

BALKANS JOINT CONFERENCE AND EXHIBITION

# ACCELERATING *Change*

*Towards Safe, Reliable  
and Sustainable Services*

## Policy, Institutional and Regulatory Reforms for Accelerating Change in Water Supply and Sanitation Services Delivery

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Gustavo Saltiel, Global Lead for  
Water Supply and Sanitation

# The Water and Sanitation Sector

## Market Structure

- **Considered a natural monopoly** due to limited competition and high barriers to entry.
- **Lower and riskier returns on investment than other infrastructure sectors.** Urban water and sanitation systems are capital intensive with large fixed costs for assets that have long lives. A high ratio of fixed to variable costs makes it demanding to set prices that allow a small return on investment.
- **Regulation is the main policy response** to the monopolistic nature of the water market.
- **Competition is growing in the low-income segment of the water market.** Small-scale providers have an important share of the market, yet they often have been ignored or regarded as a stopgap measure.

## Rationale for Public Ownership of Water Utilities

- WSS can be regarded as “**merit goods**”
- **Positive externalities** in water use (i.e., public health benefits of access to water) and wastewater management (environmental benefits)

# Improving Performance of Water Utilities – What have we Learned

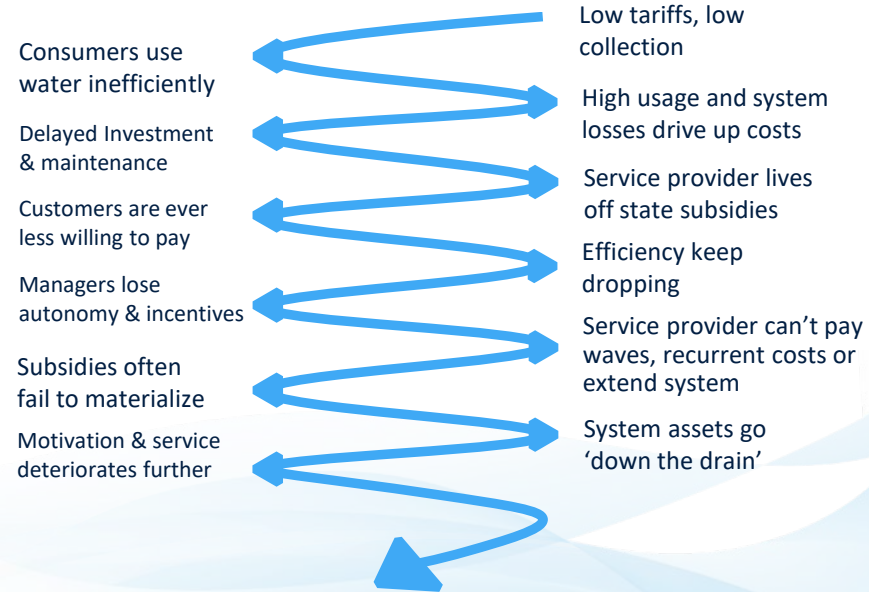
- ✓ **The *process* of SOE reform is critical to successful utility turnaround**, and depends on political economy; learning and adaptability; and strengthening existing systems such as, corporate governance and managerial practices
- ✓ **More rigor is needed to identify the root causes of poor utility performance and prioritize reform objectives and options including, financial sustainability.** Selection criteria for reform options include (1) *opportunity*: reform options are relevant, high impact, and consistent with national policies and reform agendas, and (2) *feasibility*: reform options are politically, technically, and financially feasible.
- ✓ **Customers are important** for driving change and improving service delivery.
- ✓ **Technical solutions alone are unsustainable.** Sustainable reforms require positive incentives to be embedded in PIR structures.
- ✓ **No one-size-fits-all solutions.** Best fit, not best practice.
- ✓ **Understanding institutional and political economy context** is critical to design and implementation of sustainable institutional reforms
- ✓ **A holistic approach is needed.** Changes in one sphere need to be consistent and supported by the other two spheres.
- ✓ **Consider appropriate local capacity** (human and financial resources) to avoid gaps between de-jure and de-facto reforms.
- ✓ **Reform is not an event or a linear process** and its success relies on incorporating a high degree of learning.

# Water Sector Challenges at Two Levels

## Policies, Institutions, Regulation

- Weak financial and institutional capacity
- Overlapping and unclear roles and responsibilities
- Poor intergovernmental coordination
- Unrealistic policies, reforms and financing strategies
- Limited oversight and reporting
- Prevalence of 'cookie cutter approaches'

## Utilities "slippery slope"



*"As countries around the world face the growing threat of water insecurity, global progress toward meeting water, sanitation, and hygiene (WASH) goals has been modest; water systems are not always well managed, inhibiting sustainable, reliable service delivery."*

# World Bank Approach to Systems Change for Sustainable WSS Service Delivery

## PERFORMANCE IMPROVEMENT

The Utilities of the Future: Standardized planning approach to guide utilities in initiating and maintaining reform efforts.

Non-Revenue Water Reduction Program (NRW): Provides global expertise to reduce physical and commercial losses (> 50% in many utilities).

## POLICY, INSTITUTIONAL, REGULATORY AND CORPORATE GOVERNANCE REFORMS

Creating incentives for Universal Access, Efficiency Improvement and Sustainability

## CIRCULAR ECONOMY AND RESILIENCE ("WICER")

Addresses the increasingly complex challenges associated with finite water resources, growing urban demand, pollution and degraded ecosystems, based on three principles:

- Design out waste and pollution.
- Keep products and materials in use.
- Regenerate natural systems.

**Stronger and more Sustainable Water SOEs**

6 CLEAN WATER AND SANITATION



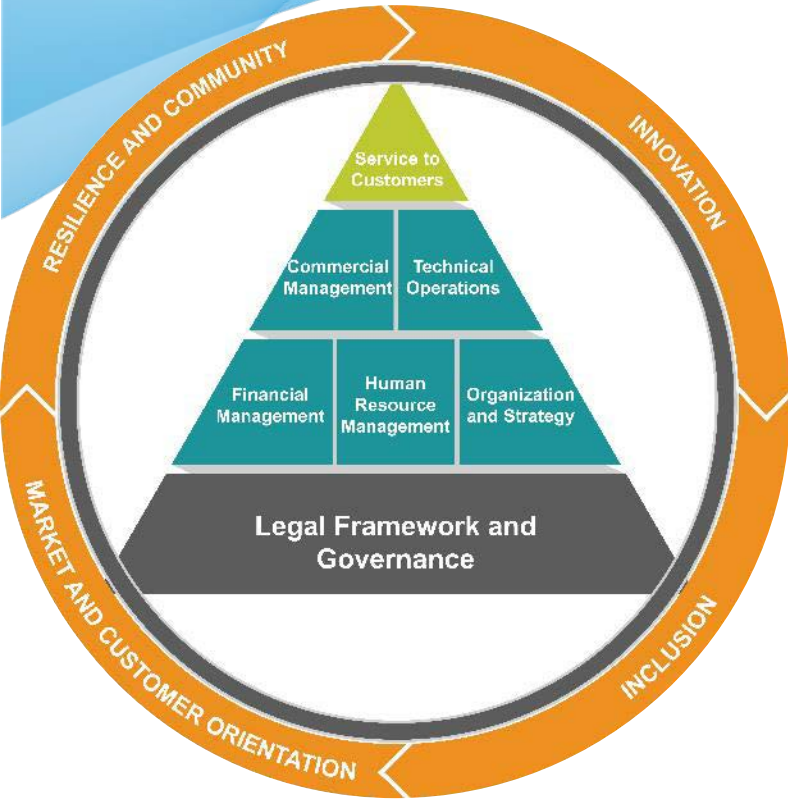
Ensure availability and sustainable management of water and sanitation for all

# WB Instruments: 1. Policies, Institutions and Regulation (PIR)



- PIR is a conceptual framework for addressing governance bottlenecks in water and sanitation service delivery
- Bank teams can use PIR tools to diagnose the problems in a country's WSS sector, to identify appropriate solutions, and to facilitate conversations with clients globally.
- PIR Framework helps improve transparency and accountability as well as raise standards across the sector.

# WB Instruments: 2. Utility of the Future



A **future-focused** utility, which provides **reliable, safe, inclusive, transparent, and responsive** WSS services through best-fit practices that allow it to operate in an **efficient, resilient, innovative and sustainable** manner.

**A new approach** - 4 new elements of utility performance

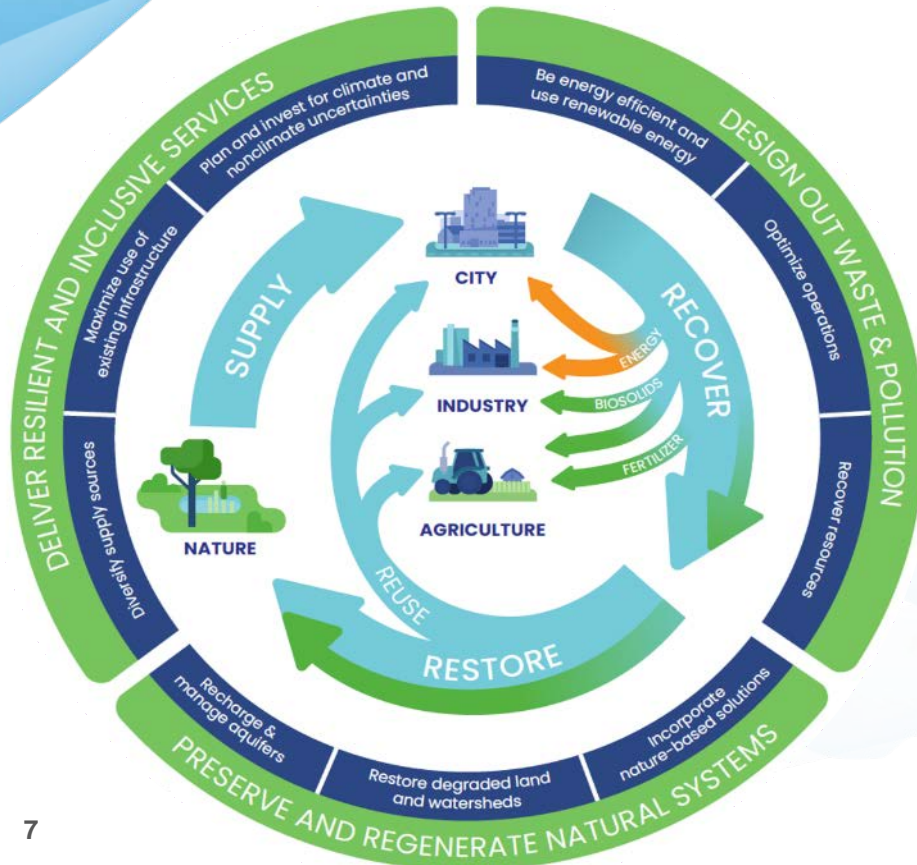
improvement:

- (1) resilience and continuity;
- (2) innovation;
- (3) market and consumer orientation; and
- (4) inclusion.

- **Results-Oriented:** delivers 100-day performance improvement action plan and 5-year strategic plan.
- **Scale:** Franchise implementation approach strengthens capacity of local organization and promotes implementation at scale.
- **Participatory:** implemented in a participatory approach of secure ownership of reform

For more details see annex D or visit [worldbank.org/UoF](http://worldbank.org/UoF)

# WB Instruments: 3. Water in the Circular Economy and Resilience (WICER)



- **Contribution to climate change mitigation and adaptation**
  - Implementation of energy efficiency and non-revenue water reduction programs to reducing emissions, save water and energy and increasing the amount of people with access to services (cases of Indonesia, Cambodia and Uruguay).
- **Creation of new revenue streams**
  - Recovery of resources from wastewater and sale of energy, water, and fertilizers to cover operating costs (cases of China and Senegal).
- **Carbon neutrality, water reuse and preservation of the environment**
  - Application of circular economy and resiliency principles in long-term strategies to become (case of Portugal).
- **Delaying large CAPEX programs by using the full potential of existing infrastructure, (case of Brazil).**



# An Innovative and Inclusive Approach to Urban Sanitation



# WB approach in the water sector utilizes different instruments to develop hard and soft infrastructure and enabling environment necessary for sustainability

## SOE Infrastructure and Service

*Better, cheaper SOE service and improved climate sustainability*

## Regulatory & policy change for SOEs

*Improved SOE operating environments*

## SOE organizational change

*Improved SOE governance & management*

|                 |            |   |   |   |
|-----------------|------------|---|---|---|
| Input-based     | IPF        | <ul style="list-style-type: none"> <li>Investments in water production, distribution, wastewater collection and treatment (including technical studies)</li> </ul>  | <ul style="list-style-type: none"> <li>Technical assistance to develop policies, institutions, regulations, studies and plans to improve SOE performance</li> </ul>   | <ul style="list-style-type: none"> <li>Capacity building</li> <li>Transformation into the “utility of the future”</li> </ul>  |
| Output-based    | IPF PBCs   |   | <p>PBCs, DLIs &amp; PAs targeting:</p> <ul style="list-style-type: none"> <li>Increased access to water supply</li> <li>Increased access to sanitation</li> <li>Performance-Based fiscal transfers</li> <li>Performance Improvement Action Plans and targets</li> <li>Revenue increases</li> <li>Creation of policy, institutional and regulatory incentives</li> </ul> | <p>PBCs, DLIs &amp; PAs targeting:</p> <ul style="list-style-type: none"> <li>Professionalization of SOE management</li> <li>Strengthening governance and transparency</li> <li>Recruitment of technical specialists (incl. gender-based targets)</li> <li>Creation of citizen engagement mechanisms</li> </ul> |
|                 | PforR      | <ul style="list-style-type: none"> <li>DLIs supporting government investments and performance improvement (e.g., Non-revenue water, new connections, rehab/renewal of infrastructure)</li> </ul>                                    |   |   |
|                 | DPF        | <ul style="list-style-type: none"> <li>Improving governance, managerial and financial autonomy</li> <li>Increasing customer orientation and accountability</li> <li>Policy reforms leading to the creation of Water SOEs</li> </ul> |   |   |
| Risk mitigation | Guarantees | <ul style="list-style-type: none"> <li>Enabling private infrastructure investment with SOE as off-taker through project-based guarantees</li> </ul>   |   |   |

# Examples of World Bank engagement with Water SOEs

**SHIMLA (INDIA):** Use of a DPO to turn around a typical Water Department into an autonomous WSS Company

**URUGUAY:** Long-term support to national utility leading to performance improvement and private financing

**BURKINA FASO:** successful wave of reforms leading to significant improvements in access and performance

**Sao Paulo (BRAZIL):** IPF supporting innovations to avert a “day zero” crisis and expand services to the poor

**GHANA:** IPF supporting utility turnaround to promote universal access and enhance resilience.

# Shimla (INDIA): Supporting SOE Reform through a DPL project: A Case Study from Shimla (Himachal Pradesh)

**Challenge:** Acute water shortage due to poor water resources management, erratic weather events, weak institutional capacity, and operational and financial performance leading to jaundice epidemic in Shimla City.

## World Bank Engagement

WB supported SOE Reform through a DPL prioritizing three areas:

1. Improving governance, managerial and financial autonomy
2. Increasing customer orientation and accountability, complemented by a cross-cutting capacity building effort
3. Policy reforms leading to the creation of the Shimla Jal Prabandhan Nigam Limited (SJPNL) – A Water SOE



## Results

- No Jaundice Case
- 100% metering, cost recovery
- Daily water supply
- Improved Citizen Engagement
- Reduced transmission losses and improved water availability by 25%
- 24/7 water supply in demo zone
- Increased sewage collection by 200%
- Introduction of performance-based contracts
- Energy efficiency improvements from 7.69kw/m<sup>3</sup> to 7.24 kw/m<sup>3</sup>
- Follow up PforR Program (2021-2026) formally requested from the WB

# URUGUAY: Attracting private sector capital for SOEs: A Case Study from Uruguay – Obras Sanitarias del Estado (OSE)

## Challenge

Aging infrastructure, operational and financial inefficiencies, and poor basic customer services, as well as low sanitation coverage levels (56 % of the population with household connections).

## World Bank Engagement

- Supported OSE's reform-oriented agenda, which included increased efficiency, coverage, transparency, competitiveness, and sustainability of water and sanitation services.
- Helped OSE developed a long-term (10 year), multi-faceted approach to modernization that would allow for the continuation of infrastructure renewal elements & the gradual addition of newer, softer elements.
- Supported the non-revenue water reduction program's which was revolutionized after a successful pilot, financed by the project (OSE adopted 3 internationally recognized best practices for NRW).



## Results

- Improved transparency, client responsiveness, efficiency, and financial viability, as well as the customer experience.
- **Before the project, OSE complied with only 23% of best practices; it now complies with 74% of them.**
- **Delinquent payments decreased by 20%.**
- Recuperated 3.35 million m<sup>3</sup> of water lost through fraud.
- Reduce the commercial cycle from a 30 to 60 day period to a 14 to 20 day period.
- OSE now provides drinking water to **98 % of Uruguayans** and sanitation to over 51 %, excl. Montevideo.
- **Improved financial performance and reputation and a BBB+ investment grade credit rating**, which enabled the utility to obtain private sector financing in 2017 through a local currency bond series on Uruguay's capital markets.

# BURKINA FASO: successful wave of reforms leading to significant improvements in access and performance

## ► Focus on improving public utility management (ONEA)

- ❖ **Corporatisation** with legal autonomy
- ❖ Allowed to set **cost-reflective tariffs** (initial tariff increase of 30% in 1990)
- ❖ Rolling 3 year performance contracts b/w the State and ONEA– 34 indicators, periodic independent monitoring arrangements, no rewards or penalties.

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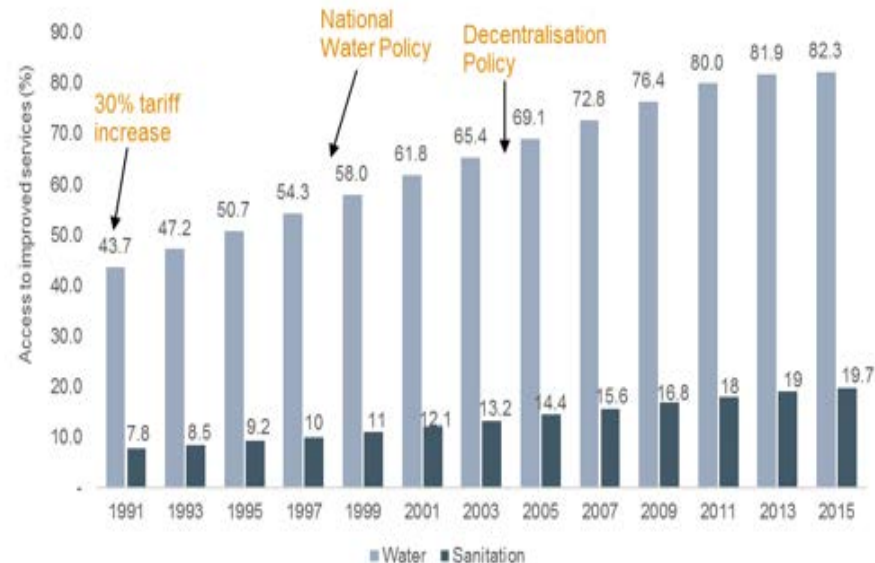
- ❖ **PSP** without Formal Management Delegation (5 year performance-based service contract) - fee for “services” with a bonus/penalty
- ❖ Independent auditing of service contract execution to evaluate progress

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## ► Decentralisation

- ❖ Incremental implementation
- ❖ WSS management to communes (municipalities), with service provision by ONEA (in existing service area), local private suppliers.

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One of highest levels of drinking water access in SSA. (Sanitation lags behind).  
Financially viable public utility. Sustained improvements over 20+ years.

Staff productivity improved by 60%, continuity of service (24/7 in the capital), collection of bills increased by 11%, profitable throughout the period.

# BRAZIL: IPF supporting innovations to avert a “day zero” crisis and expand services to the poor

## Challenge

The Metropolitan Region of São Paulo (MRSP) faces crucial water shortages, which are rapidly increasing due to urban growth and pollution. The 2014–15 water crisis exposed the vulnerability of the MRSP to water shortage and required drastic measures to reduce consumption. The water crisis, combined with Brazil’s persisting macroeconomic situation since 2014, continues to bring uncertainties and restrictions to SABESP.

## World Bank Engagement

Key features of the SABESP Improving Water Service Access and Security in the MRSP Project include:

1. Increase access to WSS services for vulnerable people in peri-urban areas of the MRSP by scaling up the [‘Água Legal’ Program](#).
2. Innovations to reduce water losses in low-income areas including through performance-based contracts (PBCs)



## Results

- Established 115,000 connections in 3 years and an additional 135,000 to be added by 2025.
- Benefiting over 870,000 people.



# GHANA: IPF supporting utility turnaround to promote universal access and enhance resilience.

## Challenge

Ghana's Sanitation indicators are behind regional benchmarks. Currently, 20.7 percent of the population use improved sanitation facilities. Ghana is also highly vulnerable to global climate change. It ranks 101 out of 181 countries in the ND-GAIN index (2016) for climate vulnerability.

## World Bank Engagement

Key features of the Greater Accra Metropolitan Area Sanitation and Water Project (GAMA-SWP) and GAMA Additional Financing Project:

- Provision of sanitation services to priority low-income areas.
- Improvement in operational efficiency including, NRW reduction while improving the network efficiency, resilience, reliability, service delivery standards and increase customer base leading to increased revenues for GWCL.

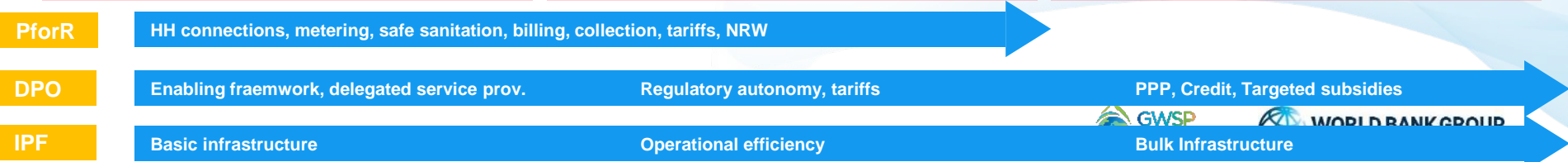
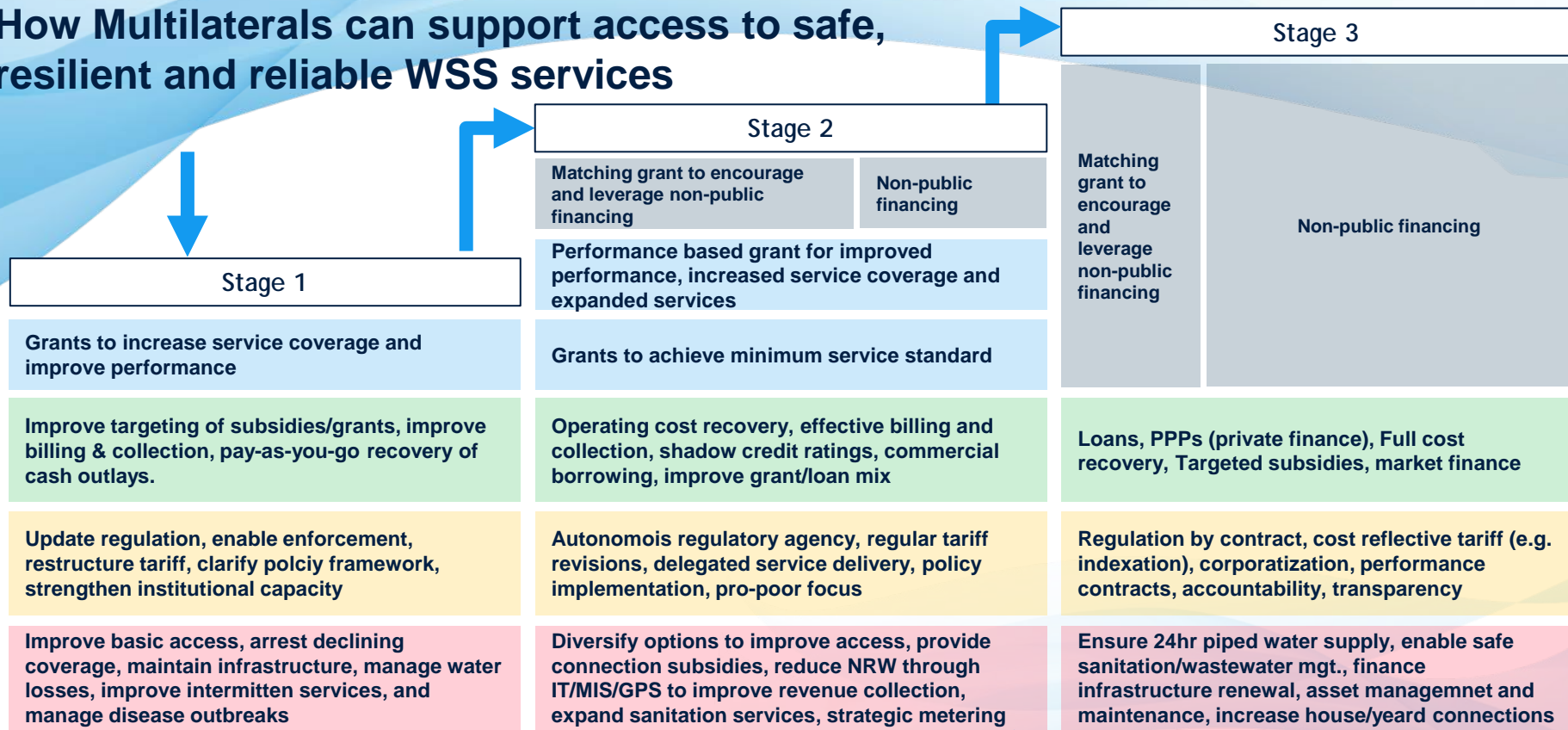
## Results

- 10,250 new water supply connections provided to low-income households (HHs) (300,000 people).
- Supported establishment of Low-income Community Support Unit (currently upgraded to directorate level and led by a woman director).
- Supported operational efficiency improvement measures
  - GAMA water supply master plan developed.
  - Prepared a calibrated Hydraulic Network Model for GAMA Supply Area.
  - Establishment of Telemetry system for GAMA
  - Procurement and Installation of 40,000 smart ultrasonic meters for domestic customers
- GWCL's adapted the UoF approach to the Corporate plan and the Performance Improvement Plan (PIP)





# How Multilaterals can support access to safe, resilient and reliable WSS services



# Thank You



**WORLD BANK GROUP**

Water



**GWSP**

GLOBAL WATER  
SECURITY & SANITATION  
PARTNERSHIP