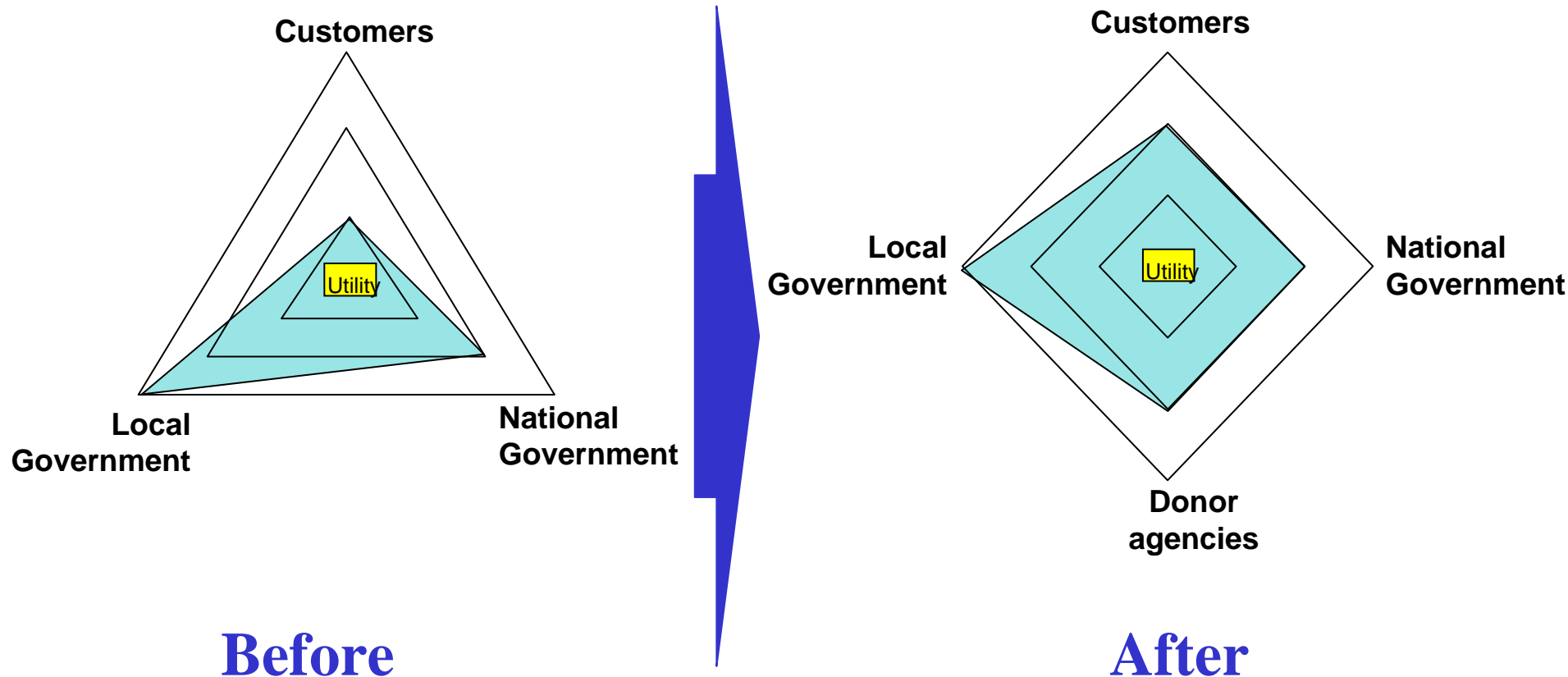
# Possible reforms to balance accountabilities



## Reform measures:

- Raise tariffs
- Source external funding
- Introduce regulator

# Before and after reforms: HPWC (Hai Phong, Vietnam)

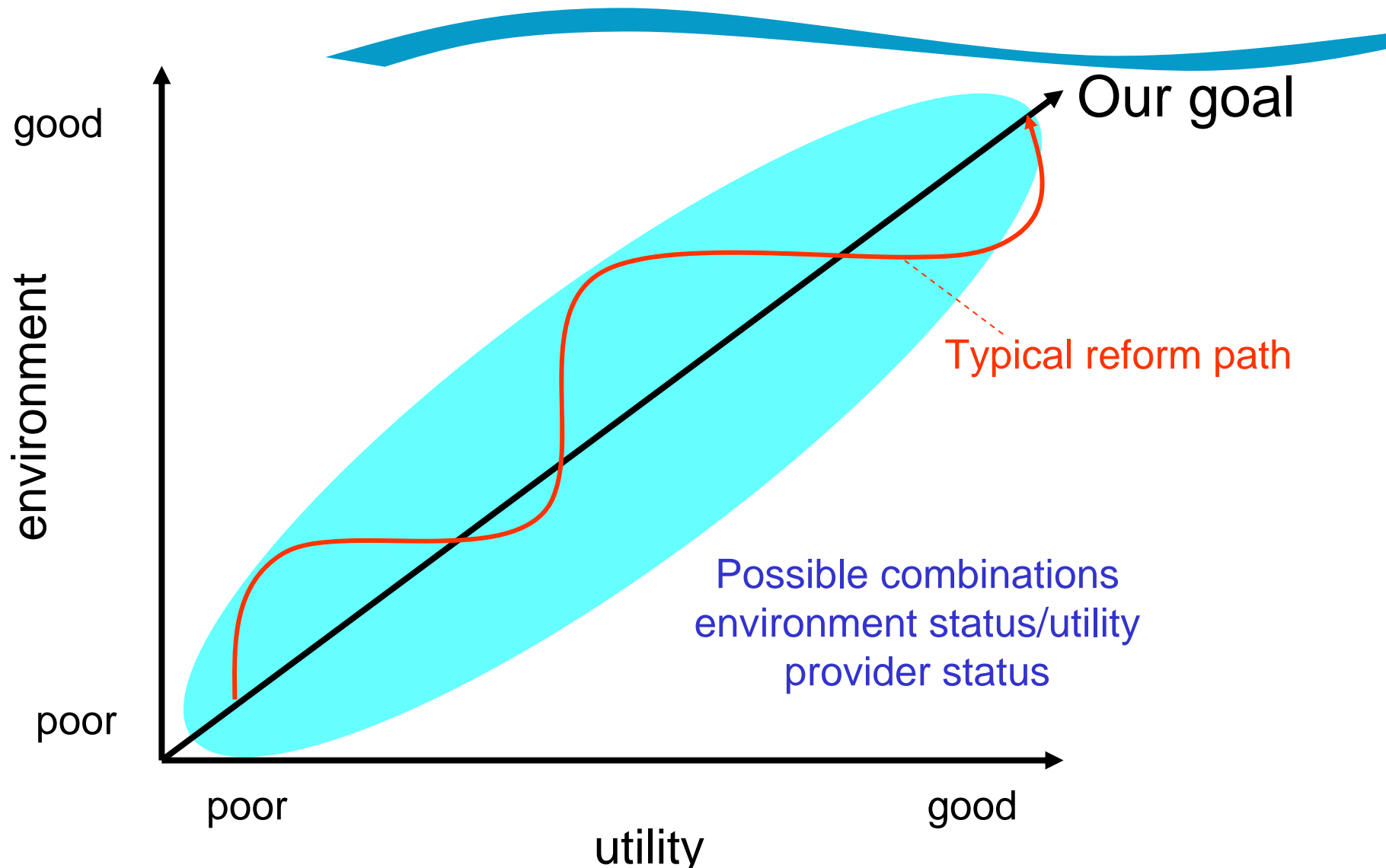


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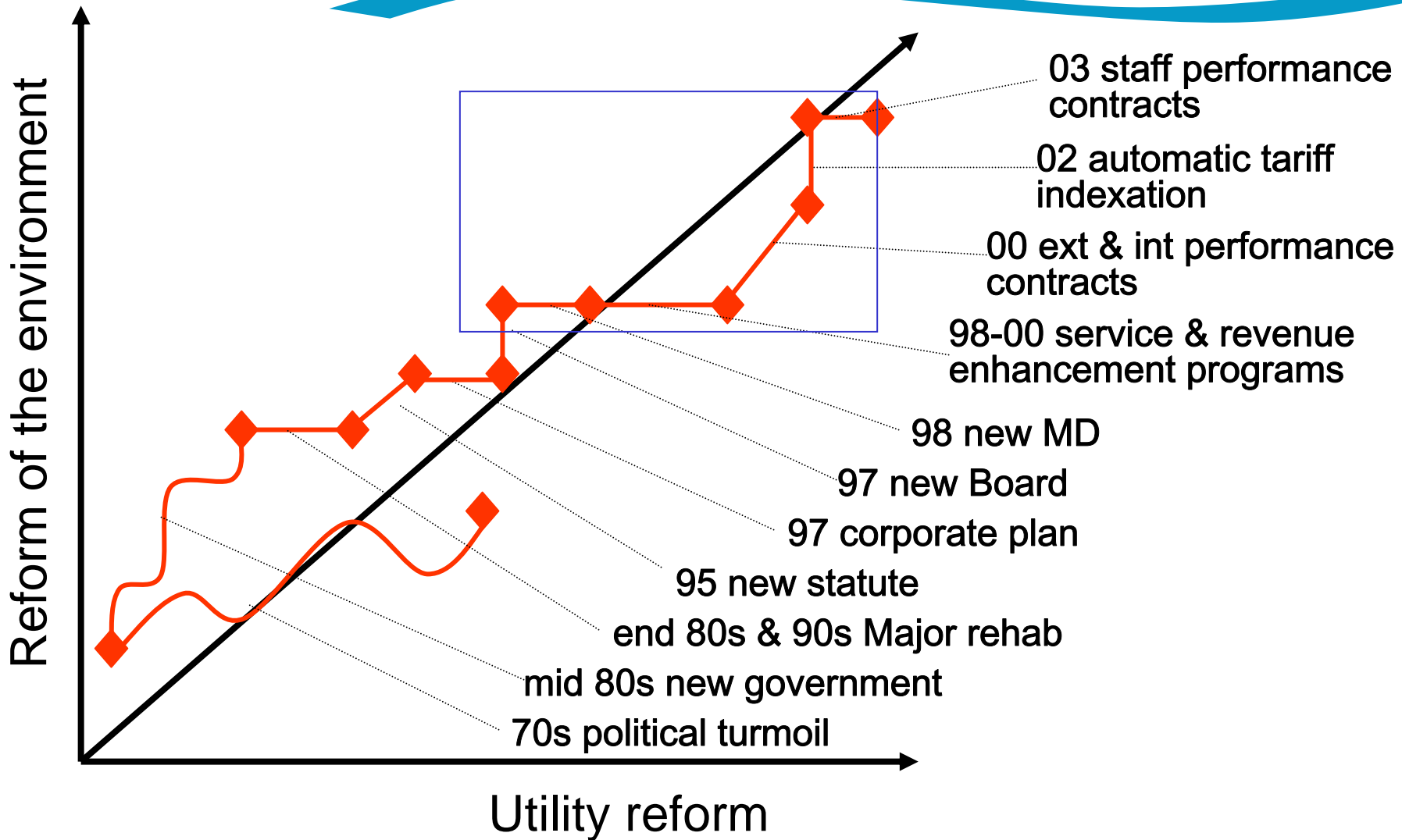


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# Sustainable utility reform and reform of the environment have to go hand-in-hand



# How Uganda combisequenced the reforms of NWSC, its national utility



# ...and how reforms enhanced performance of NWSC



indicator	99/00	02/03
Water supply coverage	54%	63%
Unaccounted for water	42%	39%
Staff per 1000 connections	21	11
Collection period (months)	6.2	4.7
Tariffs (Ushs/m <sup>3</sup> )	881	1015

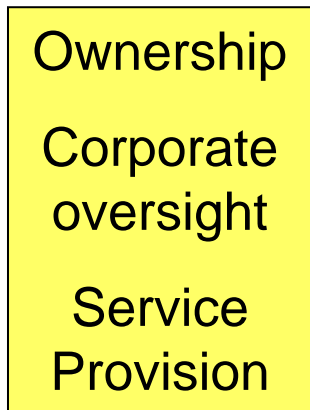
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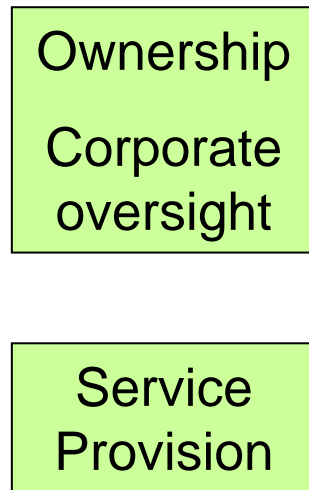
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# Taxonomy of public utility models

*Department*

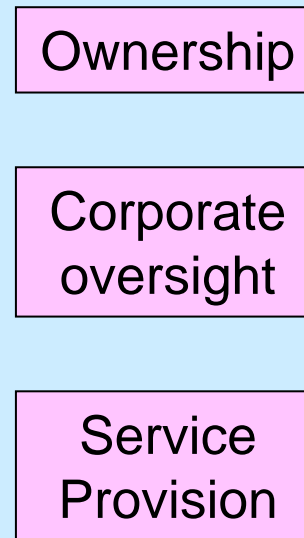


*Ring-fenced Department*

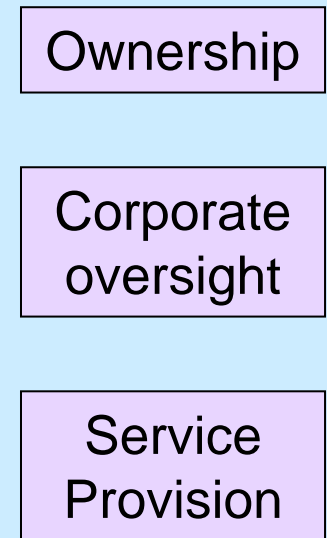


## Corporatized utilities

*Statutory Body*



*Government-owned PLC*



public law



private law



# Critical success factors for corporatization



Meaningful corporatization: not IF but HOW

- 💧 Design of corporatization
- 💧 The way the government exercises its ownership function
- 💧 Multiple utility ownership

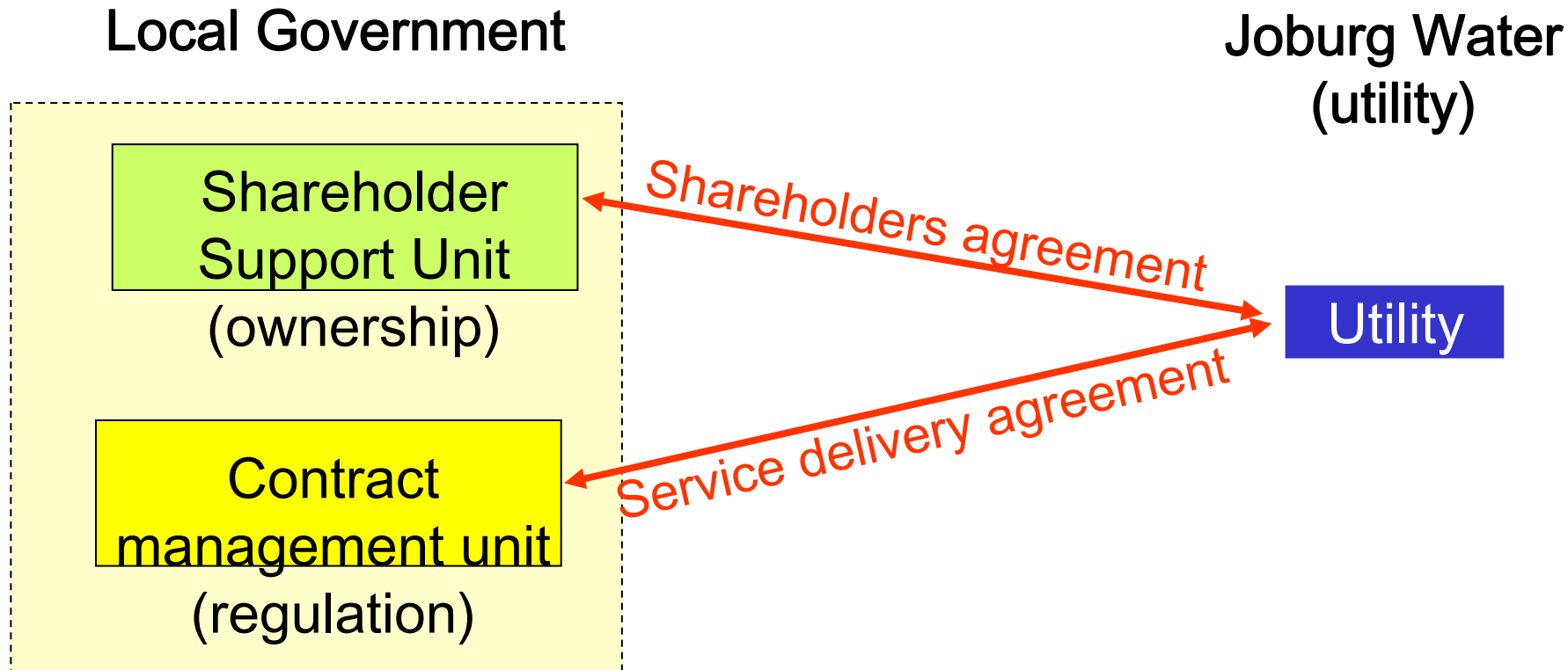
# Design of corporatization



Sectoral laws, laws on SOEs, and/or specific laws/articles of agreement define:

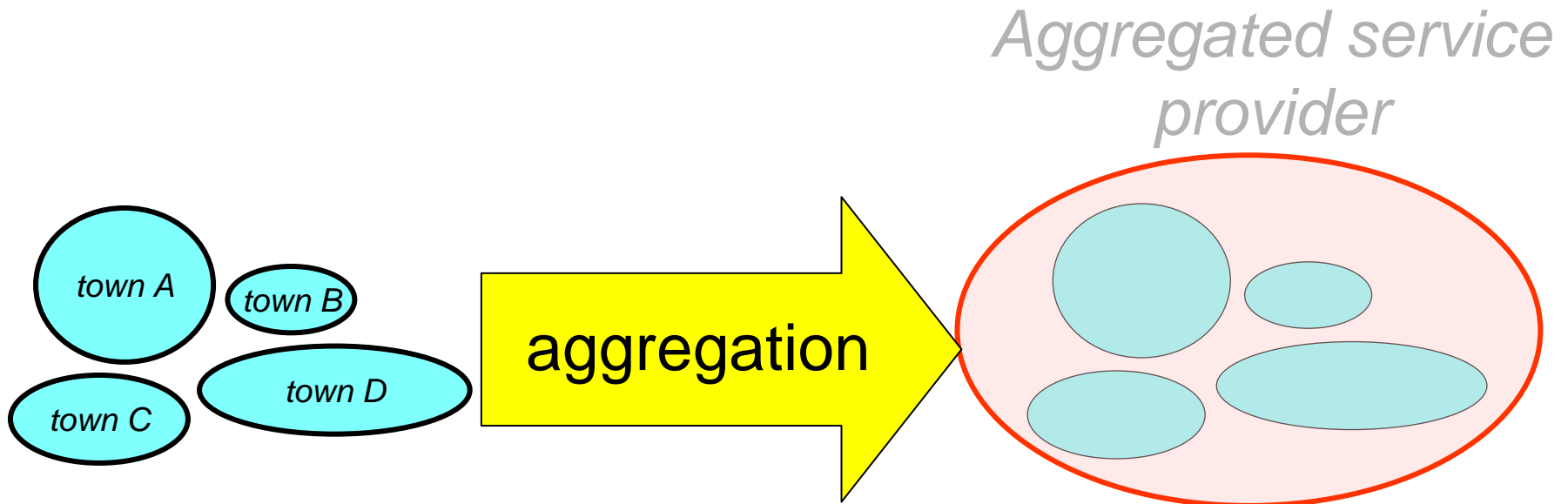
- Composition and mandate of the Corporate Oversight Board
- Asset ownership
- Transparency and disclosure
- Financial procedures
- Personnel and procurement rules

# How the City of Johannesburg (South Africa) exercises its ownership rights

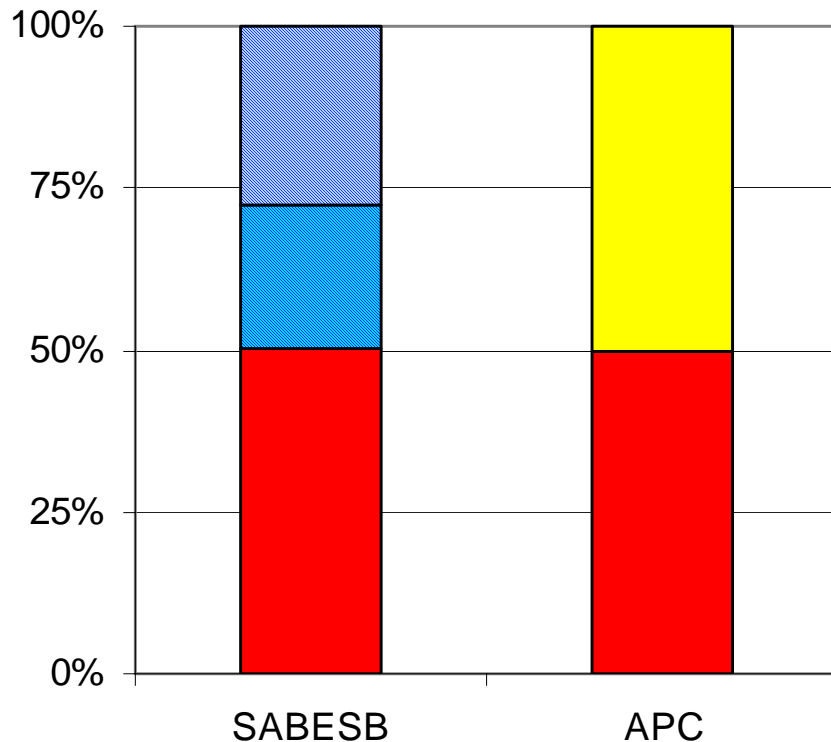


# Multiple ownership through aggregation

Grouping of several municipalities into a single administrative structure for the provision of a service

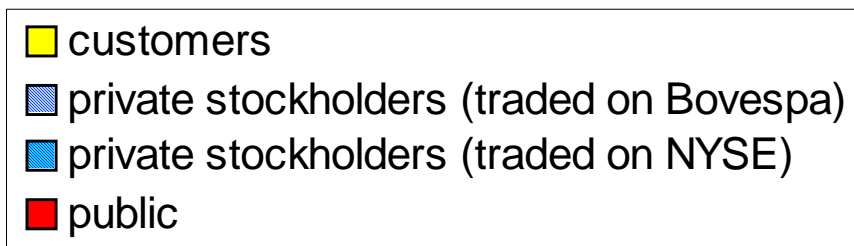


# Multiple ownership through sale of stock



SABESP, Sao Paolo,  
Brazil: sold stock to  
private investors

APC, Puerto Cortez,  
Honduras: sold stock to  
customers




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# Types of contracts



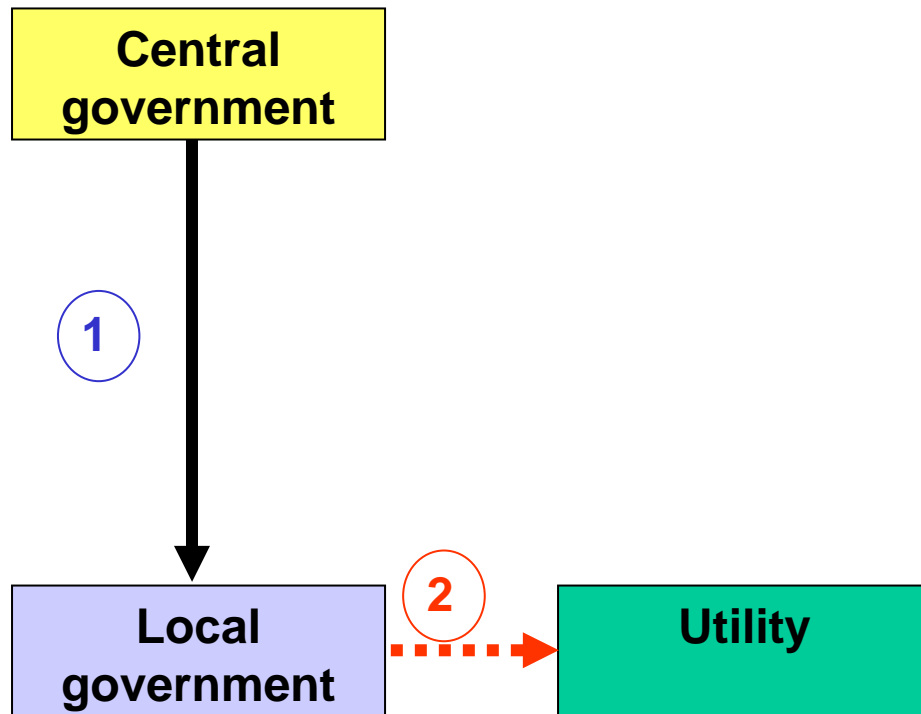
contract	parties
Business plan	Local gvt & utility Board & MD
Performance contract	Local gvt & utility Within utility
Employee contract	Board & MD MD & staff
Intergovernmental grant or loan agreement	Central gvt & utility Local gvt & utility

informal



formal

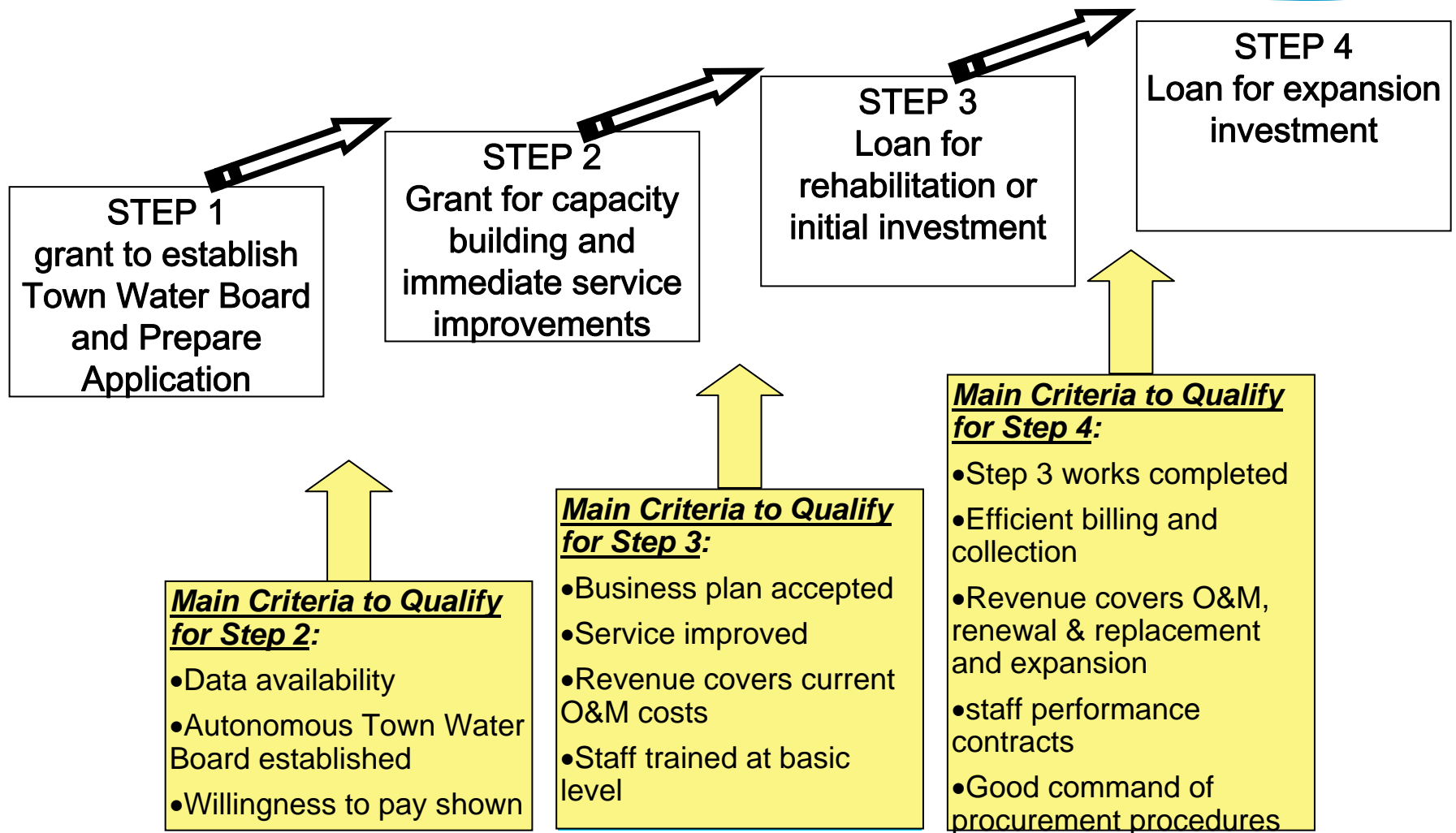
# Agreements can provide incentives to reform



1. Performance based intergovernmental transfers
2. Performance based agreements



# Performance based intergovernmental transfers: Ethiopia

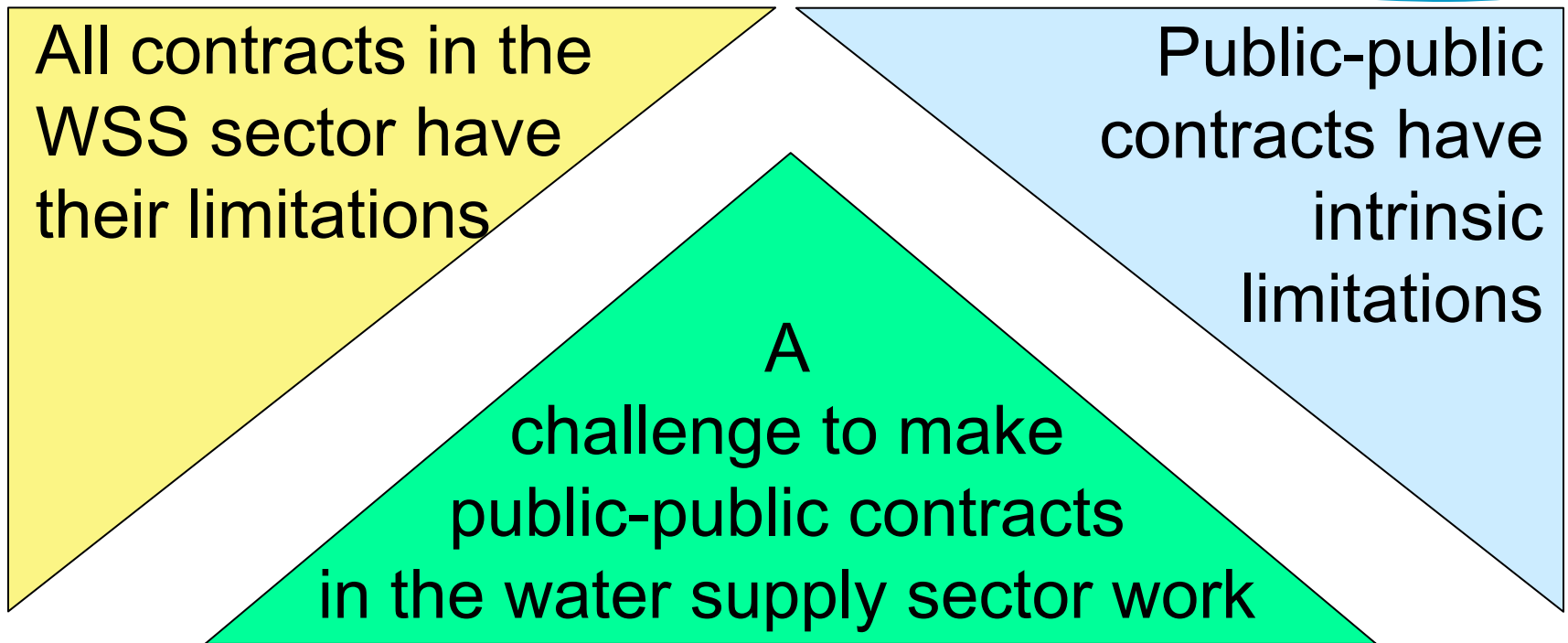


# A good contract is short and simple and outlines....



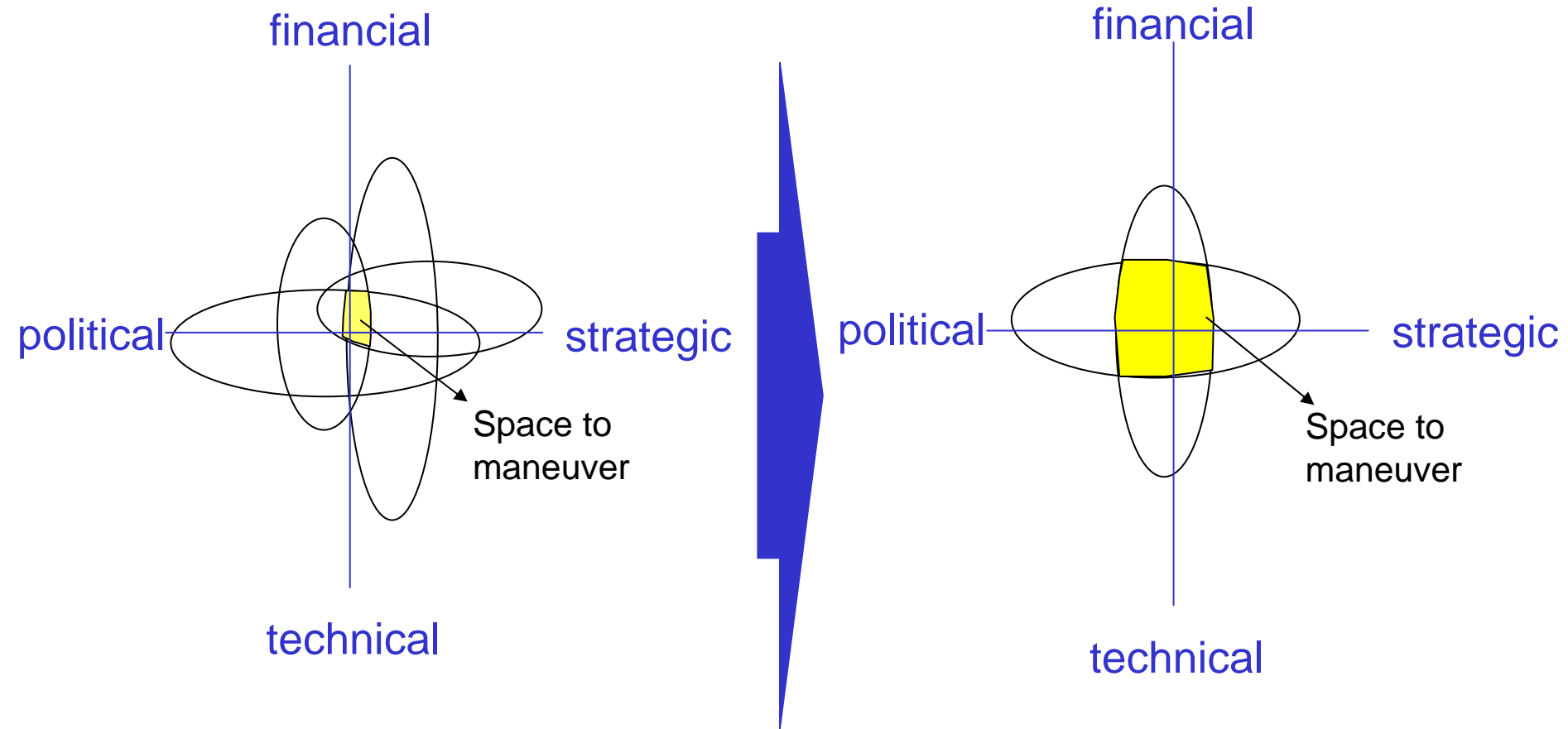
- ◆ The responsibilities of each party including performance targets
- ◆ A small and realistic set of indicators
- ◆ Effective monitoring – independent audits
- ◆ Realistic rewards/sanctions for complying with performance targets
  - ~ Monetary sanctions/rewards for utility as a whole
  - ~ Revocation of license of utility
  - ~ Non-monetary/monetary individual managers or staff
  - ~ Public reporting of performance

# Public- public contracts in the WSS sector: Why bother?



Properly designed contracts can be a useful tool...

# Creating room to deliver: Remove conflicting and overlapping rules



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# Customer involvement



- ◆ How 'deep':
  - ~ Information ~ one way stream
  - ~ consultation ~ two way communication (non-binding)
  - ~ participation in decision making ~ two way and binding
- ◆ Which levels:
  - ~ Service and information to individual customers
  - ~ Community involvement
  - ~ Setting up collective customer participation systems
- ◆ Who implements:
  - ~ Utility
  - ~ Regulator
  - ~ Independent watchdog (outside formal government structures)

# SIMAPAG (Mexico) uses balanced score card to get customer information



- ◆ Introduced in 2001
- ◆ Annual and 5-year internal targets set for four perspectives (client, finances, processes, learning)
- ◆ Departments gather monthly information, compiled to inform Board and staff
- ◆ Introduction of scorecard has focused staff's priorities thus increasing efficiency
- ◆ Information is not yet methodologically used to define corporate strategies and priorities

# Customers as Independent watchdog: Bangalore, India's Report Cards

- Divided by Agency and level of satisfaction
- Rating scale allowed for public to quantify their satisfaction or dissatisfaction

Table 3: Key Dimensions of Satisfaction By Agency (General Households)

Agency / Dimension of Satisfaction	Percentage of respondents satisfied
<b>Staff Behaviour</b>	
Bangalore Development Authority	11
Bangalore City Corporation	31
Bangalore Water supply and Sewerage Board	26
Karnataka Electricity Board	18
Regional Transport Office	34
Telephones	24
Banks	35
Hospitals	27
<b>Quality of Service</b>	
Bangalore Development Authority	2
Bangalore City Corporation	10
Bangalore Water supply and Sewerage Board	13
Karnataka Electricity Board	19
Regional Transport Office	26
Telephones	16
Banks	23
Hospitals	21
<b>Information Provided</b>	
Bangalore Development Authority	4
Bangalore City Corporation	16
Bangalore Water supply and Sewerage Board	18
Karnataka Electricity Board	28
Regional Transport Office	27
Telephones	23
Banks	33
Hospitals	38

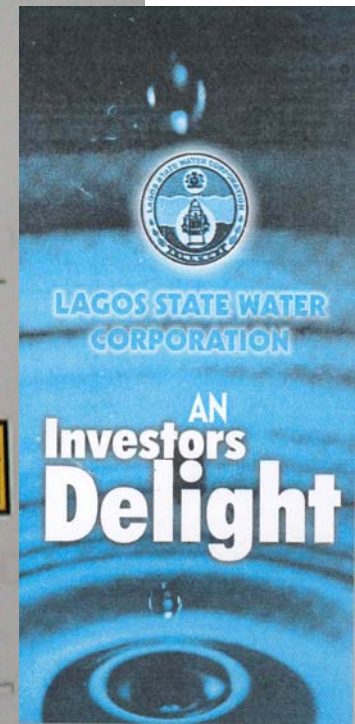
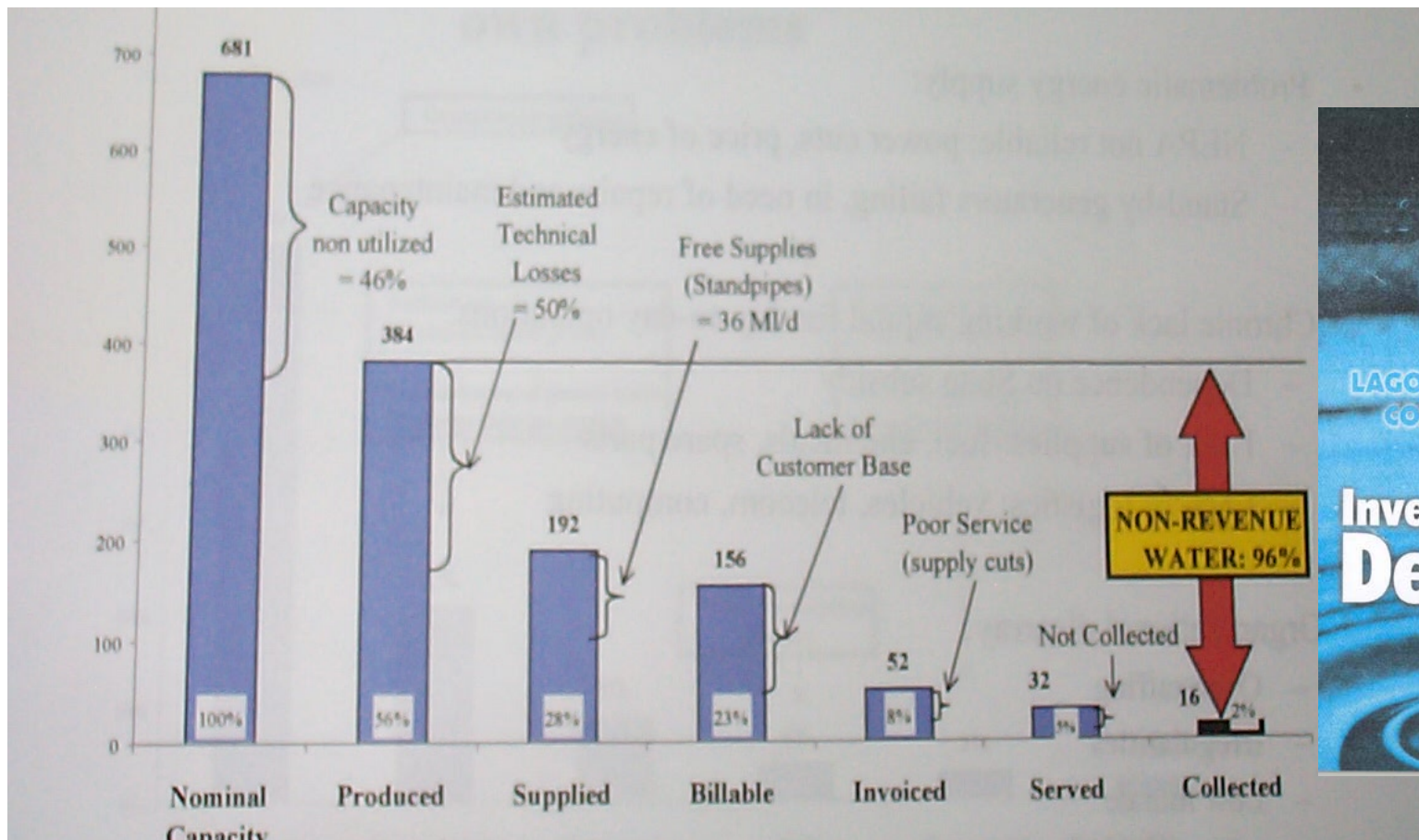


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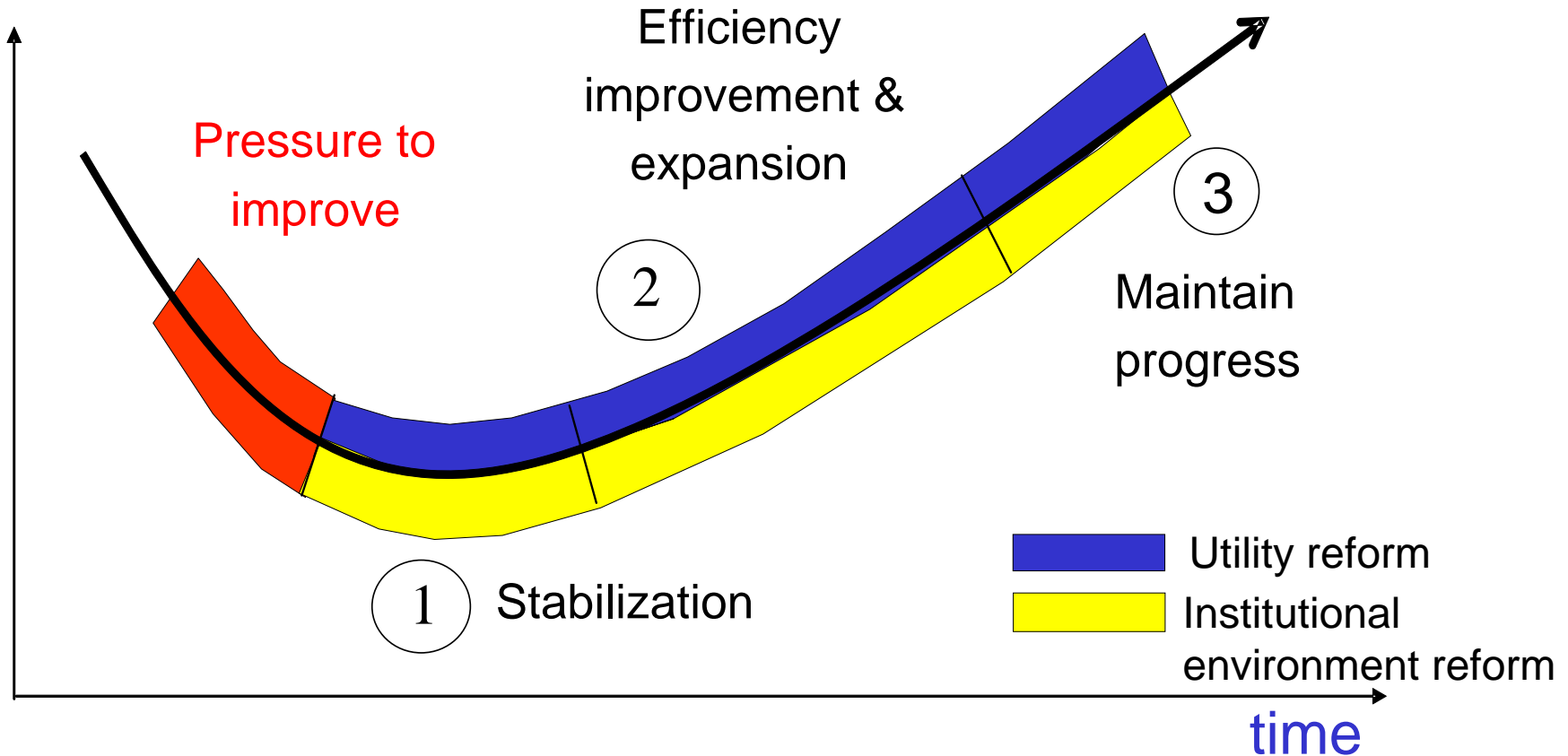
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  - ~ Institutional capacity building

# What is required – the case of Lagos Water Corporation in the 1990s



# Phases in financial turnaround

performance



# Stabilization phase: Indonesia financial rescue program

- ◆ 1997/98 Crisis: Indonesian Rupiah devalued 9 times
  - cost of imported goods and investment costs went up
  - financial status of many public water utilities deteriorated (63% PDAMs in arrears on debt service payments)
  - Systems deteriorated as new investments were postponed
  - Lower service quality and high unaccounted for water (average 40%)
- ◆ The crisis triggered reforms: utilities can reschedule debts by agreeing to a number of measures (Financial Recovery Action Plan):
  - ~ Implementation of immediate and regular tariff increases
  - ~ Reclassification of customers into higher tariff classifications
  - ~ Accelerate increases in connections if the water capacity exists
  - ~ Control staff numbers
  - ~ Reduction of unaccounted for water
  - ~ Improvement of collection period

# Financial turnaround of Phnom Penh Water Supply Authority (Cambodia)

- ◆ New management team (incentive payment)
- ◆ Reformed to government owned company
- ◆ Revolving fund for connections for the poor
- ◆ Automated billing system (replacing corrupt collectors)
- ◆ Customer surveys & public info campaign
- ◆ Meters installation for all connections
- ◆ Fines for illegal connections
- ◆ Leakage reduction
- ◆ Automated accounting & management system
- ◆ New tariff structure introduced based on long-term projection model

	1997	2004
connections	39,000	133,777
Total revenues (B riel)	14,2	50.4
Net income (B riel)	-0.7	+8.4
Unaccounted for water	65%	16%
Collection ratio	89%	100%
Average tariff (Riel/m3)	895	965

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# Capacity building



- ◆ Development of standard materials:
  - ~ Public - public contracts
  - ~ Management and staff contracts
- ◆ Management and staff training
  - ~ National and regional requirements
  - ~ Certification
- ◆ Capacity building of the local government
  - ~ The value of a well run utility
- ◆ Capacity at national level
  - ~ Performance monitoring
  - ~ Incentive based transfers

# How PUB (Singapore) motivates & develops its staff and decentralizes



- ◆ Autonomy to define its own pay scales, to hire & fire
- ◆ Clear promotion policies based on merit
- ◆ Grooming of staff and rotation policies
- ◆ Extensive training of staff (1.8% of operational budget)
- ◆ Visible mission statement and positive corporate culture
- ◆ Clear definition of responsibilities and processes (ISO-9001)
- ◆ Well- defined internal communication channels



# Summary



- ◆ PSP has not proved the panacea for utility reform that was once hoped for → we must work to develop viable public sector reform models
- ◆ Building blocks for utility reform are well understood but obstacles great → public reform certainly not a panacea either
- ◆ Next stage of development is the creation of national programs, with correct incentives and sufficient resources, to expand the few, but increasing, number of public turnarounds

# Further information

## Water Supply & Sanitation Working Notes

Note No. 9, May 2006

### CHARACTERISTICS OF WELL- PERFORMING PUBLIC WATER UTILITIES

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<http://siteresources.worldbank.org/INTWSS/Resources/Workingnote9.pdf>