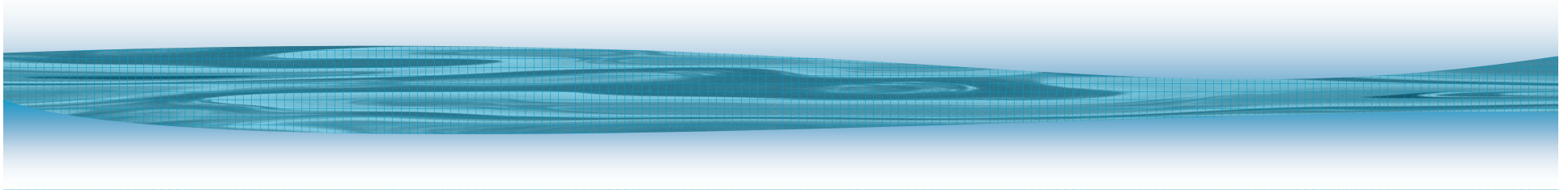


# Reforming public utilities



**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-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



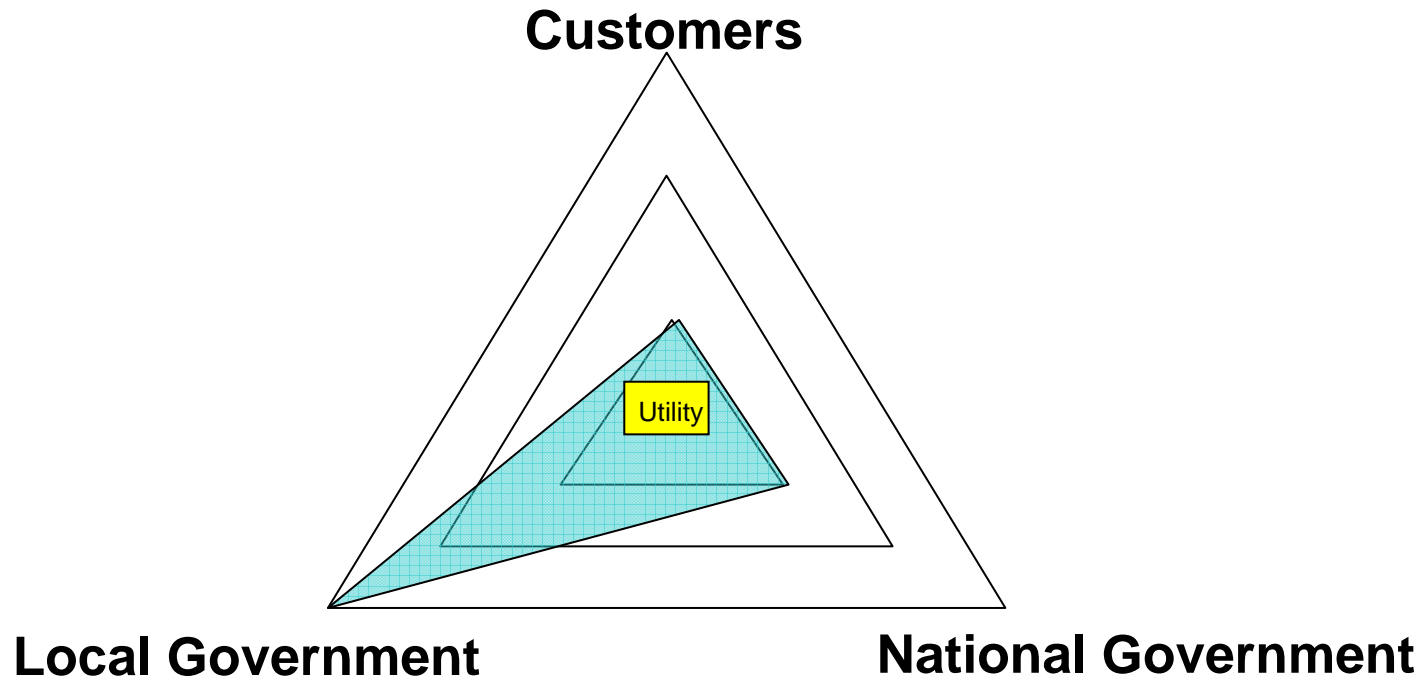
- ◆ **Autonomy** ~ being independent to manage professionally without arbitrary interference by others.
- ◆ **Accountability** ~ being answerable to another party for policy decisions, for the use of resources, and for performance.
- ◆ **Customer orientation** ~ Reporting and “listening” to clients.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



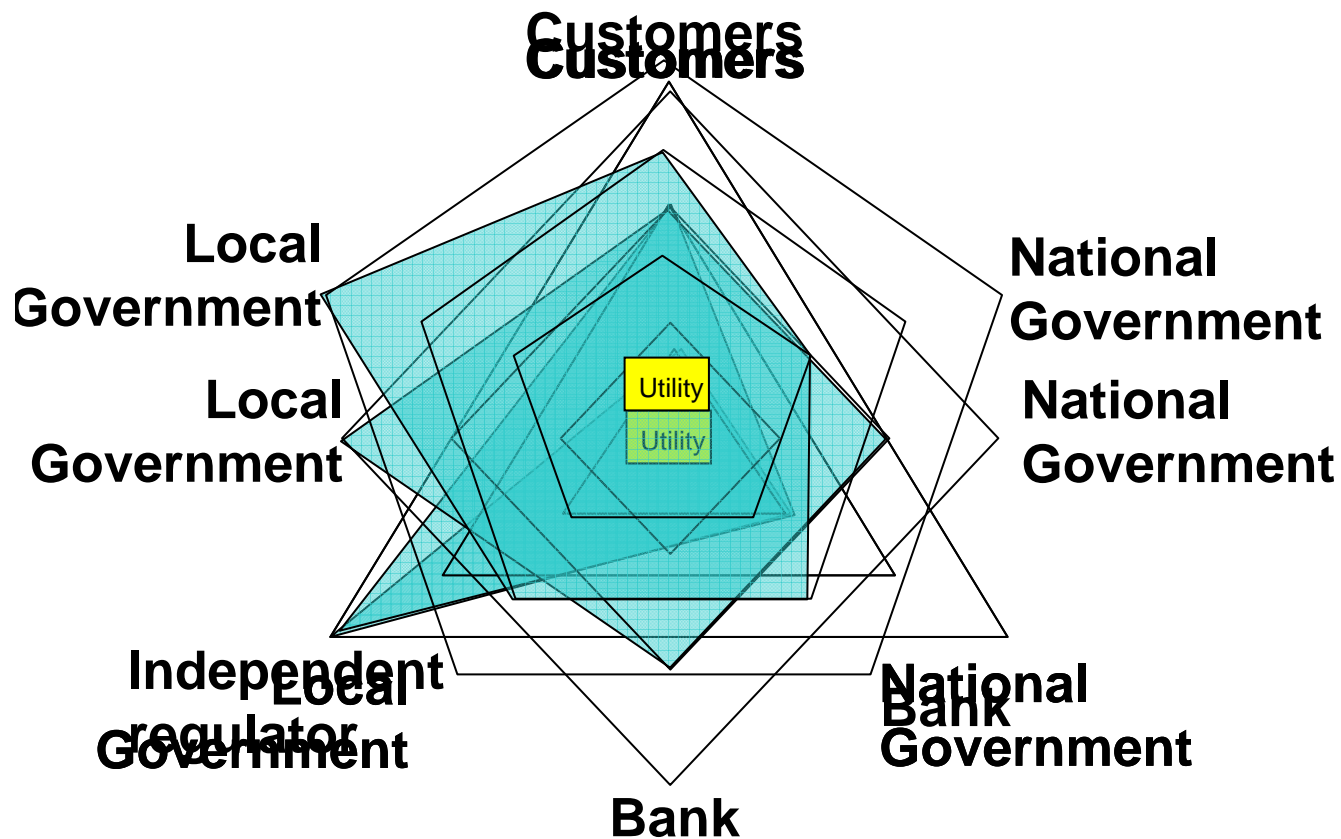
# What is the correct balance of accountabilities?



- ◆ 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:

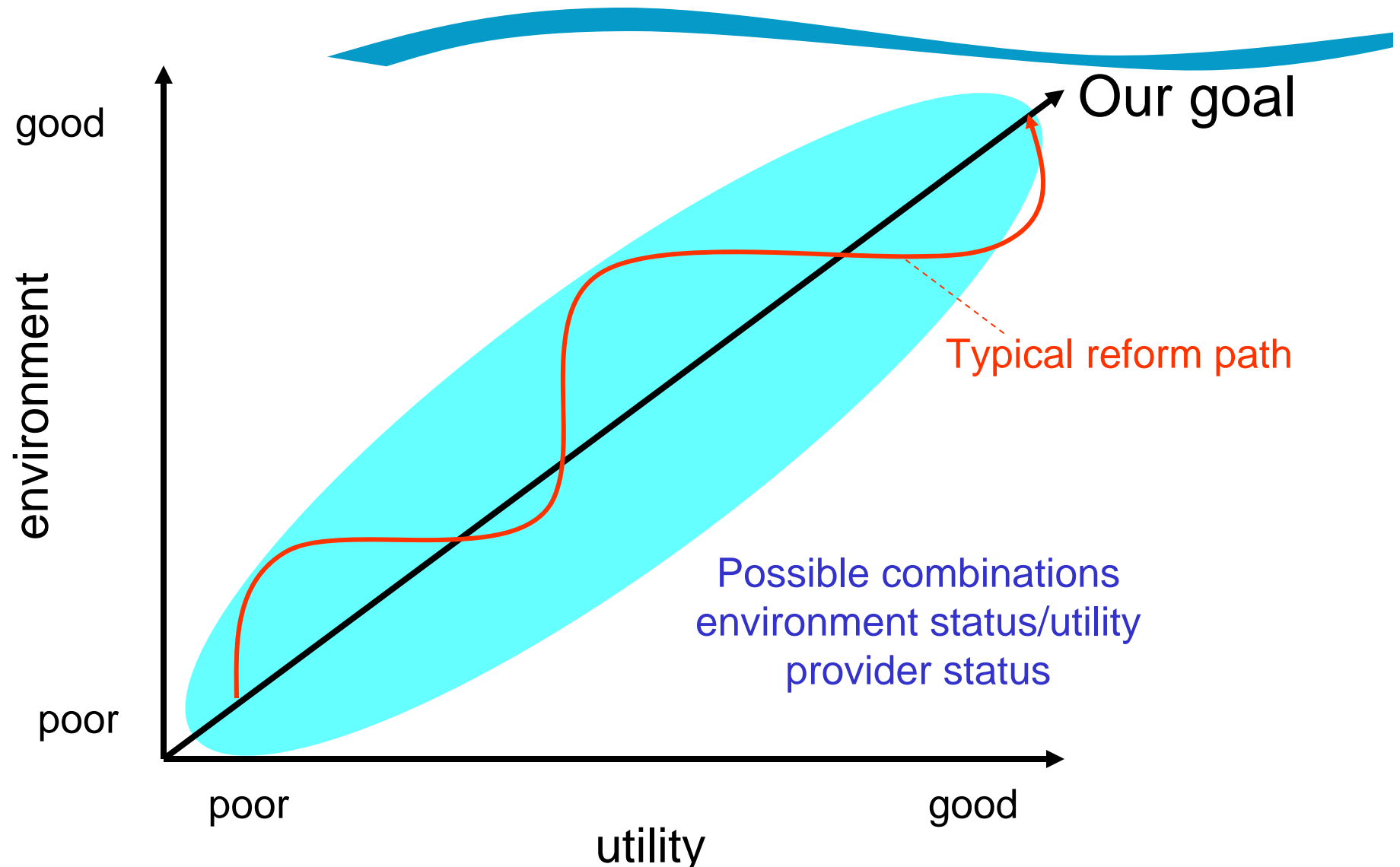
- Raise tariffs
- Source external funding
- Introduce regulator

# Outline of presentation

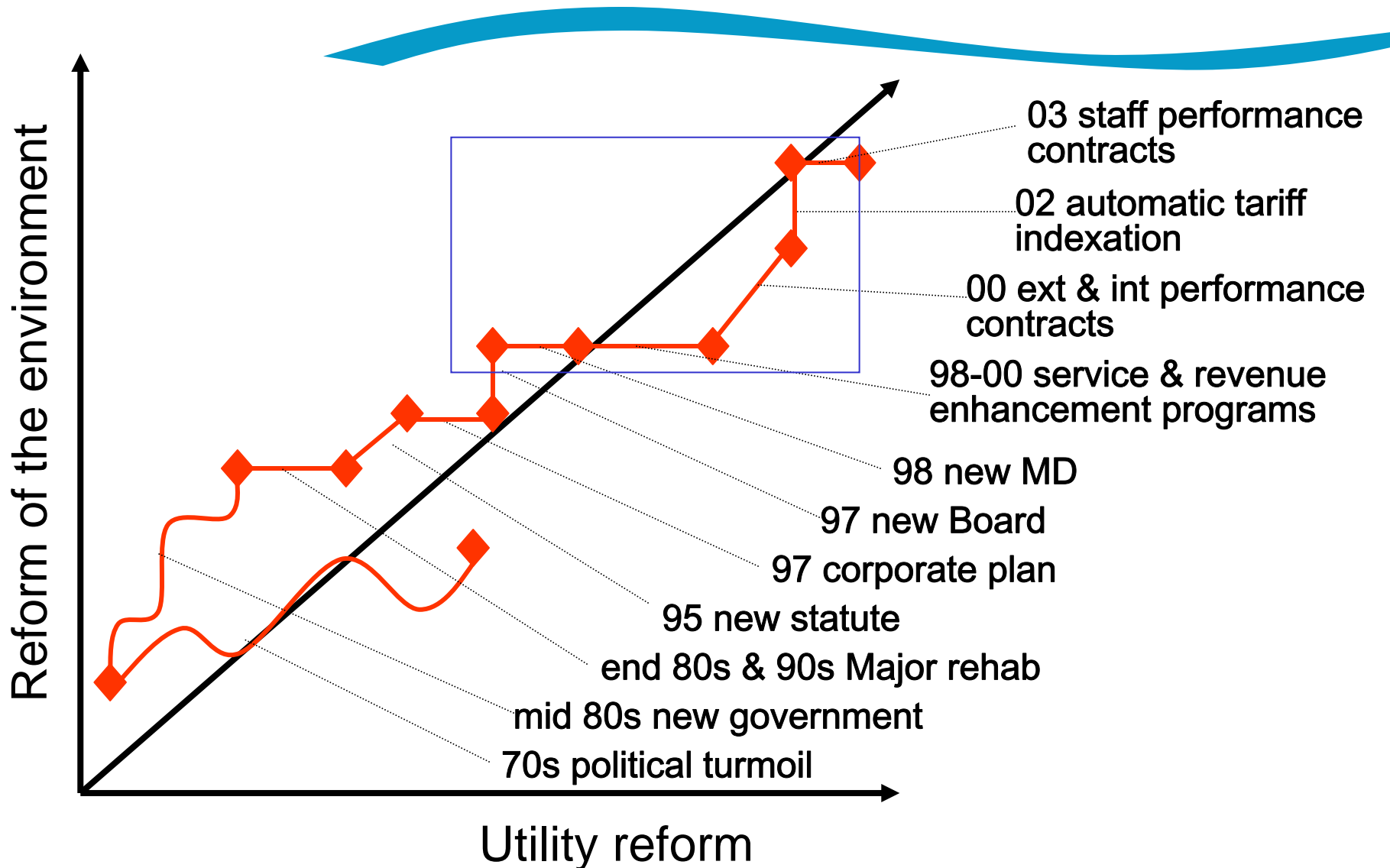


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# Sustainable utility reform and reform of the environment have to go hand-in-hand



# 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

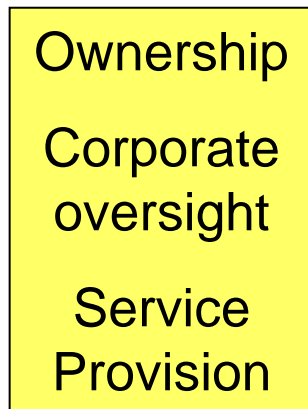
# Outline of presentation



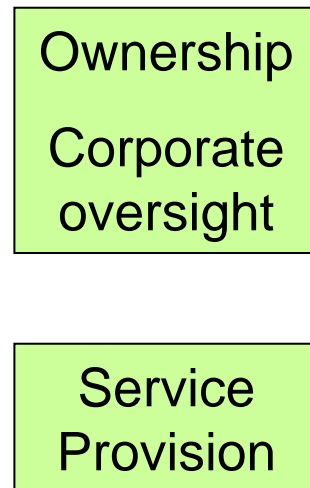
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# Taxonomy of public utility models

*Department*

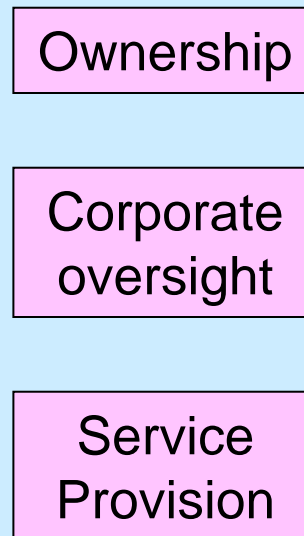


*Ring-fenced Department*

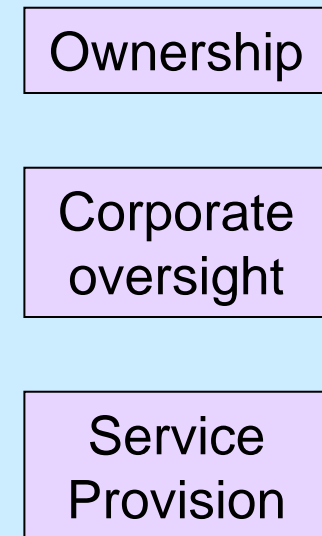


## Corporatized utilities

*Statutory Body*



*Government-owned PLC*



public law



private law

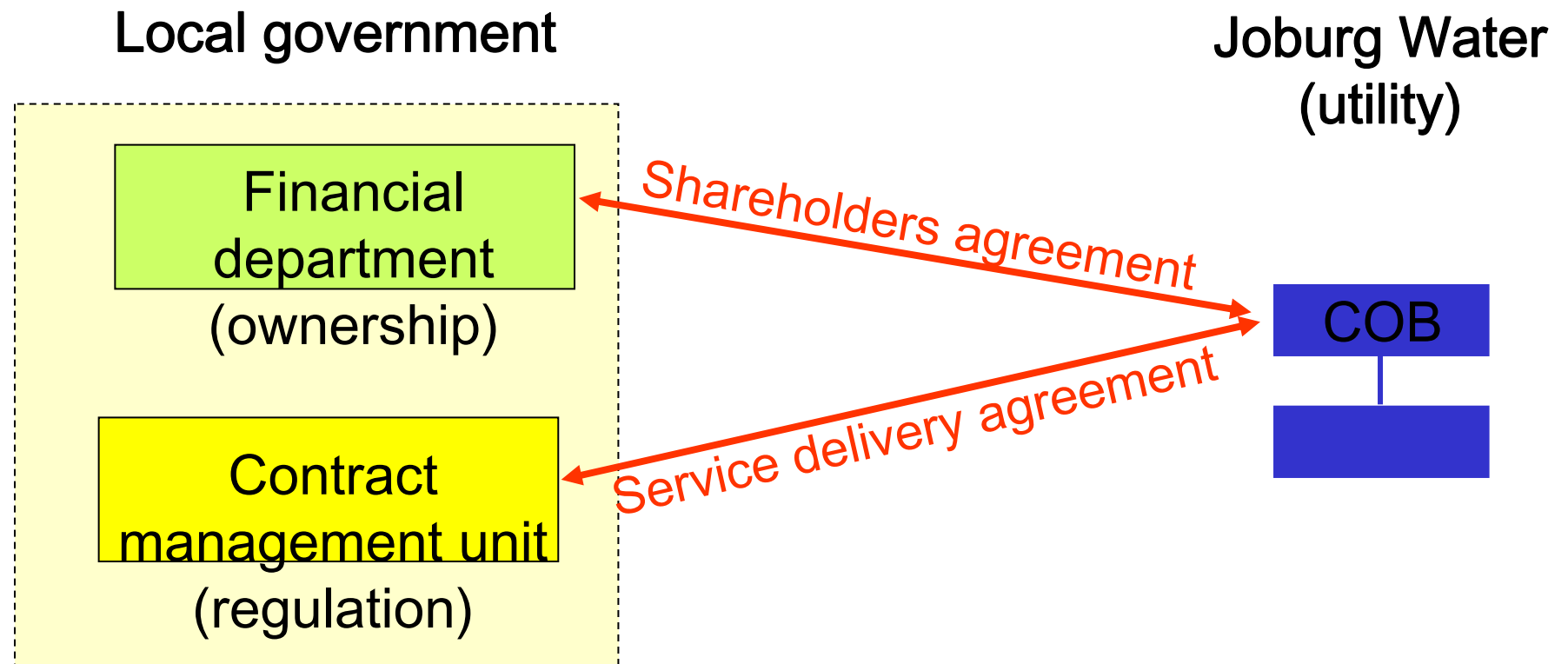
# Design of corporatization



- 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



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# Types of contracts

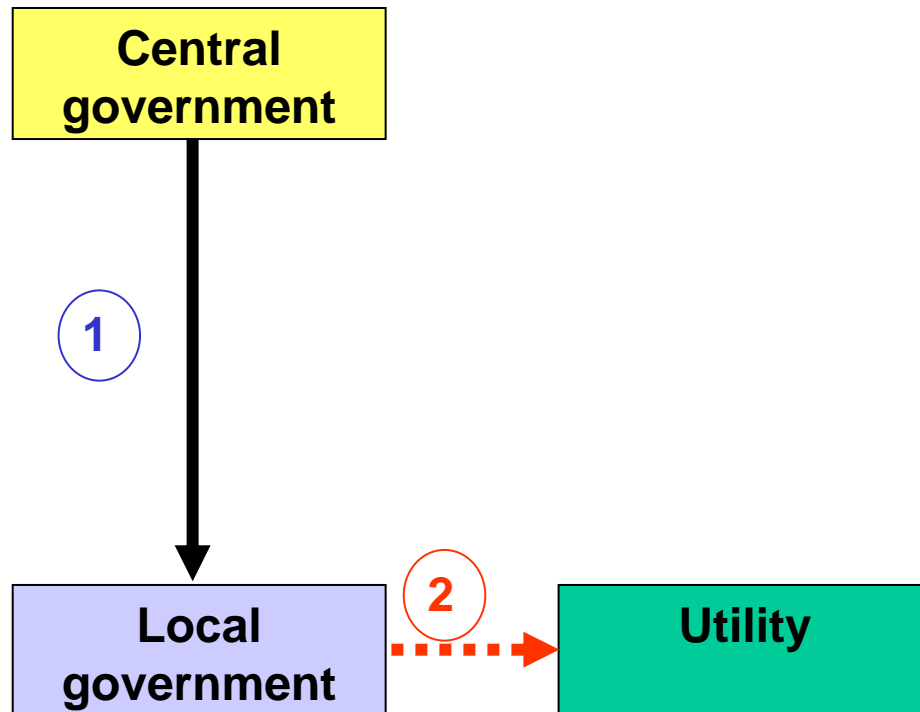
contract	parties
Business plan	Local gvt & utility Board & MD
Performance contract	Local gvt & utility Within utility
Employee contract	Board & MD MD & staff
Intergovernmental grant or loan agreement	Central gvt & utility Local gvt & utility

informal



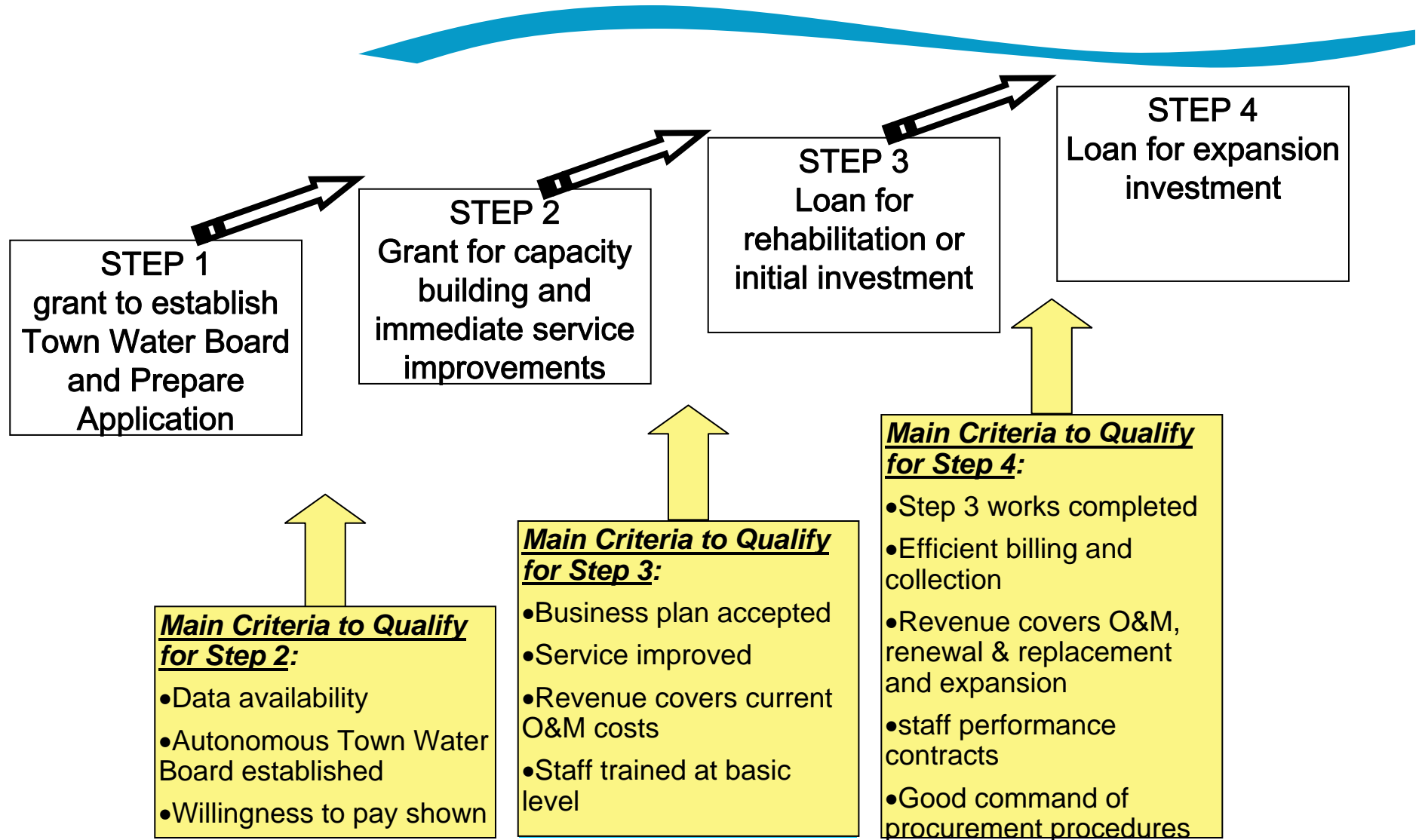
formal

# Agreements can provide incentives to reform



1. Performance based intergovernmental transfers
2. Performance based agreements

# Performance based intergovernmental transfers: Ethiopia



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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



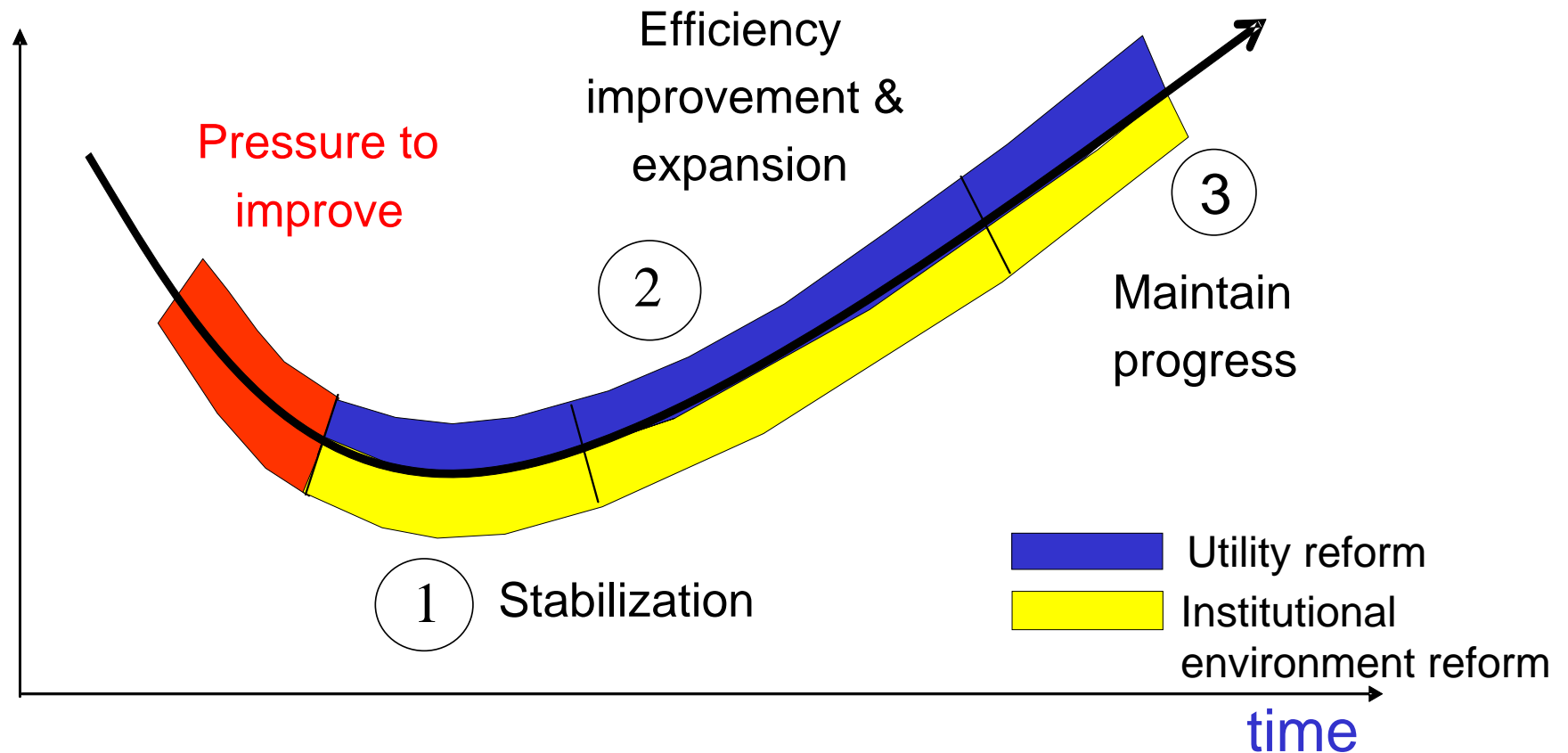
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# Phases in financial turnaround

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/m <sup>3</sup> )	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



# New paper on public utility reform

## Water Supply & Sanitation Working Notes

Note No. 9, May 2006

### CHARACTERISTICS OF WELL- PERFORMING PUBLIC WATER UTILITIES

Aldo Baietti  
William Kingdom  
Meike van Ginneken



Water Supply & Sanitation Working Notes are published by the Water Supply and Sanitation Sector Board of the Infrastructure Network of the World Bank Group. Working Notes are available online at [www.worldbank.org/watson](http://www.worldbank.org/watson). Working Notes are lightly edited documents intended to elicit discussion on topical issues in the water supply and sanitation sector. They disseminate results of conceptual work by World Bank staff to peer professionals in the sector at an early stage, that is, "works in progress." Comments should be emailed to the authors.



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