



E A P TASK FORCE

OECD  **OCDE**

**Outline of the Background Paper
on Reforms in the Municipal
Services Sector in EECCA**

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Objective of the Discussion

- **To describe the key issues in the relationship between utilities and municipalities that contribute to the current ineffectiveness of the water supply and sanitation (WSS) sector**
- **To provide proposals on how the local-level obstacles to improving the effectiveness of the sector could be overcome**

Structure of the paper

Key issues and challenges:

- 1. Improving strategic planning and allocating sufficient public funds for the sector*
- 2. Reforming the relationship between municipalities and water utilities*
- 3. Improving utility management*

Relevant EAP Task Force and PPC products

Possible issues for discussion

Decentralisation



Most EECCA countries have decentralised responsibility for water supply and sanitation infrastructure to the municipal level

But ...

these actions were frequently taken *without appropriate changes* to the institutional set-up, organisational structure and management, of the sector

Key problems that resulted from the decentralisation process

- **The property was often not evaluated and/or property rights were not properly registered**
- **Local/regional public authorities and utilities lack strategic planning capacity for the communal services infrastructure**
- **Responsibilities of municipalities and of utilities were not clearly or properly defined, and contractual relations between the public administrations and the utilities, as well as between the utilities were not properly set-up**
- **Due to the lack of adequate regulation and tariff setting rules the tariff setting in EECCA has often become a highly politicised process**

State of the strategic planning and allocating sufficient public funds for the sector

- Only few municipalities in EECCA have updated or developed City Master plans, including infrastructure development
- Municipalities are not financially autonomous or sustainable - this makes the strategic planning and investments at local level dependent on the politics at the national/regional level
- Only few utilities have developed corporate development or strategic business plans
- The funds available at the local level are often not used effectively or efficiently

Improving strategic planning and allocating sufficient public funds for the sector

- Build strategic planning capacity
- Assess the state of the existing infrastructure (*collect accurate data*) and set-out realistic targets for the levels of service
- Balance the demand for funds with the resource available by raising additional finance and/or by setting less ambitious targets for the levels of service
- Create incentives for infrastructure optimisation, more efficient and cost-effective use of resources


Reforming the relationship between municipalities and water utilities

- **In the absence of monitorable performance targets and performance-based remuneration utilities have little or no incentives to manage their operations effectively and efficiently**
- **Development of performance-based contracts (PBC) between utilities and municipalities is one possible way forward. The PBC:**
 - defines performance goals and resources;
 - lays out the roles of the utility and municipality to achieve the goals;
 - improves accountability and transparency.


Improving utility management

- **At the utility level, management practices can often be substantially improved** (general management issues, technical issues and use of relevant managerial tools)
- The problem could be addressed by developing internal capacity and attracting external management and technical expertise, including from the private sector
- Despite official declarations to promote private sector participation (PSP) in many EECCA countries, the overall role of private firms in the sector remains marginal
- Private operators would bring valuable management and technical expertise, but the role of the private sector in providing **finance** to the EECCA water sector seems less likely to grow in the short and medium term (*investment climate*).
- A key obstacle to the commercialization of water utilities is the lack of capacity in municipalities to regulate and oversee them


Inputs for the background paper

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- **EAP TF survey of legal and institutional reforms in 6 EECCA countries**
 - **The Guideline for the Performance-Based contract;**
 - **Country papers on Local credit markets (internal working papers);**
 - **Overview of domestic and international private companies operating in the utilities sector in the Russian Federation;**
 - **EECCA Governments' strategies for municipal sector reform - based on legal texts available in these countries;**

Inputs for the background paper

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- **Restructuring of Russian Housing and Communal Services Sector** (*National Foundation for Housing Reform, Gosstroy Russia/ World Bank, 2003*)
 - **Feasibility studies in communal services sector prepared for EBRD and WB projects in EECCA municipalities; and**
 - **the EBRD work on enhancing creditworthiness of the municipalities in EECCA** (*assuming that the EBRD and the WB could make them available*)

Possible issues for Ministerial discussion

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- **How can efforts to strengthen local level capacity, and to reform the relations between local governments and utilities be scaled-up effectively? What are the mechanisms and incentives that could be used to support utilities and municipalities in this effort?**
 - **What are the opportunities and obstacles for private sector participation, and what are the measures that would need to be undertaken to utilize the full potential that this option represents, while protecting the interests of consumers?**