

Municipal utility reform

All urban citizens need affordable services such as water and sanitation, solid waste management, district heating and transport. These services are often provided by municipal utilities, which in many countries are not run efficiently, and thus need reforms to introduce modern governance and management practices. External funding of capital investments can more easily be attained if investment schemes are implemented in parallel with institutional reform.

A utility is a regulated business providing a public service. Typical utilities render services for:

- water and sanitation
- solid waste management
- electricity
- public transport

Utilities are regulated because they are either natural monopolies (water and sanitation, electricity networks) or otherwise operate in a non-competitive environment.

Utilities generate income from the consumers they serve. A majority of the utilities are publicly owned and controlled, in close symbiosis with the central, regional, or local government. Utility tariffs are normally politically decided and often subsidized.

As a result of biased allegiances and poor management, the voice of the consumer has weakened with many public utilities. The physical infrastructure has deteriorated and services, particularly for the poor, have collapsed. The poor tend to pay the highest price for disrupted services. "Free" services are often the most expensive – because they are dysfunctional! A bottle of drinking water from a street peddler costs many



Municipal utility waste management in practice in the northern Vietnamese city of Thai Binh.

PHOTO: MARTTI LAROLA

than a municipal department, and a utility director empowered for day-to-day decisions is more accountable than a faceless hierarchy.

A triangle of customers, policymakers and service providers establishes an effective framework for cost-competitive, high quality services. The utilities need to be managed and operated as close to the customers as possible.

Good utility governance and modern management

Instead of creating a conducive legal and policy framework for utilities, the public owner is tempted to interfere in its day-to-day operations. In a corporate setting, the owner appoints a supervisory board and authorises it to provide strategic guidance and monitoring.

Public sector administrative practices often hinder introduction of accountability and modern management systems. Financial accounting needs to expand into management accounting, and ultimately into a comprehensive management information system.

Public/private partnerships

Poor management and lack of funds for investment have led to deterioration of services. This has opened opportunities for new forms of partnership between the public and private sectors.

Significant efficiency improvements can be achieved by outsourcing supporting services such as transportation, construction, security, emergency and administrative routines to private service providers. An important precondition is an open, competitive and fully transparent procurement process.

It is even possible to involve private operators in providing core services, through service and management contracts as well as build-operate-transfer and other long-term concessions. Again, the guiding principle should be open and transparent competition.

times more than the most expensive tap water.

Unsatisfactory performance of public utilities has led to calls for reform. The objective is to make environmentally sustainable utility services available and affordable for all – including the poor and the disadvantaged.

Key issues

Breaking the public monoliths

Utilities are revenue-earning businesses and require modern governance and management practices. In many countries, the public sector has proven to be a poor utility owner, and civil servants have turned out to be poor managers.

Water and sanitation utilities are typically owned and operated by the public sector. Ownership of energy, solid waste and public transport services is more mixed, but also there the public sector is often both utility owner and service provider.

To serve customers well, utilities have to operate at arms length distance from their owner in a corporate environment. A corporatised utility is more transparent

Relief to the distressed

For the utility it is essential to maintain unified tariffs for all customers and to achieve full cost recovery. However, social safety nets in the developing world are seldom strong enough to protect the poor and the disadvantaged, notably children, women, handicapped and senior citizens. Therefore, special measures may be required to safeguard their interests. This role belongs to the central or local government, not to the utility.

Strategic areas for support

- Strengthening relationships in the consumer-policymaker-provider triangle
- Expert assistance with solid contractual, regulatory and managerial frameworks for modern utility operations
- Institutional support for utility reform
- Training utility owners and operators in good governance
- Assistance in preparing and implementing governance guidelines
- Infrastructure funding in connection with institutional change
- Support for efficiency improvements through outsourcing and transparent management.

To be aware of

Many public sector managers resist fundamental changes, because they stand to lose power or illegal sources of income. Often utility management initially prefers access to investment means rather than support for institutional reform. But achieving sustainable reform requires investments and institutional change in parallel.

Mere legal change and formal corporatisation are not enough – governance and management practices also need to change. The supervisory board has a key role as an interface between the owner and the utility. Its composition and work practices are important owner decisions.

Investments lead to tariff increases, which affect the most vulnerable members of society. It is the responsibility of the federal or local government to provide a safety net that actually works.

The transition from faceless public utilities to consumer-policymaker-provider transactions requires legal and administrative competencies that may not be available. Specific and transparent contractual relationships need to be established.

Examples of Sida support

■ Africa. The Water Utility Partnership is an African regional capacity-building programme focussing on urban water utilities. It aims to improve quality and increases coverage of water supply and sanitation services through utility investments and reforms.

■ Liepaja, Latvia. Institutional reforms and priority investments for the municipal water utility to enhance credit-worthiness, promote willingness to pay, improve services and address severe water pollution. The programme resulted in a corporatisation, strengthening of the governance and management structure as well as improved billing and collection. Loans and grants resulted in a financially viable water utility that is now providing affordable, cost-effective services.

■ Gatchina, Russia. Support to institutional reform of the municipal district heating facility combined with invest-

ments to improve district heating services. In the pilot district, one-fourth of the district heating network, modern technologies for energy efficiency and improved heating services for consumers were demonstrated.

Swedish resources

Sweden has a long tradition in public utility operations. Publicly owned and operated utilities in water and sanitation are semi-independent and well managed, and use private support services extensively. In solid waste management, energy and public transportation, the private sector has often taken the lead in the provision of services. Many Swedish utilities have twinning arrangements and close contacts with cities around the world. Swedish consultants, construction companies and equipment suppliers prepare and implement utility projects worldwide.

Sida references

Available at www.sida.se

Fighting Poverty in an Urban World, Sida Policy (2006)

Urban Issue Paper on Financing Urban Infrastructure

Urban Issue Paper on Public Environmental Management

Urban Issue Paper on Urban Solid Waste Management

Urban Issue Paper on Urban Transport

Urban Issue Paper on Urban Water and Sanitation

Published separately

Tannerfeldt, G and Ljung, P (2006) *More Urban – Less Poor, An introduction to urban development and management*, London, Earthscan

REMINDERS

- | | | |
|---|--|---|
| ☐ Are there regulation and policy reforms undertaken, initiated or planned that support municipal responsibilities for urban services and investments? | ☐ Are the regulatory and legal frameworks sufficient to safeguard long-term sustainability and, even more importantly, is there evidence that regulations are actually implemented? | ☐ Have the roles of different private and public actors been properly defined? |
| ☐ Are management structures for municipal and urban services and investments appropriate in terms of efficiency, accountability, transparency and anti-corruption? | ☐ Have sufficient measures been taken to enhance capacity building of relevant actors? | ☐ Do the utility investment planning and preparations target service delivery and physical investments that are accessible and affordable for poor people? |
| | | ☐ Do the utility investment planning and preparations include proper assessments of environmental impacts? |