

PROPOSED TOPIC PAPER FOR THEME 4, TOPIC 4.5 (#16)

Theme	4. GOVERNANCE AND MANAGEMENT
Topic	4.5 or 16 INSTITUTIONAL ARRANGEMENTS FOR EFFICIENT AND EFFECTIVE WATER MANAGEMENT
Main Question	In a majority of countries, water supply and sanitation services are managed by local operators under the direction and control of politically responsible water authorities or local governments. What kind of enabling environment should be provided by the state and what kind of arrangements between the responsible water authority and its operator are necessary to make water management efficient and effective? How to monitor the resulting efficiency?
Related sub-questions	<p><i>Question 1: What should central government do to enable decentralised water authorities to perform their task?</i></p> <p><i>Question 2: After decentralisation how to structure and adjust national financial constraints to answer both national and local needs? How should the central government facilitate access of local water bodies to finance?</i></p> <p><i>Question 3: Clear targets and appropriate means are necessary for all operators to deliver the expected results of policy objectives. How should governments establish their own related commitments?</i></p> <p><i>Question 4: To assess the efficiency and effectiveness of local drinking water management is it more useful to compare results with other water utilities in different regions and which have different constraints or to chart the progress made by the utility itself over time?</i></p>
<u>General introduction</u>	<p>In a majority of countries, water management is decentralised. This means that local public bodies are responsible for delivering water and sanitation services to water-users. Many local governments deliver good quality water services. However, many others lack resources or powers to implement their mission satisfactorily. Their action can be blocked because:</p> <ul style="list-style-type: none"> - their mandate is unclear (e.g. the lengthy discussions in Brazil between states and municipalities) - they don't have enough skilled human resources (managerial or technical) - they are financially weak, have no access to financial markets or can only borrow money at very expensive borrowing rates - political competition between several levels of government prevents them for getting appropriate authorisations or funding - national law limits the technical, financial or managerial options available to them. <p>This is why the central government should not rely on these local bodies alone to implement its national water policy and must perform its own part of the job, which includes supporting them.</p> <p>Without interfering in local decisions, the central government should create the appropriate enabling environment and make sure that local bodies have the necessary legal, financial, technical and human capabilities.</p> <p>The role of the central government in a country where water/sanitation services are decentralised to local bodies could be usefully debated. That might help to unlock some current blockages.</p> <p><i>Resulting Question 1: What should central government do to enable decentralised water authorities to perform their task?</i></p> <p>-----</p>

	<p>In the recent past, many countries have modified their institutional organisation for water management towards increased decentralization. For example:</p> <ul style="list-style-type: none"> - South Africa has transferred water supply responsibility from the state to municipalities a few years ago. - In Uganda, water supply in small cities is now under the responsibility of local government. - In Indonesia the local PDAMs were given the responsibility of operating municipal water systems previously controlled centrally <p>When water/sanitation is decentralised the local bodies in charge have the political responsibility and the control of the organization of the service. The main limitation to the quality of the service they are able to provide to water-users (including the service coverage ratio) is often their financial capability. In many cases this constrains them in a way that makes it impossible for them to manage..</p> <p>Although theoretically decentralized, they still depend on the state government when the Ministry of Finance strictly regulates the amount of loans that are borrowed by water utilities. This situation can be perceived as legitimate since the country has to monitor its total debt. However, it can be also considered as inefficient and unwise to give full regulation power to a central body that is not politically responsible for the results of the water policy. A balance has to be found between national and local financial needs.</p> <p><i>Resulting Question 2: After decentralisation how to structure and adjust national financial constraints to answer both national and local needs? How should the central government facilitate access of local water bodies to finance?-----</i></p> <p>Managing water services in an efficient and effective way requires that all participants of the value chain identify clearly their respective roles and are able to mobilise the appropriate means to fulfil their own part. This is particularly the case for 2 key actors: The responsible public authority in charge of the water service (local, regional or central government, depending on the level of decentralisation implemented within the country) and the water utility or water operator (public or private) in charge of the operational delivery of the service to the users/customers.</p> <p>Responsible public authorities cannot transfer and abandon all their responsibilities to the operators. The operators (both public and private) cannot deliver the public water supply satisfactorily if the other bodies do not fulfil their functions completely. The responsible public authority has its own part to play and the operator needs it to do so for at least 4 reasons:</p> <ul style="list-style-type: none"> - <u>Legitimacy</u> The operator is not legitimate to define its own targets and to fix its own prices to users. Only the public authority in charge is legitimate to define the goals and characteristics of the service and to fix the related prices to users. - <u>Monitoring</u> Somebody must monitor the operator. It is not wise to leave it without external control. - <u>Operational targets</u> The responsible public authority cannot expect the operator to deliver the expected results if the targets are not clearly identified and transmitted to the operator. - <u>Adequate means</u> The responsible public authority cannot expect the operator to deliver the expected results if it has not put in place an appropriate enabling framework including adequate revenue streams. <p>Then the responsible public authority, usually a political body, has generally the core remit to:</p> <ul style="list-style-type: none"> - set the strategic objectives including levels and quality of service, operational targets and users to be served - fix the pricing strategy and the related tariffs - secure subsidies in case of a funding gap - to decide how the delivery of the service is organised operationally (with an
--	--

	<p>in-house water operator, or a corporatised entity in charge of the delivery of the service, or any form of Private Sector Participation , Mixed capital entity, PPP, etc..).</p> <ul style="list-style-type: none"> - monitor the operator and give him adequate instructions and targets. <p>Efficient management of water services can only be obtained if:</p> <ul style="list-style-type: none"> - the responsible public authority efficiently and effectively plays its key role - the operator (public or private) is given clear targets and adequate means for action - the authority informs its operator continuously about its decisions and intentions and plays its role as a committed partner that respects the operational constraints. <p>Any form of formalised relationship between the politically responsible level and the operating entity (through a contract, a license, a strategic planning document, etc...) might contribute to clarify the respective roles of the two parties and optimize the overall governance of the Water service.</p> <p>This type of “contractualised” relationship between the Governing level and the operators should set the operational targets to be delivered by the operator over time and make a clear allocation of tasks and responsibilities of both parties alongside the corresponding financial means.</p> <p><i>Resulting Question 3: Clear targets and appropriate means are necessary for all operators to deliver the expected results of policy objectives. How should governments establish their own related commitments?</i></p> <hr/> <p>Responsible public authorities have the duty to maximize the efficiency of the water services that they organise with public budgets and user fees.</p> <p>The assessment of the financial as well as the operational performances of water operators is critical when they operate under a financially tight framework, and when there is some strong downward pressure on the water rates raised from customers of the water services (generally the main source of finance), which is often the case.</p> <p>Responsible public authorities can use several tools geared towards optimising efficiency. Each one has important limitations. The main tools and their main limitations seem to be:</p> <ul style="list-style-type: none"> - <u>Competition</u>. One option is to organise competitive tendering. When the terms of reference are well defined and the tendering and adjudication processes are completed carefully while respecting needs of both parties, this can ensure optimisation but this is not always an available option, or the skills needed are not always available. - <u>Geographical benchmarking</u>. Many institutes have initiated “benchmarking” initiatives through which they compare operational characteristics of various water utilities and try to draw conclusions on their performance. <p>When governing authorities are in a position where they can compare the performances of their operator against other comparable players within the same level playing field and operating under similar circumstances (as inside England) they can draw meaningful conclusions on their respective performances. However, even when data are reliable this “geographical benchmarking” does not guarantee that the best-in-class is a top performer. When comparisons are made between utilities that operate in different locations with different physical, historical and social constraints, with different infrastructure and different institutional arrangements their meaning in terms of efficiency is dubious. Water services are so local and so dependant on a variety of parameters than drawing absolute conclusions from geographical comparisons in different regions is often meaningless. When comparable players are not available, “geographical benchmarking” can provide some</p>
--	--

	<p>useful hints but cannot assess if the utility is the best-in-class or a top performer</p> <ul style="list-style-type: none"> - <u>Progress assessment</u>. Even if there is no meaningful comparison available with another water utility, responsible public authorities can monitor efficiency and performance by comparing changes over time within the same utility. They can assess progress and compare it with expectations. This is very useful to monitor compliance with targets and to evaluate public policies. However, it is not sufficient to assess if the utility is the best-in-class or a top performer. <p><i>Resulting Question 4: To assess the efficiency and effectiveness of local drinking water management is it more useful to compare results with other water utilities in different regions and which have different constraints or to chart the progress made by the utility itself over time?</i></p>
(Types of) Organizations to be involved in topic consultations	<p>International Agencies: UNDP, WBI, WSP</p> <p>National Governments Colombia, South Africa, Malaysia, UK, Mexico, Turkey</p> <p>Local governments: UCLG, ICLEI</p> <p>Professional Associations: IWA, AquaFed, EUREAU, ADERASA</p> <p>Research Institutions::</p> <p>Multilateral donors: World Bank, AFDB, ADB</p> <p>Related national organisations, NGOs and Local civil society:</p>