# GDLN Series on Urban WSS Reforms

<table>
<thead>
<tr>
<th>Session 1</th>
<th>Session 2</th>
<th>Session 3</th>
<th>Session 4</th>
<th>Session 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 Mar 07</td>
<td>20 Mar 07</td>
<td>27 Mar 07</td>
<td>03 Apr 07</td>
<td>10 Apr 07</td>
</tr>
<tr>
<td>Opening &amp; intros</td>
<td></td>
<td></td>
<td></td>
<td>Recap &amp; Closure</td>
</tr>
<tr>
<td>Theme 1: Service Providers</td>
<td>Theme 2: Governments</td>
<td>Theme 3: Consumers</td>
<td>Theme 4: Reform Process</td>
<td></td>
</tr>
</tbody>
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Session One

- Urban WSS reforms: global context
- Country introductions
- Introduction to theme 1 – service providers
- In-country discussion theme 1 (off line)
Urban WSS Reforms
Global Context
Outline

- The context: urbanisation
- Why urban WSS reform
- Major trends
- This GLDN series
The World Goes Urban in 2007!
Growth of Medium Cities & Towns

- **High Income Countries**
- **Middle and Low Income Countries**

- City Size (in Millions):
  - <1
  - 1-5
  - 6-10
  - 10+

- Additional Urban Population (in millions):
  - 0
  - 100
  - 200
  - 300
  - 400
  - 500
Urban Water Coverage 2004

Many with house connection still require small providers: India as an example

Accessibility to Water Supply in India:

~ In 2001 74% of the population had access to a piped water supply

~ Water availability is at average of 2.9 hours per day

~ Connections with 24/7 service in Delhi is 1% (compare to 90% in Jakarta, 88% in Manila, 60% in Colombo)

<table>
<thead>
<tr>
<th>Class of Cities</th>
<th>Hours of Water Service per Day (average)</th>
<th>Days of Supply per Week (average)</th>
<th>Mega-cities</th>
<th>Hours of Water Service per Day (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4.2</td>
<td>5.9</td>
<td>Mumbai</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>3.3</td>
<td>5.6</td>
<td>Calcutta</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>3.7</td>
<td>5.1</td>
<td>Delhi</td>
<td>3.5</td>
</tr>
<tr>
<td>4 to 6</td>
<td>4.4</td>
<td>5.6</td>
<td>Chennai</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Bridging the Gap between Infrastructure and Service, World Bank 2006
Outline

- The context: urbanisation
- Why urban WSS reform
- Major trends
- This GLDN series
Why reforms: to avert a crisis

Consumers use water inefficiently
Investing/maintenance are postponed
Customers are less willing to pay
Managers lose autonomy and incentives
Subsidies often fail to materialize
Motivation, service deteriorate further

Low tariffs, low collection
High usage and system losses drive up costs
Services deteriorate
Utility survives on subsidies
Efficiency keep dropping
Utility can’t pay costs or extend system
System assets go down the drain

Crisis, huge rehabilitation costs
At the heart of the crisis: low-cost recovery levels

Financial autonomy

Degree of cost recovery

<table>
<thead>
<tr>
<th>Service</th>
<th>Degree of Cost Recovery</th>
</tr>
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<tbody>
<tr>
<td>Telecom</td>
<td>200%</td>
</tr>
<tr>
<td>Gas</td>
<td>150%</td>
</tr>
<tr>
<td>Power</td>
<td>100%</td>
</tr>
<tr>
<td>Water</td>
<td>0%</td>
</tr>
</tbody>
</table>
What is required – the case of Lagos Water Corporation in the 1990s
The context: urbanisation
Why urban WSS reform
Major trends
This GDLN session
Major trend 1: Governance regimes have evolved
Major trend 2: Decentralisation

- Decentralization was mostly part of broader governance reforms, and not studied response to sector needs

<table>
<thead>
<tr>
<th>National</th>
<th>Regional</th>
<th>Municipal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>OSN (1912)</td>
<td>1,488 providers*</td>
</tr>
<tr>
<td>Bolivia</td>
<td></td>
<td>Municipal bodies</td>
</tr>
<tr>
<td>Chile</td>
<td>SENDOS (1977)</td>
<td>13 companies (1990)</td>
</tr>
<tr>
<td>Colombia</td>
<td>INSFOPAL (1950)</td>
<td>1,380 providers (1989)</td>
</tr>
<tr>
<td>Panama</td>
<td>IDAAN (1961)</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>SENAPA (1981)</td>
<td>136 municipal bodies</td>
</tr>
</tbody>
</table>

*Of which 14 are provincial, 462 municipal, 990 cooperative, and 22 private.
A Panorama of management models

- Cooperative utility
- Strengthening community management models
- Aggregation of small towns
- Public private partnership
- Professional support to medium operators
- Small scale independent providers
- Engaging the public sector
Outline

- The context: urbanisation
- Why urban WSS reform
- Major trends
- This GDLN series
This GDLN series

Focuses on three main actors in the sector:
1. Service providers
2. Governments
3. Consumers
4. And discusses the process of reform

Combination on-line / off-line / E-discussion
Combination panel/speakers/discussion
How each theme is organized

- **Week 1**
  - 60 minutes: Introduction

- **Week 2**
  - 60 minutes: In-country discussion
  - Theme 2: Governments

- **Week 3**
  - Theme 3: Consumers

- **Week 4**
  - Theme 4: Reform process

- **Week 5**
  - Recap
Over to you

Country Introductions
Theme one

Service Provider Reforms
Who provides services: The water market in an African city
What makes a good utility?
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.
Possible reform path: Balance accountabilities

- Raise tariffs
- Source external funding
- Introduce regulator
Possible reform path: Remove conflicting and overlapping rules
Separation of functions

Policy making
Regulation
Asset ownership
Corporate oversight
Service provision

Utility functions

Policy making
Regulation
Asset ownership
Corporate oversight
Service provision

How to improve performance of public utilities?
Public utility reform measures

- Corporatization
- The use of performance agreements
- Enhancement of customer involvement
- Financial turnaround
- Institutional capacity building
Corporatization

The government department can transfer its assets

...To a public body that is more autonomous

Meaningful corporatization: not **IF** but **HOW**
- Design of corporatization
- The way the government exercises its ownership function
- Multiple utility ownership
Performance agreements: what’s new since the 1980s?

- Using individual performance incentives ($$$ for staff and managers)
- Making use of competition between various municipalities after decentralization (performance based intergovernmental transfers)
- Better designed contracts (using lessons learned from PSP)
- Lower expectations: Focus on improving transparency and communications

More on this in theme 2 (govt)
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)

More on this in theme 3 - consumers
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

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2004</th>
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<tbody>
<tr>
<td>connections</td>
<td>39,000</td>
<td>133,777</td>
</tr>
<tr>
<td>Total revenues (B riel)</td>
<td>14,2</td>
<td>50.4</td>
</tr>
<tr>
<td>Net income (B riel)</td>
<td>-0.7</td>
<td>+8.4</td>
</tr>
<tr>
<td>Unaccounted for water</td>
<td>65%</td>
<td>16%</td>
</tr>
<tr>
<td>Collection ratio</td>
<td>89%</td>
<td>100%</td>
</tr>
<tr>
<td>Average tariff (Riel/m3)</td>
<td>895</td>
<td>965</td>
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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
How can the private sector help?
Potential objectives for PSP

- To improve efficiency and management capacity in order to:
  - to obtain sustainable improvement in the provision of, and access to, water and sanitation services, particularly in un-served and low-income areas
  - to achieve significant progress in terms of productivity and sustained managerial autonomy resulting in higher operational efficiency
  - to create enabling environment conducive to sector growth

- to create gradually conditions to attract private lenders and equity investors to finance an increasing part of future investment needs

Difficult and increasingly rare
A typical unreformed public utility….

Is a government (either ministry or municipality) department which both owns the asset and operates the system…..
Making a utility/asset holder more autonomous

- The government department can transfer its assets:
  - To a public body that is more autonomous
  - To an entity partly owned by the private sector → partial divestiture
  - To a privately owned entity (a company or a not-for-profit trust) → full divestiture is rare in WSS sector

Key to ownership:
- **100% public**
- **Mixed public/private**
- **100% private**
Delegated management

- The asset owner can contract out operation of assets through a delegating management functions.
- Types of delegated management contracts include: service contracts; management contracts; leases/affermgages; and concessions
- Operators can be publicly, mixed, or private
Operator Asset owner

Delegated
management functions

Service contract

Management contract

Lease/affermage

Concession

Asset owner

Government department

Statutory body

Government owned PLC

Joint stock Company

Private company

Not-for profit private entity

Operator

Statutory body

Government owned PLC

Joint stock Company

Private company

Not-for profit private entity
Cartagena, Colombia (Empresa mixta)
Reforms (+ investments) in Cartagena have had dramatic results…

![Bar chart comparing water supply and sewerage in Cartagena and Barranquilla before and after reform](image-url)

- **Water supply**
  - Cartagena: Before reform (1993/94)

- **Sewerage**
  - Cartagena: Before reform (1993/94)
Senegal (affermage with asset holding company)
Results of Senegal reforms and investments…

- Extra access to WSS services to 900,000 people, including
  - ~ 81,000 water social connections
  - ~ 400 water standpipes
  - ~ 13,000 new sewerage connections
- Water production increased by 20%
- Unaccounted for water (UFW) fell from 30% in 1996 to 22% in 2001
- Improved water quality
What is different between public and private sector?
Critical success factors to introducing PSP

- High-level, sustained commitment in central and local government
- Clear, realistic expectations and goals
- Stakeholders, including the public, informed and involved
- Build upon local assets: population, small enterprise, CBOs/NGOs
- Risks assessed and assigned to most capable parties
- Time and capacities to prepare
- Near-cost tariff prior to a concession
- Transparent bidding and award process
- Build regulatory capacity early

Very similar to public reform
New trends in PSP?
Water PPP: Maturation of the market

- Concentration in specific countries
- Move to non-investment contracts
- Growing share of developing countries sponsors
"Output" based service contracts can be used for
- leakage reduction and/or
- commercial loss reduction

Conclusions of recent study (forthcoming summer 2006):
- Performance contracts can be very beneficial when designed well
- Performance element must be high

<table>
<thead>
<tr>
<th>utility</th>
<th>PSP contract</th>
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<tbody>
<tr>
<td>Selangor (Malaysia)</td>
<td>NRW reduction</td>
</tr>
<tr>
<td>Bangkok (Thailand)</td>
<td>DMA establishment and leakage reduction</td>
</tr>
<tr>
<td>Dublin (Ireland)</td>
<td>DMA establishment and leakage reduction</td>
</tr>
<tr>
<td>São Paulo (Brazil)</td>
<td>Detection of Fraud, Collection of Bad Debts and Large Customer Meter Replacement</td>
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</tbody>
</table>
Example: NWSC in Uganda
The other story: small private sector providers
Why focus on SPSPs?

- The “ultimate goal” - a household connection for all - depends on much more than service expansion. What to do in the meantime or in the long term?
- Ignoring the problem has not made it go away – in some countries coverage/access has declined. Is the best the enemy of the good?
- Put all the cards on the table – you can only “regulate it” once you recognize it
- Work with what you have - for the unserved or under-served the gaps is being filled by self provision or SPSPs. Reaching the MDGs through SPSPs?
But there is a lot to do…..

WSS Coverage Levels and SPSP Activity

Source: Kariuki et al., 2004
Policy implications: Understand the market and consumers preferences

Review existing service delivery arrangements

- What sources do the poor currently use – are they likely to move from existing sources to utility service
- Who provides them with WSS services – is the utility well placed to offer better services
- How well are these services being provided – “drinking” water quality is a priority for poor

Assess customer preferences

- What are they willing to pay for an improved service – both consumption and connection
- What is the nature of “improvements” they seek (if any) - affordability, volume, service level, reliability, in house facilities

utility expansion may not be the logical next step!
Policy implications: Understand the utility’s supply constraints

Review the “primary” utilities plans and constraints – what is a realistic timeframe for meeting the goal of universal piped water supply?

- Expansion plans – need to increase production capacity, extend distribution network
- Performance with respect to improving cost recovery, revenue generation, achieving 24/7 service, reducing NRW
- External constraints – slum policy, land tenure, subsidy policy, etc., - and options for sidestepping them
- Financial implications for accelerating service coverage – who will pay for expansion
Policy implications: Understanding small scale service providers

- Third party provision can be a useful means of scaling up services
- As a short to medium strategy, plan for and involve existing service providers, but find ways to improve their efficiency to the benefit of customers
- Distinguish between various providers:
  - Independent/dependent
  - Motivation? – for profit or non-profit, own use (community) or business
  - Organisational form? - cooperatives, self help groups, company, sole proprietor, family business
  - Legal status? – license, permit, contract with utility, registration with chamber of commerce
  - Financing? – savings, family, commercial bank, loan shark, member fees, customers, micro-credit
Policy implications: what can we do more?

- Sanitation, sanitation, sanitation
- Establish appropriate country framework – Policy, legislation, regulations, standards → allow for and regulate SPSPs
- Build capacity for engaging small-scale providers – contract design, training, competition, guarantees
- Improve quality and use of information collected - household surveys often not qualified (secondary sources)
- Foster community participation - Adapt to local context, involvement in planning & monitoring, tap local resources
- Enable monitoring - regulation or facilitation, establish benchmarks to improve service quality
In-country Discussion

What is the accountability framework of the utility in your country or capital?

Based on this, how could one:
1. Better balance the utility’s accountabilities?
2. Create more autonomy for the utility?
E-discussion During the Week

Launches today!

Don’t forget to sign-up at:

http://www.dgroups.org/groups/worldbank/urbanwater

Click on “join”