MSM | MAASTRICHT SCHOOL OF MANAGEMENT

Effective Business and Management models Palestinian Water Authority

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Day 1 Effective business models

Session 1 Defining business and management models

The training will have to cover what tools need to be in place for smaller service providers going into bigger service providers and the added value of regional authorities to govern these service provides. The trainer needs to have knowledge about what tools need to be in place for successfully taking over smaller service providers and the role of authorities as well as knowledge about performance and financial sustainability regarding the water sector

We discuss one of your questions in each session:

1. The added value of amalgamation of small SP into utilities
2. How to handle staff, assets, infrastructure, as well as arears
3. Economy of scale, and impacts on service cost
4. Representation in management structures
5. Lessons about business models & sustainable management
6. Different Governance structures
7. Knowledge of Palestine water law
8. What are the tools which are available
9. The role of regional authorities

Defining business and management models

- Different **business models in the water sector:** the possibility to run utilities and other water organizations differently
- This requires reforms, which are necessary to increase the efficiency of existing water organization and the use of economic science

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The contribution of economics: to determine which options are relevant and which one would be cheaper

- Investments in water sector require a comparison of different options
- Economic science can help us to make these choices by tagging a price tag to each alternative option, allowing an augmented choice

A definition of Management models: they

- refer to the use of management tools and the choice of managing organizations in the water sector through the public sector, the private sector, or some kind of mix through a Public-private partnership (PPP)
- To assess and choose between these models the course will discuss financial management, benchmarking and regulation in some detail

Economics helps to answer questions like:

1. Why are we doing this?
2. What are the alternatives?
3. What sacrifices do we have to make for this option?
4. Does it work? Does the option have the desired effects?

An economic perspecitve on the water sector

- Concerns about water & sanitation are translated into options, representing different solutions
- The economist helps to determine the best choice
- Taking as point of departure what would imply the lowest cost to society

An issue may be whose cost perspective do you take?

- The whole-of-society perspective (include cost to all relevant parties), or
- The perspective of the investor: the local government, the farmer, industrialist or household trying to use a water saving option?

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What is the difference, why taking different perspecitves?

- The perspective of the investor
- Only the costs for the investor, including the taxes paid
- Only her benefits
- A financial analysis

- The whole-of-society perspective
- include all cost for all relevant parties, excluding the taxes paid
- Calculate all benefits
- Do a social cost benefit analysis

It is important to look at the distributional consequences of options:

Who really benefit from this solution?

A distinction need to be made between the perspective of an individual & the interests of society:

1. Does society benefit? A cost benefit analysis
2. Does the individual investor benefit from it? A purely financial analysis

The tools for the water sector from economic science:

- **Demand and supply curves to determine a price**
- **Cost benefit analysis (CBA)**
- **Life cycle costing: whole life cycle cost & whole life maintenance cost**
- **Cost effectiveness, if no estimate of the benefits is possible**
- **Multi-criteria analysis**
- **Incorporate external effects in the price of a good or service**
- **Policy impact analysis**
- **Environmental assessments**

You do an economic or financial analysis to

- simplify the nature of the choice to a level that we can comprehend (positive theory)
- enable us to understand the key elements of that choice (normative theory)
- communicate that understanding to all stakeholders, allowing them to debate and negotiate their concerns

Water related issue	Major economic tool used
1 Reduce water consumption based on forecasting demand using models	Cost effectiveness of different reduction options expressed in cost and saved water
2 Simplify sanitation: separating grey and brown water for decentralized treatment	CBA, an economic, social and environmental analysis of this option
3 Introducing rainwater harvesting (RWH) to avoid using scarce ground water	Financial analysis to find out when this would be a viable option

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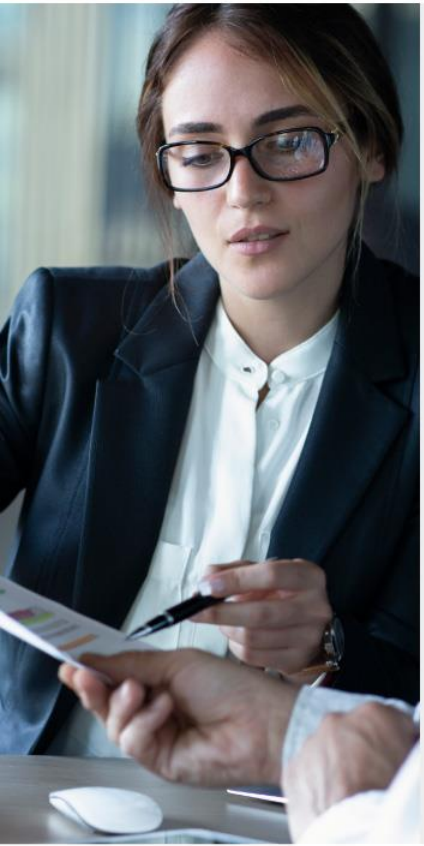
Water related issue	Major economic tool used
4 Transitioning: introducing changes to make rain water harvesting systems viable	• Analyzing price elasticity to determine how much tax or subsidy is necessary to make RWH financially viable**is necessary to make RWH financially viable**
5 Improved and more Sustainable urban drains for climate change	**• Use Life cycle costing to choose, because it is difficult to calculate the benefits**
6 Sustainable drinking water options for the urban poor	**• Business plans to identify financing options and cost recovery systems for piped and non** pipped drinking water systems

Reforms are necessary & will be discussed:

- Formulating a new goal for the organization
- Rationalizing the production process
- Redesigning tasks & responsibilities in an organization
- Changing different procedures
- More rigorous cost recovery or
- Private sector involvement



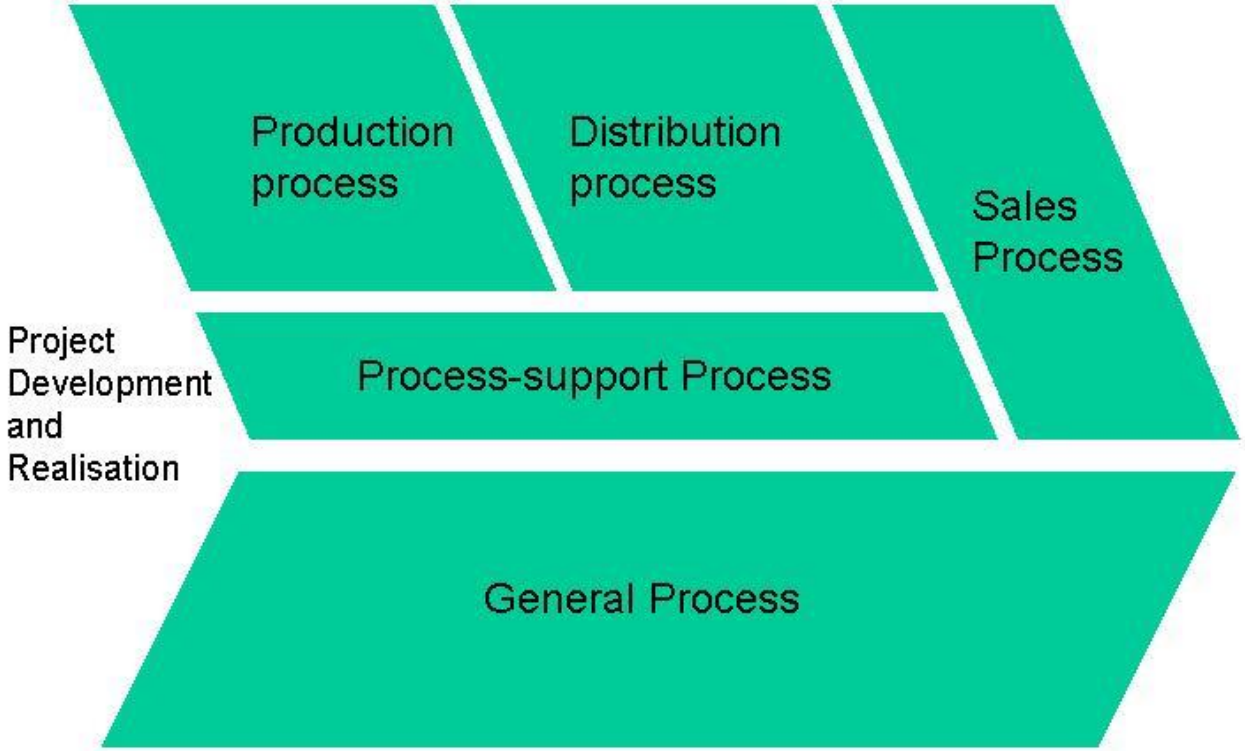
What about the triggers for change or reforms?

- In Uganda the threat of privatization was important
- Management expected a lease contract and wanted to show that they could perform without foreign partners
- In Singapore the shortage of water led to adding wastewater treatment in an innovative way
- In Scotland the price cap (a maximum price a utility can charge for water) forced utilities to improve efficiency

A water shortage crisis may force reforms, or:

- Or a serious case of pollution or health problems
- High tariffs may trigger political unrest & force changes
- High unaccounted-for-water (UfW) can force change
- Utilities are frequently overstaffed & not efficient
- Too low tariffs, poor consumer records & inefficient billing & collection systems can do the trick

Water supply services: a process approach



Elements of a water sector reform program:

- Institutional changes at macro and utility level
- Improvement of the policy
- Changing the financial set-up
- Establish robust sector governance
- Introduce more efficient and professional management, etc.

Goals of the reforms in the water sector, with new & country specific goals:

- Goals of reforms at the utility level are to achieve a business-like functioning of the utility
- Requiring managerial autonomy, financial autonomy, accountability for results& incentives for improvements
- These are characteristics of the so-called New Public Management NPM the approach will now be explained

Goals for reform 1 (of 2)

- Transfer of knowledge & increased capacity
- Tariff levels increase to levels covering at least O&M and eventually capital cost
- Role of women in decision-making increases
- Service expansion is realized
- Accountability for results increases

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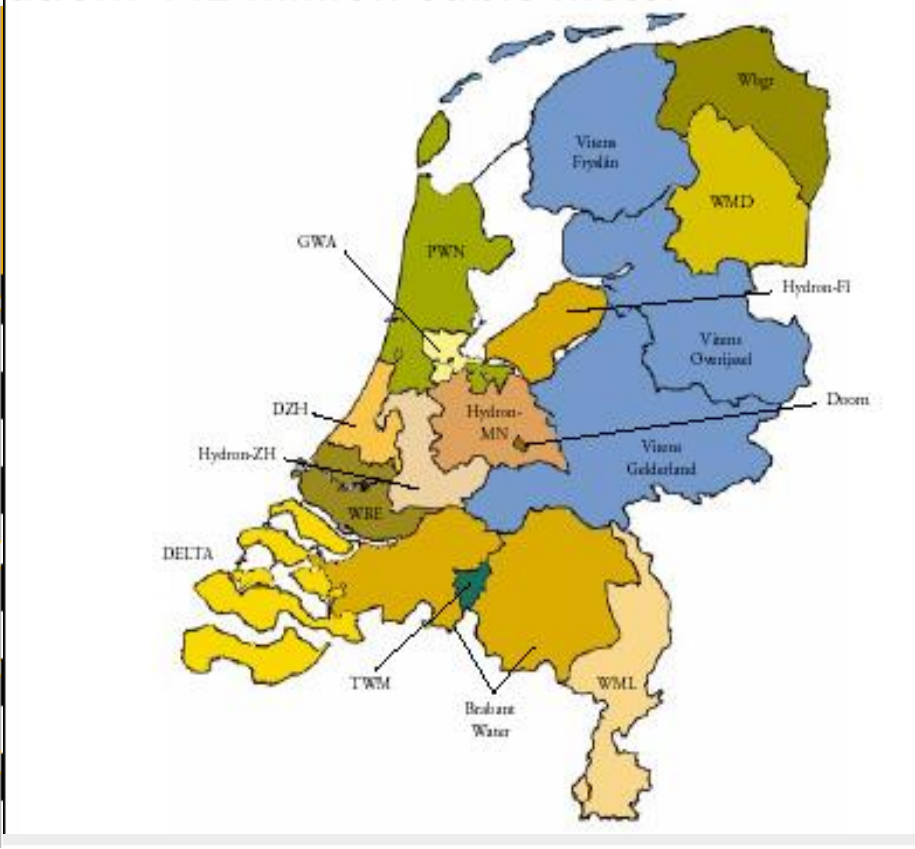
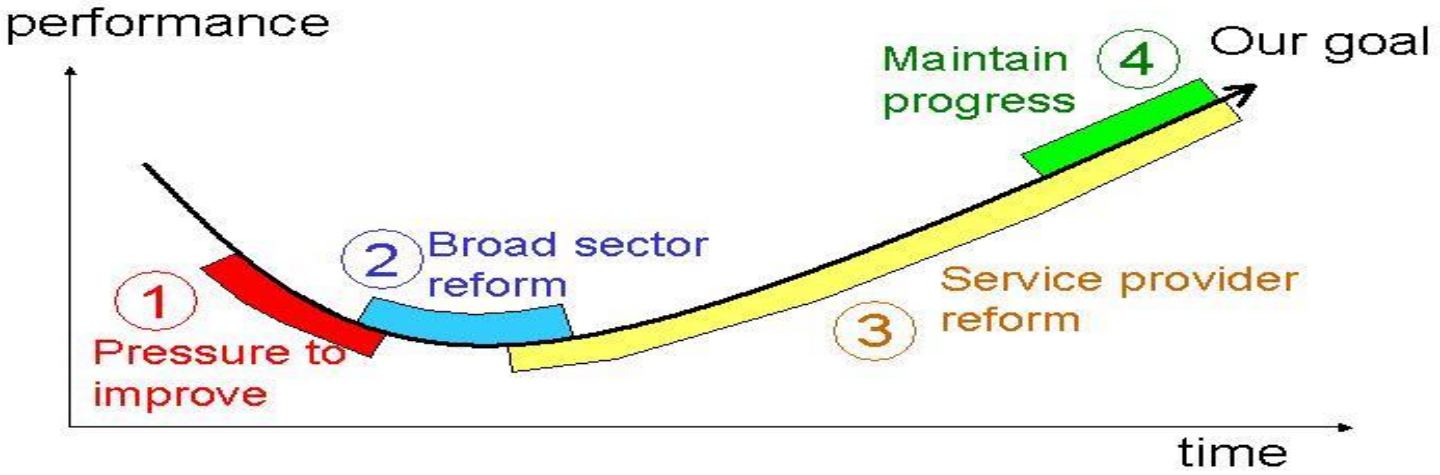
Europort water company Connections: 740 thousand, Turnover: 192 million Euro, Distribution: 142 million cubic meter



Goals for reform 2

- Create incentives for performance improvement
- Involvement of the private sector
- A long-term business plan is produced
- Economic & environmental sustainability
- Provide better quality of the service provided

Performance of the regional authority after reform



Four stages can be distinguished in the reform process

- Pressure to reform
- Broad sector reforms
- Service provider reforms
- The public wants better service delivery, which requires institutionalization of the reforms

Factors influencing the success of the reforms:

- If there is some urgent situation
- Reforms need to take place at the sector &utility level
- Private sector elements are brought into the management of the public utility
- Start with a program to solve the urgent problems
- Then develop medium and long term solutions

Conclusions

- The pre-conditions for reform need to be there
- It helps if there is political support for the process
- Reforms need to take place at the sector and at the utility level
- A distinction needs to be made between short term, medium and long term reforms

The principles of NPM reforms: objective

- To assess the functioning of a public utility & to make recommendations for better performance
- Use an analytical framework based on experiences elsewhere: why are some public utilities functioning well, whilst other utilities perform poorly?
- This framework is the New Public Management NPM

NPM principles	NPM instruments
• Autonomy in the sense of having discretional powers and of financial autonomy	• Set cost recovery tariffs • Providing incentives to the utility to perform better • Formulate Human resources development programs
• Once autonomous, develop a company culture and	• Training programs • Personnel incentive program
• Decentralize authority within the utility	• Greater discretion at lower points in the hierarchy
• Accountability for results within the utility as well as externally	• Use contracts with indicators • Monitor their implementation • Report the results
• Customer orientation, or client focus • Market orientation	• Organizing customer surveys • Reacting to complaints • Identify possibilities Private sector

Criteria for autonomy are:

- Autonomous decision making process (not belonging to another body or person)
- Nomination/election of professional key-personnel
- Ownership of assets
- System of shareholding
- Independent financing
- Freedom of budgeting

Accountability is one of the key concepts of NPM

- In a decentralized & transparent organization managers are accountable for what they are doing & results of their interventions can be monitored
- NPM theoryis revolutionizing public management by putting the emphasis on contracts and autonomy, while stressing the importance of market orientation and customer orientation

Customer orientation is the attention paid to customers of the local government service or a utility

Customer orientation can be measured by:

1. attention paid to complaints
2. Representation of customers in different bodies
3. Frequency (and results) of surveys to find out what the customers (citizens) think of a service provided by a local government or utility

The corporate culture of a utility or local government is also important

- Is there a tradition of rendering account?
- Alternatively is the organization very top down and reluctant to share its performance results with others?
- Create a corporate culture more conducive to change!
- Use benchmarking

The best-known method for achieving more efficient utilities is private sector participation:

A stronger market orientation is mainly aimed at reaping the benefits of (quasi-) competition between either suppliers working outside the utility or local government, between outside suppliers & internal departments or between internal departments of a utility or local government

How to achieve market orientation?

1. Increasing the market orientation of a public sector organization is done through contracts, (quasi-) competition between agencies & outsourcing
2. The main advantage that an increased market orientation is expected to achieve is that of increasing efficiency of service provision

Conclusions

- Water related issues that can benefit from NPM
- Market orientation aims to capture the benefits of competition
- An increased market orientation is also expected to stimulate innovation
- The challenge for managers is to make this theory work!

Exercise 1 Indicate tools of management	which could be used for the following water & waste water issue
Issue	Tool
1. Large versus small scale solutions in waste water treatment 2. Managing the demand for drinking water services 3. Fixing the rate for drinking water and sewer systems	1. 2. 3.

Issues dealt with in this presentation:

Issues dealt with in this presentation:

- Ad 3 The issue of scale, what economists call the economies of scale
- Ad 5 Lessons from elsewhere: reforms and realistic tariffs
- Ad 8 Tools available: different tools for different issues

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Questions, remarks, critique?