Session 17: Monitoring & Publicizing Reports

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IMPROVING PERFORMANCE OF WATER AND SANITATION PUBLIC SERVICES

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Complex Interactions with Stakeholders

- **Effective utility regulators** require much more than just competent economic and financial analysis.

- **Utility executives** “manage what they measure”: they utilize data to develop internal incentives and to communicate to stakeholders.

- To meet their mandates, regulators and managers must manage often complex interactions with regulated firms, consumers, politicians, officials, courts, the media, and a range of other interests.

- How the regulator and operator manage these processes will be critical to their success.
Regulatory Discretion

- Regulatory discretion lies at the heart of the regulatory process. While discretion gives regulators the flexibility to achieve more efficient outcomes, it also involves uncertainty for firms and stakeholders, as well as the potential for misuse.

- How robust should benchmarking studies be for different purposes?

- Regulatory systems—rules, institutions and processes—need to be designed in a way that strikes a balance between competing policy considerations.
Regulatory Governance

- There is no one best way to design regulatory systems. Also, great care needs to be exercised before adopting processes from other countries.
- Nevertheless, experience in other countries does offer rich insights into many of the trade-offs involved in tailoring institutions and processes to local circumstances.
- Establishing new regulatory agencies involved many special challenges, particularly in countries without a tradition of arm’s length regulation of private institutions. The regulator’s early actions (or in-actions) can be critical to success.
Range of Stakeholders

- **Regulatory Commission** (responsible for policy implementation in the sector)
- **Government Sector Ministry** (charged with policy development)
- **Government Treasury** (addressing fiscal issues)
- **International Investors** (bond, equity, and strategic management teams)
- **Incumbent Service Providers & Potential Entrants** (state-owned enterprise or privately owned)
- **Un-served Citizens** (rural and urban poor)
- **Current and Future Customers** (consider potential conflicts among groups)
- **Multilaterals and donors** (as a potential infrastructure project donor/funding agency)
Political Economy of Regulation and Information

- *Capture* (Political Economy of Regulation)
- Concentrated Benefits obtained by the few.
- Diffuse Costs imposed on the many.
- *Transparency* (Political Economy of Information)
- Knowledge is Power
- Power Corrupts
- Lack of transparency is (potential) evidence of corruption.
Two Observations:

1. No new law (or regulation) is promoted on the basis that it benefits the powerful.
   - Yet the lack of quantifiable targets associated with “public interest” legislation makes it difficult to halt a program that is actually ineffective.

2. The powerful are seldom worse off after a new law has passed.
   - So laws and regulatory decisions ought to enhance efficiency.
   - Otherwise, regulations create a zero-sum game in which the powerful do not lose.
## Exercise: Regulatory Self-Evaluation

Scale:  11 outstanding; 9 excellent; 7 very good; 5 good; 3 weak; 1 very weak

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<th>ACCC Nine Principles</th>
<th>Grade your Agency</th>
<th>Utilities Perception</th>
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<td>Accountability (clear procedures &amp; appeals process)</td>
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<td>Transparency (openness of the process)</td>
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Communication: Five Step Presentation

(1) Begin with an honest direct answer;
(2) Position your message (“our role or goal”);
(3) Provide evidence through a specific example, story, analogy, or facts;
(4) Connect to the audience – recognize concerns or interests of listeners/readers;
(5) Conclude with a summary or memorable image.

Intermedia—Tim & Teresa Timici
Booster Rocket

- Guidance System
- Cargo
- Fuel

Answer
Message
Specific Proof
Connect to the Audience
Conclusion

Courtesy, Intermedia
The Rocket Model

Answer
Message
Specific
Proof
Connect to
Audience
Conclusion

“Yes… / No…”

“Our role is…”
“Our goal is…”

“For example…”

“This is important because…”

“In conclusion…”

Courtesy, Intermedia
www.purc.ufl.edu
“Leadership in Infrastructure Policy”
Elements for Successful Reform

1. Build ownership within the Utility regarding the water reform through a participatory process
2. Build support among stakeholders and consumers
3. Appreciate the knowledge, attitude, and perceptions of consumers around delivery, private sector participation, and the role of government
4. Provide input into reform projects so that consumer needs and interests are represented and taken into account
5. Increase utility responsiveness when facing opposition to the reform
Reform, continued

6. Minimize political risk to avoid delays when anticipating reactions
7. Help strengthen credibility of process by keeping all stakeholders informed
8. Improve client capacity coordination when communication is also used as a facilitation tool
9. Improve internal communication within an organization by keeping people informed about the process of the reform

from World Bank Institute, eLearning Water Utility Reform
Thank You
Appendix: Eight Institutional Features Promoting Performance

Baietti, Kingdom and van Ginneken (2006) draw upon eleven case studies (including water utilities in South Africa, Uganda, Burkina Faso and Tunisia) to identify key features of institutional settings that promote well-performing suppliers.

1. The reform process is inherently political and requires the full commitment of its policy makers to correctly balance financial and political objectives.
Ownership and Performance

2. Success is often unattainable without reforming the external environment, with emphasis on the role of the owner.

3. Fundamental reforms are not a quick fix and cannot be substituted by private sector participation.

4. There must be an adherence to financial sustainability objectives.
Stakeholder Relationships

5. Other external stakeholders may be important to balance potentially conflicting objectives of politicians.

6. Certain decisions must be left to utility managers.

7. Separating functions and arm’s length transactions are important elements of the institutional setup.

8. Customers can be an important voice for improving performance.

Six Actions for Aligning Owner Incentives for Performance

- Create a central policy and oversight body for water supply and sanitation services;
- Establish a national benchmark system to improve performance;
- Create incentives through intergovernmental transfers;
- Promote arrangements with multiple stakeholders;
- Establish governments as guarantors for utility performance; and
- Establish performance-based agreements between the owner and the utility.

Balancing Interests of Competing Parties: Negatives

- Operating managers do not like hard targets;
- Political leaders seek have time horizons that extend to the next election;
- Current customers wish to maintain current (below-cost) prices; and
- The media tends to promote controversy by selectively publicizing particular events or outcomes.
Stakeholders: Positive Elements

- Some managers are able to out-perform others and benefit from strong incentives;
- Political leaders can be held accountable for campaign promises and many wish to have a legacy of sound infrastructure;
- Un-served (potential) customers are paying much more for non-utility water (in time and money); and
- The media is in a position to inform the public and opinion-leaders about the status of the water sector. Payoffs to Good Governance
Sound Laws and Good Governance

Cubbin & Stern (2006): sound laws and good governance result in agencies that are

- Less likely to make mistakes;
- More likely to correct mistakes speedily;
- Less likely to repeat mistakes;
- More likely to develop procedures and methodologies that involve participants and to develop good practice;
- More likely to copy and implement best practice from other countries.

Concluding Observations: Diagnosis, Treatments, and Habits

1) What is the diagnosis?
   “Diagnose the patient” - document trends of key indicators
   ✓ Data collection:
     ➢ financial analysis
     ➢ management audits
   ✓ Listen to managers and staff
2) What is the cause of weak performance?

Analyze factors leading to observed problem

✓ Identify causal elements
✓ Be thorough in analysis to obtain a complete diagnosis of situation
✓ No single index of performance can be comprehensive
3) What is likely to happen without intervention?

Awareness of consequences of inaction regarding the status quo

✓ Stakeholders must be aware of potential adversity in the face of dramatic change
✓ Institutions affect infrastructure sector performance
4) Is there a strategy (or cure) for the problem

Is the cure worse than the disease?

(Leader require right tools to transform (heal) an Organization)

✓ Performance indicators below indicate that reform initiatives NWSC took from 1998-2006 had positive impacts

✓ High performance infrastructure firms like NWSC would be good candidates for issuing bonds to the private investment community
5) Could the problem re-surface, depending on the strategy that is pursued?
Identify what action programs will support and extend past gains

✓ Address how to deal with previously undetected internal issues that might hamper performance

✓ Address realities of moving towards cost recovery frontier, to minimize adverse effects on citizens
Concluding Observations (1 of 2)

- Realities about moving towards the cost recovery frontier need to be addressed.
- The movement towards full cost-recovery needs to be sequenced to minimize adverse effects on the citizens.
- Targeted subsidies/grants can be used to help those whose ability to pay is low.
- Discussions within civil society need to occur, so citizens become educated about the issues, feasible objectives are established, and political leaders are held accountable for the promises made at election time.
Concluding Observations (2 of 2)

- Like individuals, aspects of organizations have self-healing qualities.
- However, neglect, political (genetic) predispositions, and laziness present challenges for leaders who are responsible for promoting a healthy, growing business.
- Good stewardship requires leaders to recognize and apply the eight steps supporting high performance organizations.