Reforming public utilities

Bill Kingdom, Aldo Baietti, and Meike van Ginneken, World Bank
IWA Congress – Beijing, 2006
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
Results of study based on 11 case studies, literature review and widespread consultation

- AQUA S.A. (Bielsko-Biała, 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
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Sustainable utility reform and reform of the environment have to go hand-in-hand.

Our goal

Typical reform path

Possible combinations
environment status/utility provider status
How Uganda combisequenced the reforms of NWSC, its national utility

- 70s political turmoil
- mid 80s new government
- end 80s & 90s Major rehab
- mid 80s new government
- 70s political turmoil

- 95 new statute
- 97 corporate plan
- 98 new MD
- 97 new Board
- 98-00 service & revenue enhancement programs
- 00 ext & int performance contracts
- 02 automatic tariff indexation
- 03 staff performance contracts

- 2000 ext & int performance contracts
- 2002 automatic tariff indexation
- 2003 staff performance contracts
…and how reforms enhanced performance of NWSC

<table>
<thead>
<tr>
<th>indicator</th>
<th>99/00</th>
<th>02/03</th>
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<tbody>
<tr>
<td>Water supply coverage</td>
<td>54%</td>
<td>63%</td>
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<td>Unaccounted for water</td>
<td>42%</td>
<td>39%</td>
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<td>Staff per 1000 connections</td>
<td>21</td>
<td>11</td>
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<td>Collection period (months)</td>
<td>6.2</td>
<td>4.7</td>
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<tr>
<td>Tariffs (Ushs/m3)</td>
<td>881</td>
<td>1015</td>
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</table>
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Taxonomy of public utility models

- **Department**
  - Ownership
  - Corporate oversight
  - Service Provision

- **Ring-fenced Department**
  - Ownership
  - Corporate oversight
  - Service Provision

- **Statutory Body**
  - Ownership
  - Corporate oversight
  - Service Provision

- **Government-owned PLC**
  - Ownership
  - Corporate oversight
  - Service Provision

- **Corporatized utilities**
  - public law
  - private law
Design of corporatization

- 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

Local government

Financial department
(ownership)

Contract management unit
(regulation)

Joburg Water (utility)

Shareholders agreement

Service delivery agreement

COB
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<table>
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<tr>
<th>contract</th>
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<tr>
<td>Business plan</td>
<td>Local gvt &amp; utility</td>
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<td></td>
<td>Board &amp; MD</td>
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<tr>
<td>Performance contract</td>
<td>Local gvt &amp; utility</td>
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<tr>
<td></td>
<td>Within utility</td>
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<tr>
<td>Employee contract</td>
<td>Board &amp; MD</td>
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<td></td>
<td>MD &amp; staff</td>
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<tr>
<td>Intergovernmental grant or loan</td>
<td>Central gvt &amp; utility</td>
</tr>
<tr>
<td>agreement</td>
<td>Local gvt &amp; utility</td>
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</tbody>
</table>
Agreements can provide incentives to reform

1. Performance based intergovernmental transfers
2. Performance based agreements
Performance based intergovernmental transfers: Ethiopia

**STEP 1**
Grant to establish Town Water Board and Prepare Application

**Main Criteria to Qualify for Step 2:**
- Data availability
- Autonomous Town Water Board established
- Willingness to pay shown

**STEP 2**
Loan for rehabilitation or initial investment

**Main Criteria to Qualify for Step 3:**
- Business plan accepted
- Service improved
- Revenue covers current O&M costs
- Staff trained at basic level

**STEP 3**
Grant for capacity building and immediate service improvements

**Main Criteria to Qualify for Step 4:**
- Step 3 works completed
- Efficient billing and collection
- Revenue covers O&M, renewal & replacement and expansion
- Staff performance contracts
- Good command of procurement procedures

**STEP 4**
Loan for expansion investment
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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
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Phases in financial turnaround

1. Stabilization
2. Efficiency improvement & expansion
3. Maintain progress

Performance vs. time

- Pressure to improve
- Utility reform
- Institutional environment reform
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

<table>
<thead>
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<th>1997</th>
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<tr>
<td>connections</td>
<td>39,000</td>
<td>133,777</td>
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<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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  - [Institutional capacity building](#)
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
New paper on public utility reform

Available at: