

Modes of Engagement with the Public Sector Water Supply Providers in Developing Countries

A World Bank – WaterAid Workshop
Report of Proceedings

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This report was produced by Belinda Calaguas and Anne Bouvier.

Background

Modes of Engagement with Public Sector Water Supply Providers in Developing Countries is a project sponsored by the Bank-Netherlands Water Partnership (BNWP). The workshop was co-organised by the World Bank and WaterAid in order to disseminate and discuss, as well as provide more inputs into a draft paper, Modes of Engagement with Public Sector Water Supply Providers in Developing Countries. The workshop was attended by some 35 academic and other researchers, water and sanitation practitioners from international NGOs, World Bank staff, some donors and managers of European public utilities.

The aim of the paper is to map out the reform process for turning around poor performance and institutionalising good performance in a public utility. Thus the paper focuses on providing a framework, beginning with a taxonomy and structure of public utility reform. The paper draws from 11 case studies produced by the World Bank and UNESCO - Institute of Hydrology and Ecology (IHE) based in Delft, the Netherlands.

The principal authors of the paper, Meike van Ginneken and Bill Kingdom hope to get inputs for enhancing the findings synthesised in the paper and for considering viable policy options for public sector reform. Discussions during the two-day workshop dwelt on the following:

- validating and evaluating the correctness, completeness, weighting and realism of the paper
- enhancing the findings of the project on specific issues:
 - how to reach the poor, vulnerable and hard to reach consumers
 - how to increase customer orientation,
 - the combination and sequencing of the elements of a reform programme,
 - the role of actors outside the utility, specifically, central and local government, donors, civil society and the tools they can use
 - how to maintain progress in reform in order to institutionalise good performance.

The final draft paper is expected to be finalised by year-end. For a copy and to send further comments please email directly through the following email addresses:

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I. Welcome and Introduction

The workshop was opened by Ravi Narayanan, Director of WaterAid and Jan Janssens, Programme Manager of the Bank Netherlands Water Partnership.

Ravi Narayanan welcomed the seminar as a shift away from the obsession with the private sector. He noted that the public does not necessarily understand what an effective public service is and what brings it about. The elements of effective public services, such as financial performance, consumer satisfaction, access by all, including the poor will all need to be understood and embraced by the public. This is particularly important since in many developing countries, public services are not always perceived either by the provider or by their users as 'services' but as an exercise of authority or power (by the provider over the user). This perception and the culture of practice that underlies it need to be changed too and be addressed in the reform programme.

In addition, Narayanan identified a number of priorities for the seminar to consider:

- a. The need for accurate information and higher levels of accurate information as a pre-requisite to shaping a reform programme
- b. The need to question the assumption that urban water supply needs to be based on a bulk water source. Reform programmes need to consider variable sources of water for urban areas, as well as effects of environmental changes and human activity on these different sources of water. This will have implications for a utility's management models and systems
- c. Developing a public service attitude amongst those in the public services requires not just to think of ways to change staff behaviour (through rewards and sanctions) but also need to be addressed in the education system

Jan Janssens explained that the mission of the BNWP is to bridge gaps in knowledge. This particular project to understand reform of public utilities is a flagship project of the BNWP.

Janssens pointed out that the focus on public utilities reveals a shift in thinking: privatisation in WSS is not a way to move forward in a sector where up to 85% of providers are public and will continue to be so in the foreseeable future. Instead of promoting what can be perceived as orthodoxy, an orientation that promotes pragmatic results is the way forward to improve WSS services. One of these results is financial sustainability, which can be achieved through a combination of cost recovery and government subsidy. A utility cannot satisfy its consumers and serve the poor if it is not financially viable and sustainable. Tariffs, subsidies, the ring-fencing of financing for the utility therefore needs to be part of the reform process.

Janssens also emphasised that the World Bank wants to engage in credible, reforming public utilities. This presents certain challenges, which the project could address:

- what constitutes and how to measure good utility performance?
- what constitutes a credible and sustainable reform process?

He expected therefore that this project would provide some roadmap to what and how of public utility reform.

Additional comments from the floor included the following:

- The move from talk of 'best practice' to 'best fit' is very welcome as it emphasizes that ideas need to be adapted and their implementation suited to specific contexts and situations.
- Though the workshop will mostly consider reform of urban utilities, it would also be useful to look at how these ideas may be applied to rural areas.

II. Elements of a reform process

Mapping Out a Reform Process to Turnaround and Institutionalize Good Performance in Public Utilities ~Presentation by Meike van Ginneken and Bill Kingdom

Meike van Ginneken and Bill Kingdom presented the framework paper, focusing on a number of key elements of good public utility performance and concepts that help to explain poor performance in public water supply utilities. The focus and underlying principles for the reform of the public sector are good governance and financial sustainability. To achieve this, a public service provider needs to be able to balance its external accountabilities amongst 5 different groups of stakeholders: Policy makers, Owners, Financiers, Customers and Regulators. In many public services, these accountabilities are often skewed towards one stakeholder (usually the owner who could also be the policy-maker). Stakeholders may not be effectively differentiated, or in many cases, certain stakeholders do not exist (usually the regulator). In addition, the utility usually has no interaction with the unserved, whose interests may or may not be promoted by a utility's existing stakeholders (e.g., the policy maker). Thus the reform of the public utility to improve its overall performance cannot happen without reform of the sector more broadly.

The presentation outlined four elements of reform necessary to both improve the environment within which the utility operates, and to change the internal operations of the utility towards efficiency and effectiveness. The reform 'menu' includes the following:

C1. Get the finances right: increase net income and access alternative financial sources
C1.1 Increase net income
C1.2 Improve financial management
C1.3 Access alternative financial sources
C2. Get the institutional set-up right: Separate functions to increase autonomy and accountability
C2.1 Separate policy making and regulation from utility functions
C2.1 Separate utility functions
C2.3 Establish utility a government-owned PLC
C3. Improve service and information flows for customers
C3.1 Improve information flows to customers
C3.2 Make officials answerable to customers
C3.3 Improve service to individual customers
C3.4 use collective customer information to improve policies
C4 Increase efficiency within the utility
C4.1 Hire, retain, motivate and develop staff
C4.2 Decentralize responsibilities, authority and resources within utility
C4.3 Develop technical and managerial capacity of utility
C4.4 Introduce competition

Combining and sequencing these reform elements, what the presenters called 'combisequencing', and focusing on certain combinations or sequences of reform over time will enable reformers to achieve 'best fit' of a reform programme for a given utility and sector situation. (See *Appendix A for Powerpoint presentation.*)

Group work

Small group work then focused on different environmental dimensions that a sector and utility reform programme may operate under. The groups were tasked to discuss the implications for a reform programme operating in the different environments, specifically the combination, sequencing, and weighting of the different elements in the reform 'menu'. The groups were also asked to identify any missing reform elements.

Group 1- population size of urban settlements

The group discussions differentiated amongst 3 sizes of urban settlements: those between 20,000 – 200,000; 200,000 – 2 million, and settlements of over 2 million. The group felt that the size of the settlement affects the following elements:

- Potential for attracting the international private sector (attracted to settlements with population of 500,000 and over)
- Quality of the management that can be attracted (the larger the settlement the more likelihood to attract high calibre managers)
- Possibilities to share water treatment plants
- Possibility of ring-fencing the utility completely: for smaller settlements, ring-fencing may not be the best solution unless utilities are aggregated across several municipalities.

An additional element to the menu of reforms is CO - Understand the drivers of and disincentives to reform. The drivers of reform may include external obligations such as the MDG commitments or European Union directives. It may also include crisis situations (e.g., the massive growth in cities creating demand for reform) or positive national incentives such as access to federal funds, civic pride and strong local leadership, even fear of centralisation. Disincentives to reform may include loss of political power (for the reformer), loss of revenue for other purposes, change of professional career (of those involved in the reform process), the requirements of transparency (a disincentive to those able to extract rent from the current system), loss of trade union power, and resistance to raising one's head above the parapet. Weak democratic practices and processes may also be a disincentive to reform.

The group then assessed some of the conditions (drivers and disincentives) they found necessary to enable reform to happen, and the likelihood that they occur in various sizes of urban settlements.

Issues	20,000 to 200,000	200,000 to 2 million	Over 2 million
Availability of strong leadership for reform	unlikely	less likely	Possible
Availability of information	unlikely	less likely	likely to provide better information (internal)
Openness to global good practice	unlikely	less likely	more open to global good practice
Communication with consumers	easier	less easy	more difficult
Continuity of management expertise	Lack of continuity	lack of continuity	lack of continuity

Need for policy dialogue	policy dialogue needed, especially as a group of towns, on finance and service	Same	not needed
Need for & possibility of regulation	too costly, may not be able to afford it	more possible	can afford regulator

Sequencing of the reform elements would depend on what you find during assessment of the drivers and disincentives for reform.

Group 2 – Levels of poverty

The group discussed the purpose of the paper – whether for advocacy or as guidance note for practitioners. The group suggested that for advocacy, the case for reform needed to be stated more clearly and include the names of people consulted during the development of the paper. The paper could also have a separate section on civil society and addressing CSO roles in the reform programme and process.

The group suggested the following additions to the menu of reforms:

1. Add C0 - Gather information and analyze the existing situation, identifying gaps in service, who current service providers are (institutional analysis), an analysis of local government potential, information and analysis of demographic projections, information on other sources of resource (such as sweat equity and alternative resource mobilisation processes), and the importance and any existing processes around meta-reforms such as on land tenure. This element of the reform process could involve civil society actors. As such, the process of gathering information itself would help with laying some of the groundwork for acceptance of the reform programme.
2. Include in C1 - Different levels of poverty could affect the sequencing of reform. In the middle income country with higher levels of coverage, financing (C1) (through cost recovery and cross-subsidies) may be more available and acceptable, provided that there is political leadership.
The unserved poor may have sweat equity, or small savings and credit groups could provide resources for improving services to the poor. Resources that can be mobilised may include land allocation (if there is land tenure reform) which can help to unlock household investments towards water and sanitation services. So it is important to think more broadly about types of resources and their possible sources.
3. Adjust C2 - For low income countries, central government must provide clear and strong incentives to local government to reform utilities and capacity building support for local governments. The group agreed that the lower the levels of services, the more top-down the reform process has to be, thus the more important political leadership becomes.

In addition, the reform programme must not assume that people should get and will get the same level of service. Some unserved could be connected to the utility network, others not. Still the utility can act both as distributor (or retailer) as well as 'wholesaler' to small service providers, where they exist. There may be a need to divide up the city amongst the different possible service providers (including small scale, private non-profit, etc.) Thus the initial situation analysis needs to look at what different stakeholders can contribute; the

institutional linkages amongst them and with the utility, and legal and regulatory framework for these services.

On sequencing, the group felt that step C2.2 (Separating the utility functions) would need to be prioritized.

Group 3 – Type of services provided (integrated including network sanitation or just water supply)

Additional points for inclusion into the menu of reforms include the following:

1. Add C0 – Understand the socio-political and politico-cultural context. This includes carrying out an analysis of the political drivers and windows of opportunity for reform, the political franchise of consumers and poor people, the accessibility of information and the existence of a legal system that can be trusted, and which can backstop reform. The sequencing of reform would then be affected by the context of any given situation.

Although the group agreed that water and sanitation needed to be done together, sanitation is less a 'sexy' issue for all players and faces some specific challenges. There are aspects of the reform programme that are generic and affect both water supply and sanitation or water supply only. These include C1.1, 1.2, C3.1, 3.3, 3.4, C4.1, 4.3. In addition, for C3.2 and C4.1, there may be no differences in principle (for water only and water supply + sanitation services), but there would be differences in approaches and priorities.

The group identified the following as either site specific, or having clear differences if the utility provides water only or both water supply and sanitation services:

Generic (G) or Site Specific (SS)	Reform elements
SS	C1.3 W or WS in practice this is different
G?	C2.1 W or WS separate regulation but different regulation needed for W and for S - this depends on technology that's being used.
G?	C2.2 W or WS difference- more important for WS. Could ring fence W income and S income because more will/could be put into water otherwise
SS	C2.3 maybe there are other options. There has to be a strong element of customer representation, Analysis needs to be made. It won't work if Gov is perceived to be corrupt. There's a presumption that it would work in the same way as PLC in the north.
G	C3.2 are different for W and for S
SS	C4.2 in practice
SS	C4.4 Maybe if complimentary- it is context specific. Can inadvertently create a bigger problem than solving anything.

Questions from the floor raised the issue of the difference between financing of drainage to the financing of sewerage facilities. Solid waste and rubbish disposal needs also to be addressed in the reform programme. However, what aspects of sanitation or environmental sanitation to be included in a specific programme for improving performance is dependent on the situation in the city and specificity of the site(s) where the utility operates. In addition, technology assumptions over sanitation also need to be explored – is good performance only to be related to water-based waste disposal?

Group 4 – Level of decentralization

Additional points raised by the group in relation to the 'menu' of reforms include the following:

1. In C1, focus should not only be on getting financing right, but ensuring water resources are available and sustainable (especially in localities where there is water stress or scarcity, or contamination of water sources and other problems). This could be a C1.4 The issues this point highlights is ensuring not just financial sustainability of the utility, but also environmental sustainability of the whole water production and distribution system.
2. In C2, a further point to include in the menu is determining and separating the functions between the local government and the utility, and the functions of central government from local government (especially in terms of financing, capacity development and authority/responsibility over water resources).
3. In C3, a further point to include in C3.3 is the determination of priority for serving the unserved (in relation to improving services to existing individual customers).
4. In C4.4, explore the introduction of internal benchmarking as a way to introduce competition. Also explore the scope for involving the private sector in particular areas of operation.
5. Add a C5 to focus on change management: recognizing the different actors involved, how to deal with vested interests, and how the utility can operationalise the MDG targets for their specific area.

Group 5 – Good utility in a weak environment or poor utility in a good environment

Points raised by the group for inclusion in the menu of reforms include:

1. CO – Understand the context, customer requirements (identify the range of existing and possible customers including industrial/private, connected/unconnected, and the different levels of access to the existing network) and linkages between water, sanitation and land resource.

In a context of good utility within a weak environment, the group suggested the following:

2. Adjust C1 – in C1.3, accessing alternative financial resources, the unserved customers could be linked to financiers (as potential sources of income)
3. Clarify C2 – Separate policy making from regulation (and enforcement of regulation)
4. Add to C3 – Add a 3.5, mobilise the unserved.

In a context of weak utility in a strong environment, the group suggested the following:

5. CO – understand why the utility is poorly performing
6. C2 – make sure that what is on paper in terms of strong environment is implemented in practice. So need to ensure enforcement of regulation and policies.

In a context of weak environment and weak utility, but with political support, the group suggests that C2.1 and C1.1 can be done in parallel. Following that, the next sequence of reforms could be: C2.2, C4.1, C1.2, C3.1.

In a context of weak utility in a weak environment, and with no political support, the only recourse is to wait for a crisis or a change in the political environment.

It was further suggested that a scorecard of where countries are at (in terms of performance of utilities or strength/weakness of their operating environment) would be a useful information tool.

III. How can Central and Local Government Spur Reform?

How Can Central and Local Governments Spur Reform? - Presentation by Bill Kingdom & Meike van Ginneken

Bill Kingdom and Meike van Ginneken presented four tools that already exist for central and local governments to spur reforms. These include: the removal of conflicting and overlapping rules that impinge on a utility's autonomy; using governments' mandate to put basic rules in place; provision of incentives to utilities to reform through performance targets included in contracts; and facilitating utilities and local governments to take advantage of reform through resources, capacity and leadership/management of change.

Spurring reform means looking for ways to improve, not perfect.

Emphasis was given to the design and implementation of public-public contracts as these are considered challenging. Kingdom pointed out that although there are many experiences and standard contracts with the private sector, there are no standard or model public-public contracts. The implementation of public-public contracts is also problematic due to a variety of reasons, including low capacity of local governments to monitor/enforce contracts and underestimation of the resources (financial, human, knowledge) necessary. Even so, there were ways to mitigate the limitations of public-public contracts, including designing contracts to be simple and not over-ambitious, developing a shared body of knowledge that government officials and utility personnel can tap into, and making contracts and their accompanying sanctions public knowledge.

The final point made by Kingdom revolved around the political economy of the reform of public utilities. Politicians who want to make changes need to see returns from reforms. Reforms also become more possible when there is public demonstration of need, and can be sustained by evidence of progress or success (especially if within one political cycle). Moving from 'best practice' to 'best fit' in reforms of public utilities requires personal leadership and change management skills, which are in short supply in the water and sanitation sector.

In a PSP undertaking, change management capacity is bought in. But in public sector reform, it needs to be provided from somewhere, for example, from professional associations. (See *Appendix B for Powerpoint presentation*.)

Group Work

Participants divided into four role-groups to consider the potential tools to support reform in the case of the Hai Phong Water Supply Company. The scenario is the early 90s with the water utility in crisis. There is an opportunity two years later, with decentralisation, giving the Provincial People's committee ownership over the utility. The different actors then have to find and define their new roles. The groups were put into the roles of local government (Hai Phong People's Committee) who owns the utility, central government who sets policy and channels funds from donors, the Hai Phong WSC who seeks to exert its autonomy, and NGOs who are interested in incorporating customers and civil society in the process of reform.

Group 1 – Local government perspective

Issues raised by the group revolved around the conflicting objectives of both the central government on the one hand and the water utility on the other. The national government was deemed to be

resisting decentralisation, and at the same time committed to meeting the MDGs which it had signed up to. The utility on the other hand wanted autonomy, especially financial autonomy, including responsibility over salary increases.

In terms of tools for reform, the group identified the following tools to be useful:

1. negotiation between central and local governments over performance targets, which could then be used by the local government in its contract with the utility.
2. allowing the utility to borrow internally (domestic) only
3. use its ability to set tariffs and engage with banks and guarantee loans of the utility

Group 2 – Central government perspective

The group defined the central government's role as policy-setting and standard-setting. It will not be involved in tariff setting in order to avoid political interference, but delegate this responsibility to the local government, which can consider local contexts in setting tariffs. Balance of responsibilities need to also be defined between central and local governments in relation to regular and provision of service, and defining economic and environmental goals and parameters of service provision.

In terms of tools for reform, the group identified the following:

1. enabling NGOs (through building their capacity) to monitor reforms
2. tapping an expert external agency to advise government on contract management
3. Central government to play a leading role in debt management
4. Appointment of local government members in the HPWSC at least in the initial steps of reform
5. determination of performance targets can lead later on to providing incentives or sanctions in relation to achievement of targets (blame and shame)
6. Securing commitment of HPPC to investment funding and to setting tariffs.

Group 3 – Hai Phong Water Supply Company perspective

The group was sceptical about the legal framework and about the real feasibility of autonomy given the behaviour of central and local governments before. They also identified the existence of perverse incentives such as payments to the company for water produced, not for water actually delivered to customers. This led to inexcusable levels of UFW and leakages.

The following tools were identified as useful in securing autonomy for the utility, and moving forward with performance improvements:

1. Undertake an assessment of the service and the physical state of the infrastructure.
2. Appeal to the general public – make the facts about the economic state of the utility (low collection rates), its levels of service and state of the physical infrastructure publicly known so as to generate public support for improvements (such as bill paying).
3. Produce a business plan, which can be the utility's contract with the local government. Later, this business plan can be translated into a customer charter.
4. Set performance targets jointly with local government, based on the assessment undertaken, so that targets are realistic. The performance targets to be part of the business plan
5. The business plan can be a way to secure investment capital grants from central government and/or donors thus would need to be signed off with central government too. In exchange, commit to be inspected independently and publicly.
6. Monitor targets rigorously
7. Seek organisation of a professional association or utility forum at national level to help develop (and set) performance standards amongst utilities.

8. Ensure good and regular rapport with local government and central government, led by the utility's Managing Director.

Group 4 – NGO perspective

The group stressed the importance of working through existing structures in poor or un-served communities (e.g., women's groups or mothers' groups) in order to define local solutions to a key area of performance needing improvement – expanding services to the un-served, especially poor households. Enabling involvement by civil society groups and organisations that represented the interests of the poor in the reform process was also identified as an important role for NGOs to play.

The following tools available to NGOs were identified as useful in spurring reform:

1. Community mapping can provide information to residents as well as information on services & providers, levels of services received and challenges faced in accessing services.
2. Building linkages between people's organisations and local governments and utility (e.g., invite the utility director to communities and meet with people) as a way to build a system for people to monitor reform and to encourage utilities and local government to recognise alternative local solutions to performance problems.
3. NGOs to provide information (and feedback to communities about reform processes) and build understanding of community leaders so that they can become active participants in policy roundtables.
4. Build connections with the media to highlight problem areas as well as areas where local solutions have succeeded.
5. Participate at standard setting and monitoring at national level to make sure that information is real.

Plenary discussion chaired by Judith Rees

In the plenary that followed, the feasibility and track record of public-public contracts was questioned. *Bureaucrats in Business*¹, was cited as providing a detailed commentary on and critique of these contracts. In response, Meike van Ginneken and Bill Kingdom countered that though the problems are well defined, there has not been enough work done on solutions to the challenges of public-public contracting. The contracts investigated in the book identified some of the weaknesses in public-public contracting that can be avoided. For example, the vast majority of contracts investigated did not have indicators. Of those that did, the indicators were too many and wide-ranging so that monitoring them became a challenge. There were also no sanctions identified. It was important to distinguish between the situations the author of *Bureaucrats in Business* found in 1995 and the current situation, where tools such as monitorable indicators and sanctions are being developed and used.

Further elaboration of the challenges inherent in public-public contracting were discussed, including problems that a utility faces in forcing the central government to play by its own rules. In many countries, central government is the biggest non-payer of water bills. It is important then to look into existence of dispute resolution mechanisms for public-public contracts, which exists for public-private contracts. In the Uganda public-public contract, there were strong incentives and positive sanctions were enforceable. But the problem lies in the enforceability of negative sanctions. One participant pointed out that too much time was spent on looking at the problems on the utility side, not the government side. The question is how to stiffen the resolve of the different parties, and this may mean the need to involve other parts of central government (e.g., the finance ministry).

¹ World Bank, *Bureaucrats in Business: The Economics and Politics of Government Ownership*, Washington, DC: Oxford University Press, 1995

Participants agreed that reform starts with writing down loose agreements on what people need to do and later introduce incentives and tighten up the agreements. Historically local government business has all been done in-house but others did not know what is happening so there is a need to start with a statement saying what needs to be delivered – this would be a useful simple start.

The sustainability of improving the performance of public utilities was questioned further. The case of Uganda's NWSC was highlighted. Will the improvements in the utility's current performance continue when the pressure to privatise wanes? Is the utility's current good performance only an effort at showcasing? A response to these questions revolved around the need to bring the consumers into the reform process, to help with the monitoring (and sustaining) of performance improvements. The related point of transparency in the reform implementation was raised – if the reforms and capacity-building are done in-house, then how easy is it to find out what's happening for real?

There were further contributions on the issue of the resource requirements for reforming utilities. One participant pointed out that equipping utilities and local governments to reform requires massive investments in capacity-building, knowledge transfer and knowledge building. For example, if one of the objectives of the reform is to make the utilities run on a commercial basis, this will need a lot of capacity just for financial monitoring and auditing. A PSP arrangement is a one-stop shop reform (with the private sector responsible for capacity building). But the resources invested in designing and implementing a PSP transaction have not been applied to a public utility reform process.

The point was raised that the background note leaves the impression that the authors' intention is to conclude that a government-owned plc is the sole ideal management model. A short discussion on the advantages or disadvantages of company law over public law concluded that the advantages of moving to company law are site-specific .

Several points were made on elements of reform that the framework document did not touch upon. This included the following:

1. drinking water quality (especially as external factors impact on water quality, and this will have an impact on the cost of the service). A way to address this is to build the WHO standards on water quality into regulation.
2. central government often involves several ministries and several agencies within ministries, with their own interests to defend. It is never a monolithic entity. What are the implications for reform process and reform agents?
3. in improving the performance of utilities, one needs to consider how the management experience and capacity of the utility can benefit other utilities in the country.
4. resource requirements for reform will be very high, and governments may have just a couple of people in the treasury (or water ministry) trying to manage. Compared with a PSP process where a lot of resources are put in, the same is not provided for public utility reforms, though their resource requirements are similar.

A final point raised is the value of actively seeking, learning lessons and sharing lessons across different countries and governments. In the experience of the slum dwellers network (Slum Dwellers International), the first experience of network building in India took 10-15 years of support from external agencies and international NGOs to build their capacity for proactive engagement with city authorities. In South Africa, this took 8 years, in Zimbabwe, 5 years. Now, federations in different countries can spring up and be supported and become capable of the same level of engagement in just 2-3 years.

IV. HOW CAN DONORS ENGENDER AND SUPPORT PUBLIC SECTOR REFORM?

Finnish Cooperation in Vietnam - Presentation by Eero Kontula

Eero Kontula from the Finnish Department of International Development Cooperation (formerly Finnida) presented the experience of support for the Hai Phong Water Supply Company. (Finnida is used in this report for ease of reading).

Finnida started the Hai Phong Water Supply and Sewerage Project in 1990 and has supported it until 2004.

Haiphong is located on the coast of the Red River delta and is the largest city of Vietnam and the main port of the north. It is a province as well as a city. The urban population reaches 500,000 while the total population for the province is 1.72 million. Economic activities in the city and province are evolving from reliance on port related activities and heavy industry to light manufacturing and service industries such as banking, insurance, communications, tourism etc.

The project consisted of 4 initial phases (1990-2004) aiming at gradually addressing the difficulties faced by the water supply company – as well as those of the sewerage and drainage company and of the urban environment company.

Initially, the difficulties were analysed. They broadly consisted of inappropriate policies and poor customer relations services. Technical assistance was then provided to improve the management procedures of each of the companies and to develop their human resources. Improvements were then made to consumer services and to technical installations for water treatment and provision. Discussions regarding the legal environment in which the companies were operating started during the 2nd phase of the project. During the 3rd phase, studies on how to reform the utility to make it more efficient were conducted and the recommendations implemented.

Key elements of success included: the adoption of a mission statement in the company and its dissemination; working with the city administration, consumers and communities; decentralising responsibilities within the company and educating staff about their role as service providers and the introduction of incentives to staff.

The presentation raised a number of issues including the following:

1. the multiplicity of central government ministries that Finnida had to deal with and get on side with entailed a lengthy preparatory phase.
2. The relationship with Hai Phong utility took 10 years to develop.

(See Appendix C for Powerpoint presentation.)

Plenary discussion chaired by Dick van Ginhoven

Several questions centred on the nature and length of the assistance provided by Finnida to the Hai Phong Water Supply Company as well as its replicability and the sustainability of assistance as well as the improvements it has engendered. Eero Kontula provided further clarification:

1. On the question of what other utilities in Vietnam can do without donor assistance

Many utilities in Vietnam have difficulty in accessing investment money. Currently government is encouraging internal twinning amongst utilities in the country to help with capacity building. Vietnam is also trying to build their capacity without donor assistance.

Finnida are also supporting management resource building. It supports the Water and Sanitation Association of Vietnam. The question now is how to transfer the knowledge to the people's committees (local government), not just to other water utilities.

2. On the question of whether Finnida envisaged the 10-year relationship when it committed to support Hai Phong (since it is longer than usual donors' time frame)

The first ever project document for Hai Phong (produced in 1989) did state that the reform programme will take 15 years. This was used to defend continuous involvement. In addition, as the years passed, other concerns, such as the environment, had to be added into the assistance package, which was also used to defend continuing involvement.

The Finnida support package included technical assistance and investment support, which was in beginning 50% of total investment and slowly phasing out after 1995. Annually, around 2 million euros per year was spent over the period. Finnida also provided in the beginning 4-5 long-term experts for planning and design, O&M, leak detection, consumer relation and overall management to work within the utility. Later the experts were reduced to 2, i.e. overall management and financial management.

3. On the question of whether the length of time of support can be shortened, as well as replicating the lessons from the utility, e.g. through facilitated exchanges and other types of 'viral' connections.

Women's unions are now creating more and more pressure on municipalities. The problem with Finnida supporting this is that it cannot go directly to the people's committees and other utilities. Finnida always have to course our support and efforts through the central government. So the process is inevitably longer.

4. Unaccounted for water was at what level and what changed?

Administrative losses were 60-70% of total losses round 70%. Leakages were less in Hai Phong than in Hanoi. Programme started with leak detection and repair, but leakages remained high because the utility was paid a bonus on the bulk water produced, which means the volume of water pumped might have been overestimated. The rehabilitation of network and new bonus system reduced the leakages and losses in the improved area to 15%. The higher pressure available increased, however, the leakages in the remaining area. There was no tracking of this administratively though. But the main point is to reduce first the administrative losses – this would be cheaper than reducing other leakages than very visible in valves and main pipes.

The session chair's summary revolved around how bilateral and multilateral donors need to work together to support reform. Donors play a role in the reform of public utilities through their policies to help instigate some part of the reform programme. But bilateral donors need to work with the World Bank. Bilaterals cannot do it alone because the investment requirements for turning around utilities (and improving their services) are massive. On the other hand, getting access to investment financing requires the willingness and ability of governments to take out a loan from the World Bank, other international financial institutions (IFIs), and commercial banks. The sustainability of donor support for reforms needs to be considered together with how results from these reforms can be replicated in other utilities. These issues have to be addressed by government and donors together at the earliest time, as part of the design of the aid package.

V. HOW TO INCREASE CUSTOMER ORIENTATION OF PUBLIC SECTOR UTILITIES?

How to increase customer orientation of public sector utilities - Presentation by Robin Simpson

The session aims were to reflect on how to inform and involve the public in a reform process and programme. Robin Simpson of Consumers International began by introducing the concept of 'consumer rights' from the 1985 UN Guidelines. These rights encompassed basic needs, safety, information, choice, representation, redress, consumer education and a healthy environment. The question for public water utility reformers is how to ensure that these rights are incorporated into reform programmes.

The current work of the International Standards Organisation (ISO) Technical Committee 224 on developing standards for service activities relating to drinking water supply and sewerage could contribute. ISO TC 224 is drafting standards covering the following:

- Non-networked services (universal access does not mean universal connection to a network)
- Schedules for network completion
- Equitable supply management
- Affordability
- Consumer contracts (implicit/explicit)
- Redress/dispute mechanisms
- Consumer representation & transparency

Of the above, affordability was the most difficult to put into a standard and so was approached indirectly through representation and transparency.

Underlying the work of TC 224 are principles of Universal Service Obligation (USO), similar in principle to the European Union's definition of Services of General Interest. USO principles include equality of treatment (or non-discrimination), universality (e.g., through the use of cross-subsidies), continuity (and safeguards against disconnection), adaptability to technological change and openness or transparency of management.

Simpson also explored the question of how far participation has to go for it to be meaningful, and expressed concern over the huge expectation on poor people (who have the least resources) to participate before they can get a service which the better off can simply buy. However, the consumer has a right to be informed, a right that is both an individual and collective right, so the onus is on the utilities and government to provide access to information. (*See Appendix D for Powerpoint presentation.*)

Plenary discussion chaired by Belinda Calaguas

The first part of the plenary focused on questions of clarification and reflections on the presentation. Simpson explained that the ISO standards are not mandatory. Some governments adhere to some of the standards, as do some private companies. Some participants suggested that getting governments to adhere to ISO standards on water services could be a way to help them to lock in improvements in public services and sustain the reform programme.

Several questions revolved around consumer redress. The first step is to set up a complaints procedure, which inevitably results in huge increases in the number of people complaining. This is fundamentally a good thing and arises from customers having the opportunity and the process for making complaints. It doesn't necessarily indicate a sudden deterioration in the standard or level of

service. Redress systems do not have to have legal backing. Experiences in France, for example in relation to credit providers, show that non-judicial mechanisms also work well.

The concept of equitable supply management (meaning management even of non-continuous supply in an equitable manner) was highlighted. Examples already exist in some developing countries such as the Philippines where monitoring and obligations to report on provision were introduced. The reports address 'equity' – for example everyone equally gets 2 hours supply a day. The requirements for monitoring can be high, to ensure equitable supply management. This discussion raised concern amongst some of the participants. Does equitable supply management lead to an acceptance of water services that did not offer continuous supply? Should a reform programme accept and work within this situation, or should it work towards providing what customers demand and expect, i.e., continuous supply? In reply, Simpson gave the example of Bamako where 20% are connected, but the money does not exist for the 80% to be connected. It is a delicate issue, particularly for consumer organisations to argue against raising standards in order to achieve more equity in distribution. In such situations, while standards are not increasing overall, life is improving for all.

Group work

Participants were divided into four groups to look at the following four questions:

1. How to integrate non-networked services into a public service framework with a customer service orientation?
2. What is the best way of ensuring consumers/the public can get redress in case of failure or inadequacy of services?
3. How can the formula for prices and tariff structures be sensibly discussed with customers?
4. In the reform programme, at what point is the public voice best included?

Group 1 – non-networked services

The group considered that the concept of universal service obligations does not apply equally to the water network and the sanitation network. The group's attention focused on the operational design of the service. In the water supply sector, it was necessary to identify all alternative providers, and to include their operation within the legal framework. In light of several appropriate alternative providers, the water supply utility cannot be the exclusive provider for the area. This is important to recognise in the regulation, the contract and in the utility's business plan. The utility, however, could be the bulk supplier to alternative providers distributing at regulated prices. The bulk supplier could be responsible for ensuring quality of water supplied at bulk.

The group also suggested that rolling plans at city level could be developed to extend the network – the plans could involve some level of community or public participation through their inputs in consultations over the plans, as well as through providing information to the city/water utility planners.

Group 2 – public redress

The group first considered how to address redress. Service standards need to be realistic and there must be commitment from politicians that those responsible for service standards are held accountable. But the question of who is responsible for service failure is important – the utility may not always be responsible for failures: the recent floods in Dhaka has forced DWASA to provide alternative water services by water tanks where possible. Another example is interruption of water supply due to interruption of electricity supply for pumping.

Regarding complaints, this requires good public access to the utility (through open channels of communication) in order to limit obstacles to the public making complaints. Examples of complaints given were around issues of compensation or discounts, rebates on tariffs during service failures. Ability to respond to complaints requires capacity in the public utility.

Whether a complaint requires redress through public or private law depends on:

- The dimension of the complaint, for example, whether it was an individual or household or an entire city complaint.
- The legal system – to what extent can consumers depend on it to obtain redress?
- The strength of various actors will allow different ways to address failure – for example, how strong is civil society or the media (e.g. role of the media in Washington when it was discovered that lead pipes contaminated the water).
- Who will initiate redress through law – would this happen automatically or will individuals have to first approach the utility? Can individuals sue a water utility in court?
- Should there be arbitration bodies?

The group also considered issues around self-regulation, roles for a national regulatory board or an ombudsman which can ensure that standards are upheld. The conclusion is that before any redress, one needs to have a clear accountability structure. The governance context in this regard is very important.

Utilities have often been weak at making their case to politicians (for example, on the need for cost-recovery). It is therefore necessary to empower the utility manager to meet with politicians from a position of strength.

Group 3 – pricing and tariff setting

The group first defined the challenge, not in terms of prices, but in terms of what choices are offered to customers (and would-be customers) about levels of service. Do the choices on offer include different technology options that can cater to what different customers are able to pay for? Linking public discussions on prices to levels of service enables customers/future customers to make decisions that are right for them. To have a public discussion about prices is in itself a discussion about the service that could or should be provided. This means that there is a responsibility to inform the public on the operational aspects of the service, in a language that they can understand.

On the other hand, the group also pointed out that price levels should not be an obstacle to access. Subsidies and cross-subsidies need to be explored and the mechanisms for their fair application, as well as the source of these subsidies examined. The distinction between raising tariffs for existing customers to pay for improvements to services, and charging a tariff to new customers who many never have had to pay before also implies different consultation mechanisms and processes.

Consulting the public about tariffs requires differentiating sections of the population: the un-served, the served and the poorly served. And the consultation should also tackle issues of methods of payment. For example, can the very poor pay in kind (for example, labour in exchange for connection)?

In terms of ways of consulting and getting information to customers, the group identified the local and national media as important, together with more focused group discussions with different sections of the population.

Group 4 – timing of consultations

The group suggested that customers need to be involved from the start of the reform process, since a key result sought is financial sustainability for the utility. This inevitably means payment from customers – whether improving the collection methods, or increasing the tariffs in order to recover costs. The public will need to know where, when and how benefits from financial sustainability will happen and to what effect.

In reform processes, expanding services to the poor is usually a secondary concern to getting the utility moving. However, it is important to initiate schemes for the poor who have long been excluded from services. This poses questions around whether existing customers would be involved in such decisions. Decisions regarding designing a reform programme to include a pro-poor element imply taking public participation on board from the beginning on the following issues:

1. types of connection to be offered
2. tariffs
3. timetable of service upgrading
4. levels of services
5. methods of payment and collection

The ultimate purposes of public involvement in discussions of these issues are to increase sustainability of services and gain public support for the balance between losers and winners at any one time during the reform programme.

Continuing public involvement in monitoring of progress of improvements in services and expansion of services to the poor helps to lock in government and utility commitment to continuing reforms. Here, the involvement of local community groups as well as NGOs is necessary.

Involving the public in deliberations over the goals and features of a water and sanitation service reform programme also results in other externalities that benefit the whole political system. Communities become better organised, intermediary organisations come into being. Thus, grassroots democratic structures develop that can deal not just with water, but other issues as well.

The chair's summary reviewed the point that to a large extent the quality and success of a reform process to improve a basic service depends on the quality of democracy and the legal system in a country. The transparency of a reform process ensures the sustainability of the service improvements. In this, active information provision and providing access to information on the operational design of the services, quality issues and the reasons behind the goal of financial sustainability are paramount. The concept of universal service obligation is useful in informing the content of a reform programme: reform to benefit the utility and its customers, but also reform to benefit other alternative providers and their customers.

VI. WRAP UP PLENARY

What We Heard: Results of the Workshop & Proposed Next Steps, Presentation by Bill Kingdom and Meike van Ginneken

The two presenters reported back on the key results of the workshop, the main issues that they noted and the proposed next steps (see Appendix E for presentation).

Overall, there appears to be general support for the basic structure of the background note. The main challenge is to substantiate the note by providing a burden of proof, including empirical evidence, literature and factual illustrations and examples. The workshop brought out the importance of balance and tone in the document: wording is critical on politically sensitive issues. The document should not develop a new dogma, but should provide a basis for structured discussions on local solutions.

Parts C and D (elements and combisequencing of reform) require some additions, including the need explicitly to include policy reform as an element, and to broaden resource mobilisation to include other forms, such as in kind resources especially from poor consumers. Certain sections also needed strengthening, particularly on the need for long-term investment sources and customer orientation (perhaps adopting the ongoing work of the ISO on TC 224). The need to start with a situation assessment before designing a reform programme is crucial in determining the combisequencing of reform. Linkages inside the sector and outside it (e.g. to land tenure, water resource management) also need to be more fully considered.

Part E of the document, on the tools that central and local governments can use to spur reform and improve performance of utilities will need further work in order to reflect workshop discussions and consensus. In particular, the importance of facilitation and requirements of increased capacity from both central and local government needs further highlighting. Additional work is also needed on public-public contracts, especially to show difference from approach of the 80s.

A section on the role of other actors such as civil society and donors needs to be added to the document. In terms of resource requirements, the document needs to state more clearly that the horizons for reform programmes are long and will require continued support over that period. The levels of resources required for a turnaround public sector reform are probably as high as or even higher than those required for PSP transactions.

The document will be worked on over the next three months, and a next draft will be available by end of the year. Kingdom and Van Ginneken requested the participants of the workshop for additional comments in the coming week, and said that they might follow up with individuals on specific issues or cases raised at the workshop.

Plenary discussion chaired by Michael Rouse

The final plenary was given over to additional comments on the framework, and to a general sharing of insights and lessons from experience. A summary of the main areas of discussion follows.

1. Role of and support for civil society

Participants from civil society organisations reiterated that support for civil society engagement in reform (through the mechanism of civil society organisations) was a critical factor to sustaining reform. 'Engagement' is different from 'partnership' – its focus is on critical input and deliberation

involving communities, local governments and utilities (e.g., getting a public consultation to happen and mobilising community members and leaders to make informed inputs in the consultation).

NGOs and civil society groups have developed and used different tools that can form part of a reform package. For example, community mapping tools and methodologies are routinely used by many groups working in both urban and rural areas to map out services, amongst many other uses. These maps have been used to push governments towards reform. Networks of organisations, such as the NGO Forum in Kathmandu have been instrumental in enabling the voices of the un-served and poor people to be communicated to and heard by government agencies involved in water utility reform. Many civil society groups are already active in reform processes in many countries, but often, their efforts are not recognised as championing reform.

Achievements of civil society groups in reform processes required so much capacity building amongst community leaders, members and NGO staff. This fact is often not recognised, and therefore civil society groups are often un-supported. They need to be seen as one of the key players and stakeholders in any service reform programme, as advocates for improvements and expansion of services to the poor or indeed as direct providers of services to the poor.

2. Processes of learning and building capacity

The importance of facilitation and capacity building was reinforced. At present, the framework document says too little about capacity building.

Learning processes, particularly in reform programmes need to be seen as 360° processes, embedded through networks, exchanges, consultation processes. How can governments, utilities and donors going to support this kind of learning process – how do they themselves learn? Behaviour change is required within donors, governments, utilities and other organisations engaged in reform processes.

Lessons can derive not only from recognising what has worked before, but also in understanding what has failed and why. There is a lot of exasperation with the notion of reforming public utilities and rejection of this option in reform initiatives amongst donors. Have we all understood why reform efforts failed in the past? Is this shared knowledge? There are failures because of trying to push reform in a particular sector, without looking at the wider context which can present barriers to reform elements being taken up. Other failures are caused by lack of political support of reforms, or lack of resources (time, money, expertise) spent on the reform effort.

3. The role of the private sector in public utility reform

The revised document should put public utility reform in the wider context of WSS reform, including PSP options. In the discussions, there has not been debate about the possible role for the private sector in the reform of public utilities. The private sector can be instrumental in helping a public utility to improve its performance. Even the threat of privatisation of PSP can be a driver to reform of public utility. The utility workers and managers get scared about losing their jobs, so become open to negotiating performance targets (as in Nicaragua). The steps in a public utility reform process are often very similar to the steps a private operator takes when starting to reform.

4. Securing resources for reform processes

The costs of public sector reform is as much as PSP, this will need to be supported with enough resources. Where will the resources come from? Governments themselves need to put in the resources. This requires that the ministers of finance become convinced about the reform

programme and that it will result in benefits from water and sanitation that make sense for the country economically. In this case, the sector needs to show the cost-effectiveness not just of WSS, but also of the reform programme. It is necessary to show that the benefits are greater than the status quo.

Donors, such as the World Bank could be a source of financing – also through the provision of guarantees to public utilities or municipalities in order to enable them to access private capital. On the other hand, donors are constrained in scaling up solutions by their limitations in resources and by the priorities of its shareholders – governments. Thus to some extent, they are limited to demonstration projects, and to establishing processes or mechanisms to enable its client governments to access other financing sources. What is needed is more co-ordination amongst the range of donors so that resources (including technical assistance resources) are spent effectively and not wasted.

A further resource that should not be overlooked are urban poor funds, which currently exists in 10 countries. Some of these funds are controlled by the poor themselves, paying regularly into an account. In Cambodia, the 'solidarity for the urban poor' fund is controlled by the head of the municipality together with slum dweller representatives and NGOs. These funds are used for upgrading slums.

Finally, look at debt relief as a source of financing for reforms. The catch here is that very few Poverty Reduction Strategy Papers prioritise water and sanitation. So need to get it prioritised there in order for the sector to gain access to debt relief funds that can be used to finance a long-term reform programme.

5. Public-public contracts and their enforcement

Public-public contracts design and enforcement are difficult issues that need further consideration. A number of issues need to be considered:

Roles of various agencies: What is the role of the regulator/administrator in these contracts? What other parties need to be brought in and involved in designing the contract? How to solve the information and capacity disparity between utilities and governments?

The lock in of governments to keep up their part of the deal needs more attention. One way to make public-public contracts enforceable is to make local government act as credit guarantor to the utility. In the case where the local government is also responsible for setting tariffs, it is then put in the position of sharing the risk with the utility. This could engender some level of discipline from the local government not only to set realistic tariffs, but also to pay its bills.

Consumer charters are an additional useful contracting tool. Introducing consumer charters should go hand in hand with the creation of formal or semi-formal committees representing customers to the utility or government in the hearing of complaints could aid enforcement. Examples cited include Water Watch Lusaka and Customer Committees in Jakarta.

6. Dealing with the context of public utility reform

To make reform of public utility sustainable, it is important to maintain the political legitimacy of reform programmes. This will need to include the removal of policy conditionalities from donor agencies toward privatisation. Many civil society organisations view privatisation is done surreptitiously and therefore oppose reforms in principle, including steps that would help bring about positive outcomes for all. Structural adjustment programmes provide the context for service and

utility reforms, thus these reforms are seen as impositions from outside, from the international financing institutions. Developing country governments should be convinced that it is in their interest to reform their institutions (including utilities), so that they can negotiate from a position of strength with donor agencies, including the World Bank and IMF.

7. Using the framework document to spur reform

The document should be used and disseminated at the World Water Forum in 2006. Perhaps a healthy competition between governments (through citing examples and case study utilities) can be engendered and this could assist in spurring reform to improve performance. The document could also be discussed with African ministers gathering in AMCOW.

Appendix A

Mapping Out a Reform Process to Turnaround and Institutionalize Good Performance in Public Utilities (including introduction to workshop & first working groups)

Bill Kingdom & Meike van Ginneken
Modes of Engagement with Public Sector WSS
in Developing Countries
Workshop 23 & 24 August 2004, London



Outline of the presentation

- ◆ **Background**
- ◆ Outline of the workshop
- ◆ Principles of reform: towards good governance and financial sustainability
- ◆ Elements of reform
- ◆ “Combisequencing” elements of reform
- ◆ Introduction to working groups

Why focus on public utility reform?

- ◆ Most people remain served (or not) by public utilities
 - ~ Private involvement is limited (investment accounts <10% in last decade)
 - ~ Private involvement will not increase massively as private operators are disengaging
 - ~ 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
- ◆ Pragmatic focus on local solutions from all actors

The project

Modes of Engagement with Public Sector Water Supply Service Providers in Developing Countries

- ◆ Sponsored by the Bank-Netherlands Water Partnership
- ◆ Aims to to map out a reform process to turn around poor performance and institutionalize good performance in public utilities
- ◆ Started in fall 2002
- ◆ Executed by the World Bank in collaboration with others (UNESCO-IHE, WaterAid, individual consultants, etc)
- ◆ Focus on providing a framework: taxonomy, structure, graphics

The project: where we are now

Phase 1: Taxonomy & analytical framework

literature

Phase 2: Documenting case studies

Public Utilities Board, Singapore; Haiphong Water Company; Scottish Water; NWSC, Uganda; Johannesburg Water; SANASA, Brazil; SONEDE, Tunisia; Philadelphia Water Department, USA; AQUA, Poland; ONEA, Burkina Faso; SIMAPAG, Mexico

empirical evidence

Phase 3: Development of viable policy options for public sector reform

experience

Today!~ Inputs from specialists and practitioners

Phase 4: Dissemination

~ Publication & dissemination of final report

Outline of the presentation

- ◆ Background
- ◆ **Outline of the workshop**
- ◆ Principles of reform: towards good governance and financial sustainability
- ◆ Elements of reform
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Objectives of the workshop

- ◆ To validate initial findings of BNWP Project on “Modes of Engagement with Public Sector “:
 - a. Correctness / Completeness / Relative weight
 - b. Realism
 - c. Usefulness of final product
- ◆ To enhance the findings of the project on specific issues:
 - a. How poor, vulnerable, and hard to reach consumers are served by public utilities
 - b. How to increase customer orientation of public sector utilities
 - c. How donors (multilateral/bilateral) engender and support successful public sector reform

Focus of project & workshop

- ◆ Urban (cities & towns)
- ◆ Water supply (but much is applicable to network sanitation)
- ◆ Decentralized municipal utilities (but much is applicable to national utilities)
- ◆ Public utilities (but much is applicable to situations with PSP)
- ◆ Solution-oriented and practical

Approach in the workshop: Three major blocks

Initially: A structured discussion using the briefing note framework to zoom in on areas we consider critical

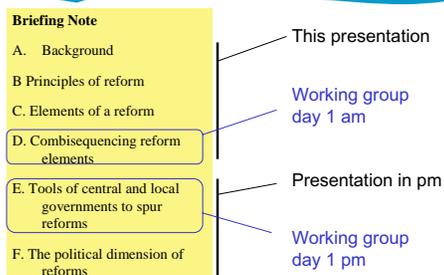
Then: Sessions led by donors & consumers to broaden perspective

And finally: Concluding broad discussion to capture wider issues

Agenda of workshop

	Mon Aug 23	Tues Aug 24
am	Plenary: The overall framework	Plenary: Donor support to public sector reform
	Coffee	Coffee
	Groups on elements of reform	Groups on customer orientation
	Lunch	Lunch
pm	Plenary: Role of central and local government	Wrap up plenary
	Tea	Tea
	Groups on role of gvt	
	Reception	

Day 1 zooms in on critical and weak areas of briefing note



Work in progress ~~ please shoot!

What do we want from you today?

- ◆ Your validation of our preliminary thinking
 - ~ Correctness / Completeness / Relative weight
 - ~ Realism
- ◆ Your thinking on
 - ~ How to combine and sequence reform steps
 - ~ The role of actors outside the utility: local government, central government, donors, and civil society
 - ~ How to maintain progress
- ◆ Your ‘target audience’ perspective on how to make final product useful

Outline of the presentation

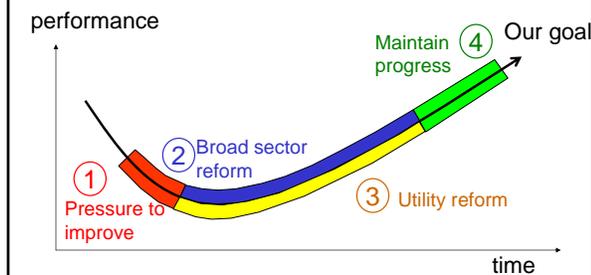
- ◆ Background
- ◆ Outline of the workshop
- ◆ **Principles of reform: towards good governance and financial sustainability** Part B
- ◆ Elements of reform
- ◆ “Combisequencing” elements of reform
- ◆ Introduction to working groups

Broad principles of public sector reform

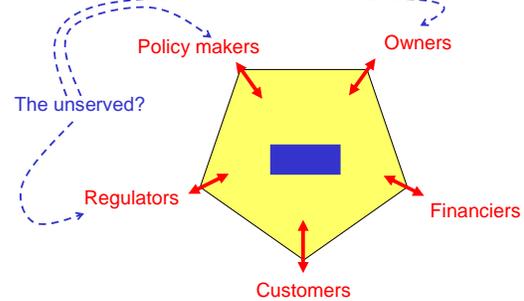
Good governance and financial sustainability

- ◆ **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.

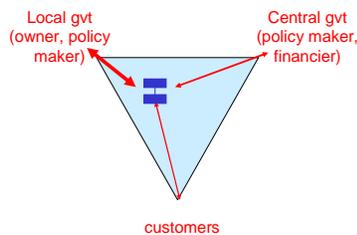
Sequencing of sector reform



Balancing external accountabilities: the ‘kite’ of functions



Balancing accountabilities: Example HPWSC (Hai Phong, Vietnam)



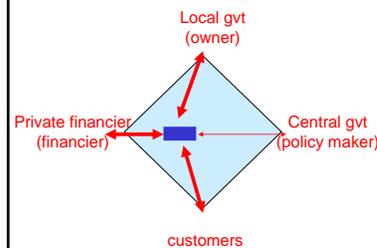
Taxonomy:
Statutory body

Corp. oversight board:
Appointed by local gvt

Contracts:
•With owner: performance contract

Financial flows:
•tariffs cover O&M

How accountabilities are balanced for Philadelphia Water Department (USA)



Taxonomy:
Ringfenced department

Corp. oversight board:
n.a.

Contracts:
•With owner: none
•No economic regulation
•No customer charter
•Loan agreement with bank

Financial flows:
•tariffs cover O&M
•borrows from private financier

Outline of the presentation

- ◆ Background
- ◆ Outline of the workshop
- ◆ Principles of reform: towards good governance and financial sustainability (Part B)
- ◆ **Elements of reform** (Part C)
- ◆ “Combisequencing” elements of reform
- ◆ Introduction to working groups

Elements of reform

- ◆ C1. Get the finances right: Increase net income and access alternative financial sources
- ◆ C2. Get the institutional set-up right: Separate functions to increase autonomy and accountability
- ◆ C3. Improve service and information flows for customers
- ◆ C4. Increase efficiency within the utility

C1 Get the finances right

- ◆ C1.1 Increase net income
- ◆ C1.2 Improve financial management
- ◆ C1.3 Access alternative financial sources for investment
 - Obtain reliable investment funding from central government
 - Access private investment loans

How HPWSC (Vietnam) increased net income

C1.1

- ~ Upgrade networks and services
- ~ Phase out flat rates by installing water meters
- ~ Establish local office in each ward to pay bills and provide customer services

Billing/collection rate increased to 98%

In parallel there was a number of gradual tariff revisions

How SANASA (Brazil) attracted private investment financing

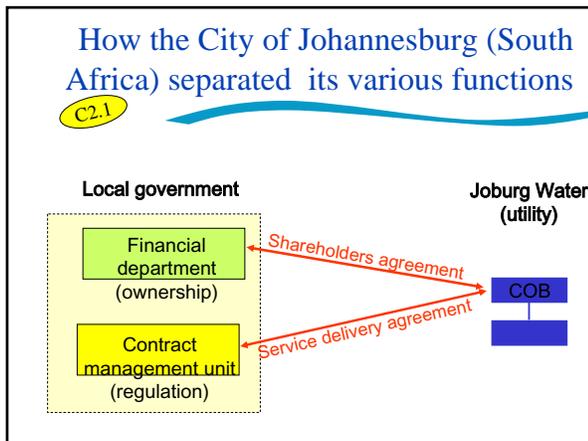
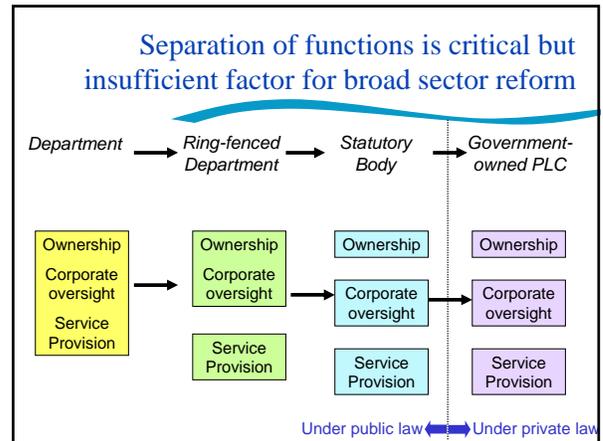
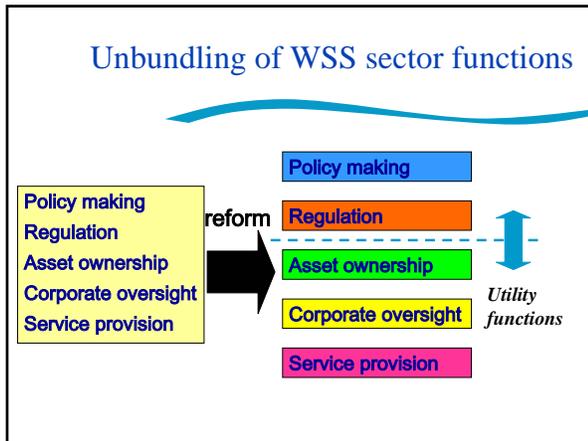
C1.2

C1.3

- ◆ Institutional autonomy: government owned PLC
- ◆ Improved financial management system
- ◆ Revenues exceed operating cost (working ratio ~ 0.7)
- ◆ Track record of servicing loans from federal & state government
- ◆ Credit rating (Baa2.br) from Moody's
- ◆ Investment now financed by smart combinations of public and private investment financing

C2: Get the institutional set-up right

- ◆ C.2.1 separate policy making and regulation from utility functions
- ◆ C2.2 Separate utility functions
- ◆ C2.3 Establish utility as a government-owned PLC



- ### How Boards of government owned PLCs in The Netherlands function
- C2.2 C2.3
- ◆ **Company law** ~ Under company law, board members are personally responsible for debt caused by mismanagement
 - ◆ **Long term vision** ~ Mayors in NL have a long term horizon as they are appointed (and stay in office long)
 - ◆ **Aggregation** (grouping of several municipalities into a single administrative structure for the provision of a WSS services)
 - ~ Shares are owned by up to 40 municipalities according to population in service area
 - ~ Multiple Board membership limits short term, politically motivated interference by individual members
 - ◆ **Professionalization** ~ part of Board members are experts to overcome knowledge imbalance between Board and MD

- ### C3: Improve service and information flows for customers
- ◆ C3.1 Improve information flows to customers
 - ◆ C3.2 Make officials answerable to customers
 - ◆ C3.3 Improve service to individual customers
 - ◆ C3.4 Use collective customer information to improve policies
- Session tomorrow starring Robin Simpson

- ### C4 Increase efficiency within the utility
- ◆ C4.1 Hire, retain, motivate and develop staff
 - ◆ C4.2 Decentralize responsibilities, authority & resources within utility
 - ◆ C4.3 Develop technical and managerial capacity of utility
 - ◆ C4.4 Introduce competition

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

C4.1

C4.2

- ◆ 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 ONEA (Burkina Faso) built capacity through a service contract

C4.3

- ◆ 5 year service contract for the commercial management and reinforcement of financial and accounting operations
- ◆ Contract with joint-venture between an international water operator and an accounting firm
- ◆ Capacity has been enforced for contract period, long term impact cannot be observed yet

How SIMAPAG's (Mexico) balanced score card mimicks internal competition

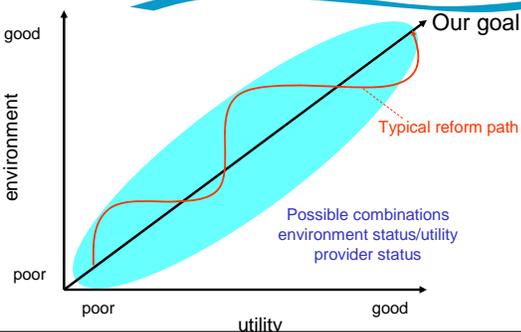
C4.4

- ◆ 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

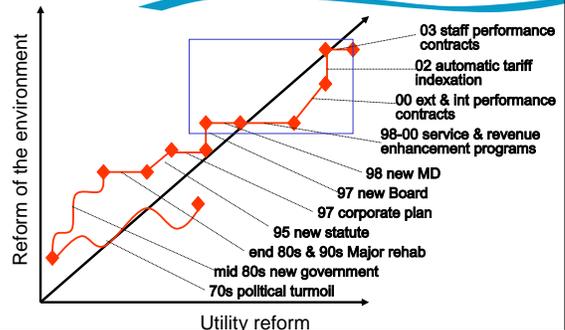
Outline of the presentation

- ◆ Background
- ◆ Outline of the workshop
- ◆ Principles of reform: towards good governance and financial sustainability *(Part B)*
- ◆ Elements of reform *(Part C)*
- ◆ **“Combisequencing” elements of reform** *(Part D)*
- ◆ Introduction to working groups

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/m3)	881	1015

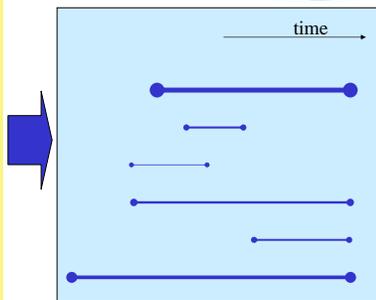
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- ◆ **Introduction to working groups**

From best practice to best fit: combisequencing & relative weight

Menu of elements

- C1 Get finances right**
 - C1.1
 - C1.2
 - C1.3
 - C1.4
- C2 Get the institutional set-up right**
 - C2.1
 - C2.2
 - C2.3
- C3 Improve service and information for customers**
 - C3.1
 - C3.2
 - C3.3
 - C3.4
- C4 Increase efficiency within the utility**
 - C4.1
 - C4.2
 - C4.3
 - C4.4



Each group focuses on one specific dimension

- ◆ Population size of urban settlements
- ◆ Different levels of poverty
- ◆ Type of services provided (also network sanitation)
- ◆ Level of decentralization
- ◆ Good utility/weak environment vs poor utility/strong environment

Appendix B

How Can Central and Local Governments Spur Reform?

Bill Kingdom & Meike van Ginneken
 Modes of Engagement with Public Sector WSS
 in Developing Countries
 Workshop 23 & 24 August 2004, London



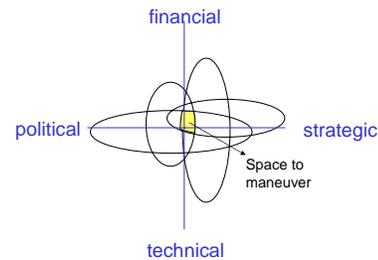
Outline of the presentation

- ◆ **Tools of central and local government to spur reforms**
- ◆ The design of public-public contracts
- ◆ The implementation of public-public contracts
- ◆ The political dimensions of reform
- ◆ Introduction to working groups

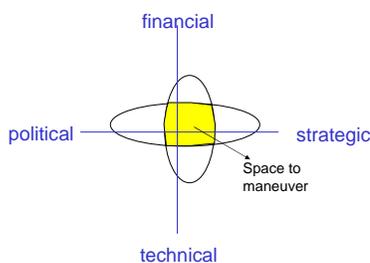
Tools of central and local governments to spur reforms

- ◆ **Remove barriers:** Shift from input controls to increase autonomy of utility
- ◆ **Mandate:** Put basic rules in place
- ◆ **Provide incentives:** Establish binding performance targets through contracts
- ◆ **Facilitate:** Equip utilities & local govts to take advantage of reform

Remove barriers: From a plethora of conflicting and overlapping rules ...



...to a simple framework of basic rules



Mandate: Put basic rules in place

Instruments	Revision requires approval of	Flexibility
Legislation	Central government (executive & legislature)	Low
Decree or subordinate legislation	Central or local government (executive only)	Medium
Framework law or founding document (statutes) of utility	Owner (exceptionally by corporate oversight board)	High

Provide incentives: Establish binding targets through contracts

Realistic and transparent targets can incentivize utilities to improve performance:

- ◆ Within the framework of basic rules, a utility should have the autonomy to choose its ways of improving performance, thus taking the measures with the highest value for money first
- ◆ The use of targets requires reliable adequate availability of output measures
- ◆ A contract is a binding agreement between two or more parties that is enforceable by law

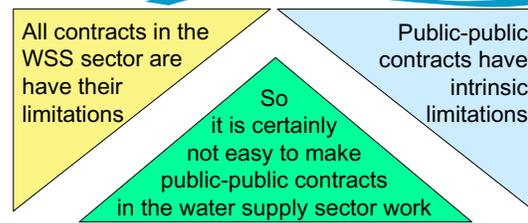
Facilitate: Equipping utilities & local govts to take advantage of reform

- ◆ Local governments need to be well resourced (\$\$\$, human resources & knowledge) to be good owners, policy makers and regulators
- ◆ Utilities need to be equipped through
 - ~ Capacity building to improve in-house skills
 - ~ Extending possibilities to hire external professional support
- ◆ Reform requires new skills
 - ~ Leadership
 - ~ Change management
 - ~ Contract management

Outline of the presentation

- ◆ Tools of central and local government to spur reforms
- ◆ **The design of public-public contracts**
- ◆ The implementation of public-public contracts
- ◆ The political dimensions of reform
- ◆ Introduction to working groups

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



But they have shown that the can be a useful tool...

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

- ◆ The responsibilities of each party including performance targets
- ◆ A small and realistic set of indicators
- ◆ Reporting requirements
- ◆ Realistic sanctions for (not) complying with performance targets
 - ~ Monetary sanctions for utility as a whole
 - ~ Revocation of license of utility
 - ~ Monetary sanctions
 - ~ Non-monetary sanctions for individual managers or staff
 - ~ Public exposure

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

How local governments incentivize utilities with performance contracts

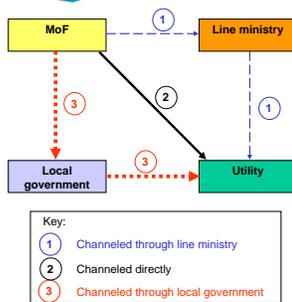
	duration	Contract specifications	Contract specifications			Implementation
			targets	indicators	Required reporting	
Program contract Sonede Tunisia	5 yrs	yes	24 ind Realistic	Yes	none	Review committee
Performance contract NWSC Uganda	3 yrs	yes	>20 ind	yes	bonus mngt	Review committee
Performance agreement Hai Phong	1 yr	yes	limited # low	yes	none	Management oversight unit
Service delivery agreement Joburg water	5 yrs	yes	limited # Realistic	yes	none	Contract management unit

How utilities incentivize staff with performance based employee contracts

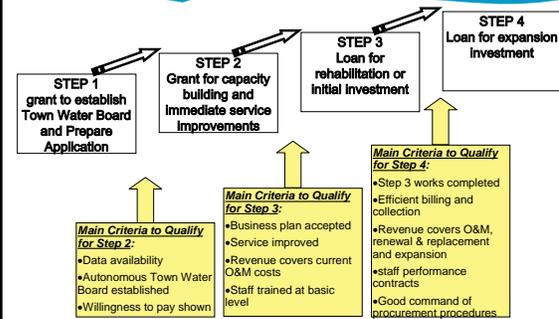
	pay scales by	Bonus			Salary revision
		mngt	staff	%*	
SIMAPAG, Mexico	Local gvt	0	0		0
SANASA, Brazil	Board	0	0		0
ONEA, Burkina Faso	Board	0	0		0
PWD, USA	Local gvt	0	0		√
Johannesburg Water	Board (gvt)	0	0		√
SONEDE, Tunisia	Board (gvt)	0	0		√
Scottish Water	Gvt	√	0	<40%	√
PUB, Singapore	Board	√	√	low	√
NWSC, Uganda	Board	√	√	<50%	√
HPWSC, Vietnam	Gvt/ Board	√	√	<300%	0

* As a percentage of basic pay

Intergovernmental loan and grant as performance based contracts



How the gvt of Ethiopia incentivizes utilities through intergvtl financing



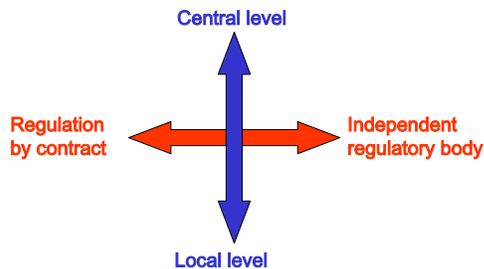
Outline of the presentation

- Tools of central and local government to spur reforms
- The design of public-public contracts
- The implementation of public-public contracts**
- The political dimensions of reform
- Introduction to working groups

Implementing (regulating) public-public contracts

- Functions to implement (regulate) a contract:
 - ~ **Monitoring:** collecting & analyzing information (both informal and formal contracts)
 - ~ **Enforcement:** formally seeking compliance and implementing sanctions (only formal contracts which include sanctions)
- These functions need to be allocated, not necessarily to same entity, based on:
 - ~ Capacity
 - ~ Lack of conflicting interests
 - ~ Safeguards to capture by utility or politicians
 - ~ Responsiveness to local needs
 - ~ Costs

Allocation of monitoring and enforcement functions



The most common arrangement is that local government 'regulates by contract'



Few examples of other arrangements: Scotland, New Zealand, Colombia

Issues in implementing (regulating) public-public contracts

- ◆ "Enforceability" is limited and depends on level of financial and managerial autonomy of utility
- ◆ Capacity of local governments is low, especially in smaller urban settlements
- ◆ Public reform processes often underestimate the (financial, human & knowledge) resources that governments require to regulate
- ◆ Centralized regulation puts restraints on local democracy ('eminent domain')
- ◆ Risk of direct dealing between utility and politicians bypassing the regulatory body

Ways of mitigating the limitations of public-public contracts

- ◆ How to overcome limited enforceability of contracts?
 - ~ Design contracts to be simple and not overly ambitious
 - ~ Provide professional support to governments
 - ~ Allocate sufficient resources to implementation (regulation) unit
- ◆ How to overcome the information imbalance?
 - ~ Set up (centralized) unit specifically tasked with monitoring
 - ~ Develop shared body of knowledge
 - ~ Use external auditor to check data provided by utility
- ◆ How to lock in the government's commitment to a contract?
 - ~ Put all contracts, data, and sanctions in public domain
 - ~ Improve judicial systems and introduce dispute resolution

(Our initial) conclusions on the use of public-public contracts

- ◆ Public-public contracts are a useful tool in broader reforms packages
- ◆ Many shortcomings can be overcome through proper design and implementation. Intrinsic limitations (of WSS sector or public-public contract) will remain
- ◆ Introducing contracts should be done gradually
- ◆ Informal contracts are a good tool to prompt governments and utilities to focus on results
- ◆ Intergovernmental grants and loans agreements are a promising new type of performance based 'contract'
- ◆ Implementing (regulating) contracts requires attention

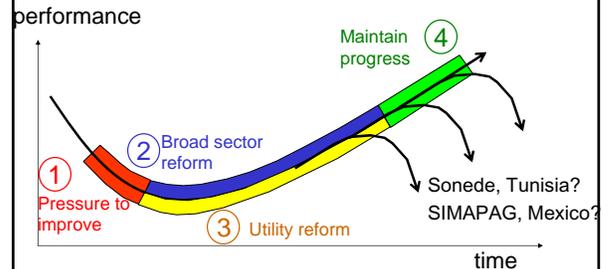
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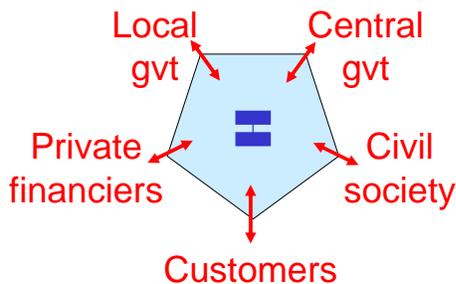
The political economy of reform of public utilities

- ◆ Reforms must provide returns for the politicians who are willing to make the changes....
- ◆ Initiate reform where there is a powerful need, and demonstrated demand, for change
- ◆ Nothing succeeds like success ~ make progress within one political cycle after decades of neglect
- ◆ Best fit rather than best practice
 - ~ Realistic goals and timeline
 - ~ Develop a sequenced, prioritized list of reforms...
 - ~ Match available human, financial and knowledge resources
 - ~ Take one step at a time, but lock in progress

The constant challenge to maintain progress....



Back to balancing accountabilities....



Moving from best practice to best fit requires a personal touch

- ◆ Personal leadership was an element of success in all of our case studies (and all other successful reform processes)
- ◆ Scaled up efforts to improve and expand WSS services requires leadership development
- ◆ There is a critical shortage of change management skills in the WSS sector

Outline of the presentation

- ◆ Tools of central and local government to spur reforms
- ◆ The use of public-public contracts
- ◆ The political dimensions of reform
- ◆ **Introduction to working groups**

The case of Hai Phong in the 1990s

- ◆ Early 90s: Hai Phong WSC is a water utility in crisis
- ◆ Two years later: Opportunity comes with decentralization (Provincial People's Committee)
- ◆ Challenge of the reform is for water utility, People's Committee and central government to find their new roles

In this context, which tools could be used to spur reform and improve HPWSC performance ?

Framework to discuss potential tools to support reform

- ◆ Limit input control to increase autonomy of the utility
- ◆ Establish binding performance targets through contracts
- ◆ Implementing the contract: regulation
- ◆ Locking in commitment from governments
- ◆ Providing support and building capacity

Four groups to explore potential tools, from their own perspective

- ◆ **Local Government** (Haiphong People's Committee): assert its role as owner
- ◆ **Central Government**: policy setting and channeling funds from donors
- ◆ **Hai Phong water utility** (HPWSC): exert its autonomy to improve performance/services
- ◆ **NGO** as 4th actor: how to foster incorporation of customers and civil society in the process?

Appendix C

Vietnam - Finland co-operation

- Pha Rung shipyard late 70's - early 90's
- Ha Noi water supply 85 - 00
 - Crash Programme 85 - 88
 - Planning and investments 89 - 93
 - Master Plan 93, EIA 93
 - Institution building and investments 93 - 96
 - Management support & studies 96 -
- Urban Water Strategy 94
- Urban Wastewater & Sanitation Strategy 96
- Hai Phong water supply & sanitation 90 - 04

Vietnam - Finland co-operation

- HPWSSP, Phase I (1990-1993)
- HPWSSP, Phase II (1993-1997)
- HPWSSP, Phase III (1997-2000)
- HPWSSP, Phase IV (2000-2004)
- Haiphong Water Supply and Environment Project, Feasibility Study (1994-1995)
- Haiphong Water Supply and Environment Project (Stage 1A), Detailed Design and Tender Documents (1995-1999)
- Vietnam - Sanitation Project, Haiphong Component, Detailed Design and Tender Documents (1998-2000)

Haiphong Phase I

- Technical assistance to Haiphong Water Supply Company (HPWSCO) ; strengthening of the company; improvement of management procedures; human resources development
- Preparation of Water Supply Development Plan for Haiphong
- Organisation and Manpower Development Plan for HPWSCO
- Financial Development Plan for HPWSCO
- Leak detection studies and investigations of water supply network

Haiphong Phase II

- Technical assistance to Haiphong Water Supply Company (HPWSCO), Haiphong Sewerage and Drainage Company (SADCO) and Haiphong Urban Environment Company (URENCO); strengthening of the companies; improvement of management procedures; human resources development
- Water quality studies and establishment of water quality monitoring programme
- Improvement of HPWSCO consumer service
- Modelling of water supply network, establishment of water network telemetry system

Haiphong Phase II

- Improvement of raw water supply to An Duong treatment plant, improvement of Song He water intake
- Rehabilitation of An Duong, Cau Nguyet and Do Son water treatment plants
- Improvement of local (phuong) water distribution systems in 19 phungs
- Construction of new water transmission mains (about 15 km), cleaning of pipelines

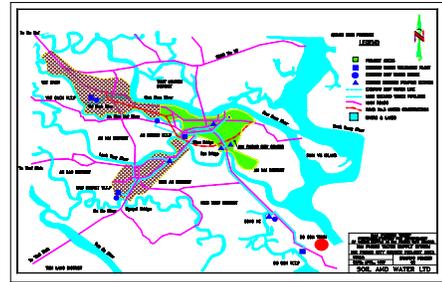
Haiphong Phase III

- Study for billing and collections- Customer services
- Study for reduction of non-revenue water
- Study for protection of water sources and water supply system
- Preparation of operation and maintenance data registers, manuals and programs for HPWSCO
- Installation of operation control system at An Duong water treatment plant
- Improvement of water treatment plants
- Establishment of computerised mapping system (GIS)

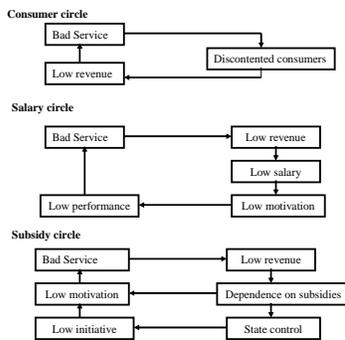
Haiphong background

- Haiphong is located on the coast of the Red River Delta
- It is the third largest city of Vietnam and the main port of the north
- Haiphong is a province as well as a city. The urban population is around 500,000 and the provincial population around 1,720,000
- The province has an area of 1,500km² and an urban area of 50km²
- Economic activity is evolving from reliance on port related activities and heavy industry to light manufacturing and service industries such as banking, insurance, communications, tourism etc.

Zoning water supply in Haiphong



Analysis of Problems – Vicious Circles



Analysis of Problems – Inappropriate Policies

- Top-down, supply-driven management - planning, and even the implementation of projects, was carried out by government with little participation by the company;
- No opportunities for the community to participate constructively;
- Water supply was regarded as an entitlement and all consumers were heavily subsidised - one US cent/m³
- Supplies were not metered - no incentive to minimise consumption;
- Company management lacked a sense of responsibility and demonstrated very little initiative or commitment;
- Company had no control over hiring and firing staff
- There were no incentives for the company to improve services;
- No contract between the consumer and the company

Analysis of Problems – Poor Customer Relation

- Communities and consumers were not consulted or involved in any way in the planning and implementation of water service improvements;
- Water users were not seen as customers with rights of service, or redress;
- Customers alienated by poor levels of service - intermittent supplies, low pressure, doubtful water quality;
- Only 80,000 people (25% of population) had house connections. The rest used public tanks, polluted groundwater from shallow wells, or buy from vendors at a high cost;
- Some company employees charged to provide illegal connections;
- Some revenue collectors colluded with consumers to under-charge for water;

How the problems are being resolved – mission statement

- The mission of HPWSCo is to provide an adequate supply of good quality water for all users.
- It is the responsibility of HPWSCo to plan; implement; and operate, the water supply system in the most cost-effective way possible.
- It is the aim of HPWSCo to finance its operations and capital investments from user charges.

How the problems are being resolved – main solutions

- a) Win the support of the City Administration
- b) Win the confidence of customers and involve communities in all aspects of the water supply service
- c) Decentralize responsibility within the company to the lowest possible level
- d) Educate staff on their role as service providers
- e) Introduce transparent incentives for staff and strictly regulate the basis on which performance payments are made

How the problems are being resolved - comparison

	1993	1999
POPULATION SERVED WITH HOUSE CONNECTIONS	80,000	380,000
UNACCOUNTED-FOR-WATER IN PHUONGS	70%	16.4%
NO OF METERED CONNECTIONS	0	81,000
EMPLOYEES/ 1000 CONNECTIONS	30	7.4
HOURS/YEAR WITH NO SUPPLY	1,070	27
HOUSEHOLDS IN PHUONGS PAYING FOR WATER	25%	98%
PROFIT/LOSS	-VND 3.1 billion	+VND 6.9 billion

Lessons learned

- Implement a pilot so that everyone can see the vision and thereby build political and community support
- Chose the pilot carefully
- Focus on consumer's needs - demand-driven philosophy
- Involve the community in all activities and use them as a supervisor
- Ensure proper community-based institutional arrangements

lessons learned

- Build up employees' trust, awareness and commitment
- Formulate an atmosphere that encourage staff to develop their skills
- Provide staff with transparent performance-based incentives and clear targets
- Recognize that the utility is accountable to both its owners (the city) and its customers
- Take calculated risks when the climate is right

Appendix D

How to increase customer orientation of public sector utilities

Robin Simpson
Consumers International
London August 24 2004

Consumer rights

- Basic needs
- Safety
- Information
- Choice
- Representation
- Redress
- Consumer education
- Healthy environment
- *Source: CI World Congress 2003, extrapolated from UN Guidelines 1985*

ISO TC 224

- International Organisation for Standardisation
- Service activities relating to drinking water supply and sewerage
- Guidelines for the service to users
(Excludes micro-biological standards)

ISO TC 224 -Key issues for CI

- Standards for non-networked services
- Schedules for network completion
- Equitable supply management
- Affordability principle
- Consumer contracts (implicit/explicit)
- Redress/dispute resolution
- Consumer representation & transparency

Standards for non-networked services

- Universal access –not same as universal connection
- ISO: “*all practical steps...where fixed network extension is not practical...other service provision to be made available.*”
- “*eg: wells, mobile water delivery, regulated vendors, latrines, septic tanks..*”

Universal Service Obligation 1

- EU – Services of General Interest
- *Consumers Consultative Committee 1999*
- Equality of treatment (non-discrimination)
- Universality (use of cross-subsidies)
- Continuity (safeguards against disconnection)
- Adaptability (technological change)
- Openness of management (transparency)

USO 2

- Scrutiny
- Price setting and funding of USO:
Universal service funds
Solidarity taxes
Industry levies.

Schedules for network completion

- Millenium Development Goals – why 50%
- ‘Some for all, not more for some’
- ISO – ‘user needs & expectations’:
“responsible bodies plan the development of adequate types of WSS and inform them on the time schedule”
- Disclosure/transparency issue

Equitable supply management

- ISO: *“In the event that continuous supply is not possible, the user expects that supply be managed in an equitable manner”*
- Subversive cartography
- Link to issue of equitable use of subsidy, eg privileged exemptions – 50% in Former Soviet Union.
- Public sector does not pay own bills

Affordability

- ISO: difficult to standardise: *“the user expectsthat the responsible body ensures that affordability is not a barrier to access..”* Otherwise price approached through information and representation.
- *“flexible methods of payment”* : need for frequent small payments. Is public sector worse in this respect?

Contractual issues

- ISO: Accuracy of billing
 - *“agreements, implicit or explicit”*
 - *“clear, fair and documented conditions...”*
- Other issues:
- Statute or contract? Many Consumer Associations prefer contracts.
 - Is public sector less attuned to contractual relationship?
 - Government exemptions: eg EU Unfair Contract Terms Directive, good practice: Netherlands

Redress/dispute resolution

- An increase in complaints may be a sign of improved service. It certainly does not equate with a worse service.
- Learn to love complainants.
- ISO: complaints equated with billing errors
- Alternative Dispute Resolution better than courts; can involve consumer bodies.
- Examples: panels, Ombudsman/*Defensor*

Consumer representation

- ISO: “*consultation at critical decision points..new programmes to extend networks, setting prices..new operator contracts...between users and service providers, or between users and responsible bodies, or both*”.
- Examples of good public sector practice
- Commercial confidentiality: burden of proof

How far does participation go?

- CI Congress: “*consumer participation and representation in the regulatory **process** and the monitoring of those industries*”. ie.not necessarily in regulatory board, risk of confusion of roles.
- Q. When the rich can just turn on the tap, why do we expect the poor to engage in character building participation to get water?

The right to be informed

- Individual and collective right
- Bank policy on publication of contracts
- Experience of CI members in Berlin, Bucharest.(Private contracts with public authorities).
- Enables consumer responsibility: eg ‘solidarity taxes’.

Thank you

- Don’t forget:the purpose of production is consumption
- Danger of mission creep; eg EU Green paper on Services of General Interest:2003, SGIs..
“*forming some of the rights enjoyed by European citizens and providing an opportunity for dialogue with public authorities within the context of good governance*” And I thought they provided water!

Appendix E

What we heard: Results of the workshop & proposed next steps

Bill Kingdom & Meike van Ginneken
Modes of Engagement with Public Sector WSS
in Developing Countries
Workshop 23 & 24 August 2004, London



Outline of the presentation

- ◆ **Whats** ~ elements of reform & combisequencing
- ◆ **Hows** ~ role of local & central government, civil society and donors, resources & timing
- ◆ “Burden of proof” ~ substantiate document with sources and examples
- ◆ **Tone & relative weight** ~ a delicate balance
- ◆ **Next steps**

Whats ~ elements of reform & combisequencing

- ◆ **Missing elements:**
 - ~ Explicitly include policy reform as an element
 - ~ Broaden resource mobilization to include financial & in kind resources from consumers
- ◆ **Elements that need strengthening:**
 - ~ Financing (long term investment sources)
 - ~ Customer orientation (charters, ombudsman, ISO TC224)
- ◆ **Combisequencing is site-specific / highlight the importance to start with a situation assessment**
- ◆ **Linkages “inside” the sector (sanitation, water quality, utility as wholesaler) & “outside” (land tenure, WRM)**

Basics of part C & D are OK, need to substantiate

Hows ~ role of local & central government

- ◆ Play up the importance of facilitation and capacity
- ◆ Show what is different from the approach in the 80s, including examples / Focus on critical success factors
- ◆ **Public-public contracts:**
 - ~ Informal “contracts” have a proven track record of increasing transparency
 - ~ Enforceability (both sides!) of formal contracts is major obstacle
 - ~ Terminology? ~ “contract” is too legalistic
- ◆ **Emphasis on how to spur governments to reform and lock them in**
Part E is critical but tricky: reinforce and balance

Hows ~ role of civil society and donors

- ◆ **Civil society**
 - ~ Advocacy to initiate reform and avoid crisis
 - ~ Participation in (design and implementation) of reform process on behalf of consumers and unserved
 - ~ Independent watchdog to maintain progress
- ◆ **Donors**
 - ~ Acknowledge resource requirements and sustained commitment to public sector reform
 - ~ Bilateral to multilateral coordination (TA/pilot → donor investment → private investment)
 - ~ Spreading efforts, but not spreading too thinly
 - ~ Replication: cheaper and quicker?

Add section on role of other actors to the document

Hows – Resources and timing

- ◆ As demanding or more demanding than PSP
- ◆ Support to local government – building capacity to establish and manage contracts
- ◆ Support to utilities – role of professional associations
- ◆ 10 year horizon – how to maintain support over such a long period

“Burden of proof” ~ substantiate document with sources and examples

- ◆ How to overcome scepticism of many ~ what is different from former failed public reforms
- ◆ Where does this all come from?
 - ~ Literature
 - ~ Process of consultation with professionals
 - ~ Empirical evidence
 - ~ Factual illustration and examples

Work up the document as planned

Tone and relative weight ~ a delicate balance

“the document is too optimistic about the potential of public reform, which has a very poor track record”

“the document is rather pessimistic in tone, and too prescriptive”

Wording is critical on this politically sensitive issue

Report framework: Appears to be general support

- ◆ Part B: Principles for reform
- ◆ Part C & D: Key elements and combisequencing
- ◆ Part E: role of gvts ~ consensus of workshop needs to be expressed more clearly
- ◆ Taxonomy ~ important
 - ~ Good: institutional set-up (C2)
 - ~ Still incomplete: “contracts” still need work
- ◆ Key graphics – helpful:
 - ~ The “accountability kite”
 - ~ The sausage/combi sequencing

Avoid inventing a new dogma

Next steps

- ◆ Our commitment:
 - Work up the briefing note to a 50 page document
 - ~ Clarify the story line
 - ~ Change based on comments
 - ~ Expand by adding sources, empirical evidence, examples
- ◆ What we would like from you:
 - ~ Coming week: Your scribbles and additional comments
 - ~ Sep – Nov: Individual follow up on specific issues or cases
 - ~ End of the year: Review of the draft document
- ◆ Potential to work together:
 - ~ Other forums to share ideas and get feedback

Questions for plenary discussion

- ◆ How to spur governments to reform?
- ◆ How to bring the unserved into the reform process?
- ◆ Implementation of public-public “contracts”: How to make it work?
- ◆ Sustainability: How to lock in reforms?
- ◆ How to resource reform: Role of donors/govt and how to leverage their support?

Appendix F
Workshop Programme

August 23			August 24		
The Overall Framework Session chairs: Ravi Narayanan (Director WaterAid) and Jan Janssens (Program Manager BNWP)			How can Donors Engender and Support Public Sector Reform? Session chair: Dick van Ginhoven (Senior Water and Sanitation Advisor, DGIS)		
9.00	10 min	Welcome by session chairs	9.00	5 min	Welcome to the second day by session chair
9.10	50 min	Tour de table with introduction and expectations/ interest in the workshop (with roaming mike, 1 min each)	9.05	15 min	How can Donors Engender and Support Public Sector Reform ~ the experience of Hai Phong (by Eero Kontula, Finnida)
10.00	30 min	Overview of workshop and presentation on elements of a reform process to turnaround and institutionalize good performance in public utilities & Introduction to working groups (by Bill Kingdom/Meike van Ginneken)	9.20	60 min	Plenary discussion on how donors can engender and support public sector reforms
10.30	30 min	Coffee	10.20	30 min	Coffee
Working groups on elements of a reform process			How to Increase Customer Orientation of Public Sector Utilities? Session chair: Belinda Calaguas (WaterAid)		
11.00	90 min	Five working groups on elements of reform process and how to combine/sequence them	10.50	20 min	How to Increase Customer Orientation of Public Sector Utilities? (by Robin Simpson, Consumers International)
			11.10	10 min	Q&A and plenary discussion on presentation
			11.20	60 min	Four working groups on customer orientation
			12.20	40 min	Feedback from working groups
12.30	60 min	Lunch	13.00	60 min	Lunch
How can central and local governments spur reform? Session chair: Judith Rees (Professor, LSE)			Wrap up plenary Session chair: Michael Rouse (President IWA)		
13.30	5 min	Intro of the session by session chair	14.00	5 min	Intro of the session by session chair
13.35	55 min	Feedback from working group	14.05	20 min	Presentation of results of the workshop and proposed next steps
14.30	30 min	Presentation on tools of central and local government to spur reforms and improve performance of utilities (by Bill Kingdom/ Meike van Ginneken)	14.25	80 min	Wrap up plenary discussion on conclusions and next steps
15.00	30 min	Tea	15.45	10 min	Final remarks and next steps
Working groups on the role of governments			15.55	5 min	Closing of meeting
15.30	75 min	Four working groups on role of central/local government (group work will be introduced in the groups)	16.00		tea
16.45	60 min	Feedback from working groups			
17.45		Reception			

Appendix G
List of Participants

	Jan	Janssens	Program Manager	BNWP Water Supply and Sanitation, World Bank	jjanssens1@worldbank.org
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Appendix H
Results of Workshop Evaluation

EVALUATION FORM

World Bank/WaterAid Workshop on Modes of Engagement with Public Sector Water Supply Providers in Developing Countries London 23/24 August 2004-08-20.

Totals for each question (scored from 1- 10 with 1 poor – 10 Excellent)

1	How well did the pre-workshop information meet your needs? 7.83	Comments and Reasons: <ul style="list-style-type: none"> - It gives me a broad insight of what all is about - Didn't reach me in time! - The various messages and feedbacks from the responsible which kept me informed and increased my interest
2	How would you rate the RCN venue and catering for this event? 8.33	Comments and Reasons: <ul style="list-style-type: none"> - Easy access - catering on time - Catering excellent/acoustics in hall had strong echo which made it difficult in some cases to understand the speaker - A little cold - Pleasant condition with good service
3	Any other general comments: <ul style="list-style-type: none"> - Would have been better to include directions to venue - Ravi's points in opening were all good and should have been revisited more thoroughly - More general discussion required on the paper and at the beginning 	
Day 1 : How would you rate the following sessions on this event?		
4	Overview of workshop- presentation on elements of a reform process to turnaround and institutionalize good performance in public utilities: 7.27	Comments and Reasons: <ul style="list-style-type: none"> - Key elements to look at for a public services reform - Thought provoking and set the scene - Some presentations were very poor

5	Working group session and feedback – Elements of a reform process and how to combine/sequence them: 7.45	Comments and Reasons: - Understanding that combisequence will be carried out with a best fit approach - Valuable learning and sharing session - We spent too much time on preliminaries
6	Presentation: ‘How can central and local governments spur reform?’ 7.10	Comments and Reasons: - Better understanding of public-public initiative and how to make it work better
7	Working group session and feedback: Role of central/local government 7.54	Comments and Reasons: - Understanding of key interests of central government - Use of theoretical case study (rather than actual) would have stimulated greater discussion. Too many group members know the actual situation and informed the rest of what actually happened next. - Well focussed on a real life situation
DAY 2 : How would you rate the following at this event?		
8	Presentation: How can Donors Engender and Support Public Sector Reform – the experience of Hai Phong 5	Comments and Reasons: - Understanding of the required resources to support the process - Interesting –but too long. Having less time for discussion - Good material/presentation was too detailed and needed more focus
9	Plenary discussion: How donors can engender and support public sector reforms 6.4	Comments and Reasons: - Necessity to think about a medium-long term plan to be successful - Not enough time for discussion - The group struggled on this question

10	<p>Presentation: How to Increase Customer Orientation of Public Sector Utilities?</p> <p>7.09</p>	<p>Comments and Reasons:</p> <ul style="list-style-type: none"> - It has confirmed that customer is at centre - Presentation too rushed and more relevant examples needed - A bit theoretical but useful to get an overview of the subject
11	<p>Working group session and feedback: Customer orientation</p> <p>7.25</p>	<p>Comments and Reasons:</p> <ul style="list-style-type: none"> - Key issues to look at in dealing with non-networked services - Good - Shortage of time
12	<p>Presentation of results of the workshop and proposed next steps</p> <p>7.91</p>	<p>Comments and Reasons:</p> <ul style="list-style-type: none"> - Very good summary - Very useful for me to get an overview of the workshop
13	<p>Wrap up plenary discussion on conclusions and next steps.</p> <p>8.22</p>	<p>Comments and Reasons:</p> <ul style="list-style-type: none"> - Some good additional info - Excellent discussion some key points
Concluding comments		
14	<p>Did the workshop meet your expectations?</p> <p>7.81</p>	<p>Comments and Reasons:</p> <ul style="list-style-type: none"> - Clear understanding in terms of supporting our CP to engage in public services reform - Clear way ahead for me
15	<p>What aspects of the workshop were most valuable to you?</p> <ul style="list-style-type: none"> - Plenary in final session group work - Wrap up plenary discussion on conclusions and next steps - Level of participation - Plenary discussions - Discussions with participants - additional ideas in plenary session - working groups - presentation of next steps 	<p>Comments and Reasons:</p> <ul style="list-style-type: none"> - Lot of practical difficulties came up which are to be assessed properly - Overall framework and elements of a reform process - Good learning experience - Contextualising public-public relationships and benefiting from participants knowledge and past experience - The discussion

Any other comments/recommendations:

- **Public sector reforms are necessary as Public sector is the ultimate driving force to look after the water and sanitation problems of a country covering all areas of society.**
- **Please could I have the outcomes of working groups sent.**
- **Ask speakers to speak clearly and slowly!**
- **An operational follow-up of conclusions**

Thank you for taking part in the workshop and for taking the time to complete this form.