Note from the Chair
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Improving access to water supply and sanitation is essential for sustainable poverty reduction and economic growth. There is a consensus that increased investments in water supply and sanitation must be accompanied by reforms to sustain past and future investments. The enormous challenge to increase access to WSS requires transforming long-established sector approaches.

Urban water supply and sanitation services have traditionally been provided by state-owned, monolithic, mostly national water utilities. In the 1980s and 1990s, a new paradigm emerged to transform utilities into more modern service delivery organizations that emphasize operational and financial sustainability. In many countries, centralized providers were broken up and converted into decentralized public providers operating at the municipal level.

Some utilities were able to break out of the vicious spiral of weak performance, low willingness to pay by customers, insufficient funding for maintenance, and deterioration of assets. The private sector started to play an increasing but still limited role in management of the sector. Simultaneously, some public utilities became more autonomous and accountable. A few of them have been able to attract private financing. Most people in developing countries, however, are still dependent on traditional low-performing public utilities or do not have access to piped water supply at all.

Going forward it is imperative to learn from the utilities that were transformed into modern service delivery organizations. Only by understanding how they turned around, can we assist others to improve

This session – utility managers and policy makers
This session will feature a few of champions of public utility reform. The local turnaround stories from Brazil, Honduras, Mexico, Uganda and Zambia that will be presented in this session are proof that it can be done.

In the session, we will not only have utility managers, but also hear from policy makers. In the past, many reform programs have placed an inordinate emphasis on utility reform with little or no attention to the institutional environment. This narrow view of reform often dooms programs to failure. WSS sector professionals are increasingly realizing that the vicious spiral is largely a consequence of ineffective political institutions. Services can only be improved if these institutions change. This means that governments have a central role to play in creating an environment which facilitates better utility performance. For instance, the Guanajuato State Water Commission in Mexico is an enabler of local operating capabilities under a federal normative structure.

The session will focus on the relationships between utilities and their environment. What are the obstacles or opportunities utility managers face from that environment when they try to improve the performance of their own organizations? What can policy makers – at a local or central level – do to incentivize utilities to do better? How can they increase the autonomy of utilities while maintain their accountability for results?

As a basis for the discussion, I would like to share a few observations with you on balancing accountabilities, the process of reform, best fit approaches, and leadership.
**Balancing accountabilities**

Well-performing utilities are shielded from day to day political interference. However, they are accountable for the services they provide to policy makers and to their customers. The key to turning around public utilities is in improving the accountability framework between the utility and its environment.

Autonomy starts with having considerable control to generate revenue (including tariffs covering at least operation and maintenance and autonomy to collect those revenues), and in the use of these revenues. But autonomy has to go hand in hand with accountability for results.

All utilities that are discussed today raise sufficient revenues to cover their day-to-day operations. Also, all of them function within a clear accountability framework.

Traditional utilities are often captured by one political actor. Often local governments combine the function of ownership with these of financing, policy making, de facto regulation, and service provision. Separating functions makes the utility accountable to a variety of actors, such as central and local governments, customers, and financial institutions. A web of accountability framework around a utility ensures that not one actor captures the utility.

One way of separating functions is to set up a regulator. For instance, the National Water Supply and Sanitation Council (NWSSC) in Zambia is a statutory body that collects, analyzes and publishes performance data on utilities. Most of these utilities have been transformed into autonomous public utilities that function according to commercial principles. Thus the functions of policy making, regulation, and service delivery have been separated. The national government, the NWSSC, and the utilities each operate in their clearly established spheres of responsibility.

To a large extent, financial flows determine accountability. Thus diversifying sources of financing is part and parcel of creating balanced accountability. Cost recovery is not only important for financial viability but also to make a utility more accountable to its customers. For instance, the National Water and Sewerage Company in Uganda has increased its accountability to its customers in recent years by recovering most of its operational and capital costs through consumer tariffs.

Private financiers that provide capital investment or equity can also balance the web of accountabilities. For instance, SABESP in Sao Paulo, Brazil is a public utility that went to the stock market to raise financing. This means that SABESP lines of accountability have been diversified and the utility is less prone to capture by its sole owner, the State of Sao Paulo. The commercial regulation that accompanies private finance requires minimum standards of financial management and reporting.

**The process of reform**

Reform efforts change the status quo, and inevitably face opposition from those who benefited from the status quo. Often the people who benefited from the status quo are the rich and middle class which are connected to the network. These connected customers might have an interest in maintaining the present situation in which they receive subsidized services at the expense of others.

To the extent possible, it is important to pace reforms to take advantage of political windows of opportunity. Sadly, reforms are often triggered by crises, such as a drought, an unacceptable drop in service levels to customers, or a financial crisis. For instance, reforms in the state of Guanajato were triggered by several strong droughts in the early eighties which interrupted water supply in several cities. Political shifts, such as decentralization or elections, can also trigger reform. A third category of triggers include external threats and opportunities, such as a threat of privatization or external donor pressure.

Timing of reform is one of the basic challenges of the sector – how to make progress within one political cycle after decades of neglect. It is important to gain buy in to some simple first steps and principles. In order to build consensus on reform, it is important to focus on reforms that create quick improvements in service provision. The presentation by the former mayor of Puerto Cortes in Honduras will shed some light on how to obtain results to keep reforms going.
Many reforms have failed because their goals were too ambitious or not matched by the appropriate resources. Mobilizing the financial resources for reforms requires convincing politicians that their efforts will result in benefits from water and sanitation that make sense for the country economically. It is necessary to show that the benefits of change are greater than those of the status quo.

**From best practice to best fit**

There is a substantial difference between reforms that are desirable and reforms that are feasible. Universal access to water supply and sanitation may take time to be achieved. Reforms may need to start with what can be done in practice. In other words, successful reform programs are unlikely to be perfect or entirely comprehensive. Reform – in reality – is often an incremental process. The selection of reform measures will have to be based on the best-fit rather than the best-practice.

Public sector reform is difficult and intrinsically political. It is not a quick fix or an easy alternative to private sector participation. Public reform requires financial, human and knowledge resources. Efficient service delivery requires political actors to let professionals do the job right by creating an enabling environment.

**Leadership**

In the end, the initiation and, eventually, the success of the reform processes depend on people. The importance of leadership has to be stressed. Ideally, leadership will be present at all levels (central government, local government and utility). But one person or a group of people can make a difference. These champions should build coalitions and sustainable institutional frameworks to mitigate the possibility of the reforms being undone.

In this session, you will hear five leaders speak about their experiences of turning around public utilities. It is hoped that these examples will generate discussion and inspire others to undertake sensible reforms so that all consumers, including the poor, will receive better services. Making a difference is within reach. Improving water supply and sanitation services is an imperative for us all.