GOOD PRACTICE IN PROJECT PREPARATION

PUBLIC WATER UTILITIES

April 2005
Introduction

This document has been published by the Project Preparation Committee (PPC) within the framework of the DABLAS Task Force\(^1\), and provides guidance regarding good practice in project preparation for the reform and financing of water utilities that are publicly owned or controlled by local or regional governments.

It is divided into two key sections:

I. **Key features of good project preparation** — this section provides a summary overview of key features to be addressed for good project preparation, and

II. **Sample standard Terms of Reference for project preparation** — these Terms of Reference (TOR) were developed to structure the technical assistance provided by EU funded external consultants undertaking project preparation activities for priority water utility investment projects identified within the framework of the DABLAS Task Force. Although these Terms of Reference were developed for the water sector within the Danube and Black Sea region, many basic features are relevant to other regions and other public sector utilities (e.g. solid waste management, district heating). The Terms of Reference presumes that either the Utility and/or the local or regional government that owns or controls the Utility are legally permitted to manage their own finances.

I. **Key features of good project preparation**

Some of the key considerations in project preparation for the reform and financing of water utilities are listed below and are related to the key tasks included in the scope of work of the Terms of Reference in Section II.

**Assessment of the financial performance of the Utility**

*Financial standing of the Utility* — It is important to assess the financial status of the Utility and present an accurate picture of the Utility’s revenues, liabilities, costs and financial efficiency. This assessment should highlight any areas of concern in the Utility’s financial standing and management, in particular related to:

- the levels of costs,
- the levels of revenues from tariffs (and from government transfers or subsidies if applicable),
- the level of collections, and
- the level of indebtedness.

Where a Utility is financially or institutionally dependent upon its local or regional government, the financial standing of the local or regional government should also be assessed.

N.B. When assessing the financial standing of public utilities in transition economies they typically will not have strong financial positions that would attract external financiers — hence the focus of the financial assessment is to accurately portray a Utility’s current financial

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\(^1\) The DABLAS Task Force was set up in response to a 2001 EC Communication in November 2001, to provide a platform for cooperation for the protection of water and water-related ecosystems in the Danube and Black Sea Region.
position and identify areas for improvement that, when implemented, will generate cash internally, improve the financial position and subsequently attract external finance.

**Institutional and legal framework**

*Autonomy and responsibilities of the Utility* - The legal and institutional structure between a publicly owned or controlled Utility and its government counterpart must be assessed, identifying respective powers, duties and responsibilities of both the Utility and the government counterpart to establish the Utility’s level of financial and managerial autonomy for public service provision.

With transition economies undergoing rapid decentralisation and changing institutional and legal structures, the institutional and legal arrangements between a Utility and its government counterparts are not always clearly defined and are frequently subject to conflicting institutional and legal structures and interests that dissuade any external financier from investing in this transitional and unpredictable environment.

External financiers need to have confidence that any investments that they may make in the Utility are appropriate, secure and sustainable, and that the Utility can operate with predictability in a stable environment without adverse political interference.

Therefore, as part of the project preparation process the institutional and legal arrangements between a Utility and its government counterpart must be accurately assessed and, if necessary, institutional reform measures designed to increase the managerial autonomy of the Utility, including improving the regulation of the sector and the predictability of revenue streams (i.e. tariffs and/or state transfers).

*Specific legal issues affecting Utility operations* – There are a number of specific recurrent legal issues that tend to have adverse impacts on the operation of a Utility. The most common being the lack of adequate legal procedures and/or enforcement measures to: enforce payments, disconnect illegal connections or delinquent customers, or, in municipalities that have undergone recent rapid urbanization, register and invoice consumers in areas of illegal or quasi-legal construction. These potential legal obstacles to the efficient operation of the Utility should be assessed during project preparation and mitigation or reform measures proposed.

**Operational efficiency**

In simple terms, a utility can improve its financial standing either by increasing its revenues (e.g. increasing tariffs and/or collections) or by reducing its costs. Under an assessment of operational efficiency the objective is to assess the potential to achieve cost savings. Note: Improvements in operational efficiency do not always mean immediate cost saving. Some of the most valuable improvements in operational efficiency may simply result in a reduction in future investment needs, hence saving future capital investment costs.

By identifying and implementing cost savings during project preparation the Utility can improve its financial standing. A concerted effort on the part of the Utility to reduce costs and increase collections will reduce the impact of any upward scale in tariff adjustments necessary to finance priority investments. It is important to identify realistic cost savings, improving the efficiency of existing infrastructure assets and the productivity of existing personnel. Benchmarking against other similar utilities can greatly help identify areas for operational improvement.
Socio-economic/affordability analysis

*Tariffs and consumer affordability* – It is important that any proposed tariff adjustments necessary to finance priority investments are fair and affordable, and that social arrangements are in place to ensure the poor have access to essential public services.

A socio-economic / affordability study should provide an assessment of the need for tariff restructuring (e.g. to eliminate unfair cross subsidies) and of the scope for tariff increases in relationship to fair market rates and customer affordability.

The study should identify the existence of, or the need for, any transitional social arrangements that will ensure the funding of access to essential services for the poor.

Technical evaluation of current utility service provision and development needs

A careful technical evaluation of the existing level of service provided by the utility and of the physical state of its existing infrastructure assets, together with an assessment of future development needs (either for legislative compliance, social development or economic growth), is a central part of project preparation. This evaluation will assist in identifying both the short-term as well as the medium to long-term capital investment needs.

Long-term Strategic Plan

A long-term Strategic Plan is necessary to provide a framework within which the Utility and the local or regional government and the public can agree on, plan for the investment needs for sustainable improvement to public service provision, and for the utility reforms needed to support them.

This Strategic Plan should identify key development objectives, focusing on the level of service provision (outputs), legal service provision obligations and evolving investment priorities (inputs), as well as on tariff policy and affordability (restraints).

The objective is to prepare a long-term Strategic Plan identifying the longer-term (e.g. ten years) service improvement and investment needs supported by a pragmatic financing plan and utility reform plan that which would lead to least cost improvement of utility services.

Short-term investment programme (STIP or the “Project”)

Within the framework of the long-term plans, the priority short-term investment programme should be identified. This investment programme should address the Utility’s specific short term priority capital investment needs identified during the technical evaluation (whether they are water quality, water quantity, wastewater collection, wastewater treatment or improving operational efficiency) and should move the Utility towards the development goals identified in the long-term Strategic Plan, and be affordable on the basis of realistic tariff adjustments and available external financing.

In addition to the identification of the short-term priority investment needs, the short-term investment programme will be supported by:

- a detailed financial analysis and financial model specific to the short-term investment proposed demonstrating the financial viability or bankability of the investment (see below),
• a project procurement and implementation plan for the STIP (see below);
• an environmental assessment of the impact of the proposed STIP (see below).

Project financial analysis

The financial analysis of the project is a fundamental component of project preparation. An accurate financial model should be constructed to show that the Utility could afford both to finance its operations and maintenance costs, and the short-term investment programme.

It is important to identify all possible sources of investment financing during the project preparation stage and to reflect this in the financial model.

Project procurement and implementation

A plan for the procurement and implementation of the short-term investment programme should be developed during project preparation. It should take into account local construction seasons, permitting and approvals requirements, and other factors affecting the phasing of procurement. Such a plan should also outline the organisational structure for project implementation.

Project Environmental Assessment

All environmental impacts of the project should be assessed and an environmental action plan developed. The specific requirements for Environmental Impact Assessments and Environmental Appraisals prepared must be carried out to meet the minimum national requirements for EIAs as well as the minimum standards acceptable to international institutions for financing (e.g. EU, EIB, EBRD, IBRD environmental standards).

Utility preparation

In addition to preparing the Project for financing and implementation, it is also essential to prepare the Utility to implement the institutional reforms, as well as the financial and operational performance improvement measures that would be required to ensure that the Utility can finance its operations and investments, and operate with a high degree of fiscal and managerial autonomy to give external financiers confidence in the long-term viability and sustainability of the Utility.

Preparations for further technical assistance

Where additional technical assistance is envisaged to support the procurement and implementation of the project or to support further institutional strengthening measures, then Terms of Reference for such assistance should be developed as a component of the initial project preparation.
II. Sample standard Terms of Reference for project preparation

These Terms of Reference (ToR) are based upon the actual Terms of Reference used for a range of projects in south-eastern Europe. They have been structured to provide a framework that could be used to draft ToR for consultancy services. This example has been drafted specifically for water supply and sewerage projects, but many of the principles would be the same in other sectors.

These ToR do not require the preparation of tender documents for works procurement or the implementation of utility reform activities during the first phase. Such activities will normally be undertaken during the second phase of project preparation.

In seeking consultancy services, project proponents are advised to make use of local expertise to the extent possible. Local consultants can provide access to relevant data and information sources, and often many of the skills and services required. International consultants can be brought in to provide a supporting role as appropriate.
Sample standard Terms of Reference

WATER SUPPLY AND SEWERAGE SERVICES DEVELOPMENT PROGRAMME

1. BACKGROUND

The Water Supply and Sewerage Services Provider (the “Utility”) for [name of City or Region] has requested assistance to prepare a water and sewerage infrastructure project for financing. It has also requested assistance to identify potential financiers that may finance or co-finance the investment programme.

[Name of the City or Region] (the “City” or “Region”) has a population of [enter population served]. It is situated [enter geographical location]. The water supply and sewerage system is operated by [enter the name of the company or public utility department that provides water supply and sewerage services giving details of their ownership and control]. Water supply is provided [enter the level of service provided for water supply in terms of coverage, reliability and compliance relative to national norms and standards]. Currently the wastewater is collected [describe the level of sewerage provided] and discharged into the receiving waters [enter the level of wastewater treatment currently provided relative to national wastewater effluent discharge norms and those included in the European Water Framework Directive, if appropriate].

[enter details of any studies covering technical, environmental, financial, legal, socio-economic, institutional or other project preparation works already prepared or under preparation by others related to provision of water and sewerage services for the City or Region].

The Project will be an effective least cost short-term investment programme (STIP), designed within the framework of a long-term development plan.

Preparation for the Project will be carried out in two phases:

Phase 1 comprising:

- the preparation of a detailed feasibility study for the Project that will study and review the Utility’s current financial and operational performance, local socio-economic and affordability issues, institutional structure, long-term investment needs and strategy, as well as identify and confirm the short term priority investment needs;
- the preparation of STIP project documents including project cost estimates, project financial projections, environmental impact assessment and a Project Implementation and Procurement Plan;
- the identification of measures that the Utility could take to improve its operational and financial performance, suitable for inclusion in a Financial and Operational Performance Improvement Programme (FOPIP);
- the identification of potential financing or co-financing options;
- the preparation of detailed Terms of Reference for Phase 2 consultancy services.
Phase 2 comprising:

- the preparation of applications/submissions to obtain investment financing identified in Phase I;
- the preparation of tender documents for the selected investment components of the STIP;
- the implementation of a Financial and Operational Performance Improvement Programme.

2. OBJECTIVES

The overall objective of this assignment is to prepare a Project [Short-Term Investment Programme (STIP)] for the improvement of the water and sewerage services provided by the Utility in [the City or Region].

The Consultant’s Phase 1 deliverables shall provide: (i) a basis upon which potential financiers can appraise and take a decision regarding financing the STIP; (ii) a plan for the financial and operational performance improvement of the Utility; and (iii) the identification of potential grant and loan financing.

On the basis of this work the Project details will be agreed between the Utility and [the City or Region] and the Project will be presented to potential financiers for financing.

3. SCOPE OF WORK

TASK A: Assessment of financial performance of the Utility

The Consultant will prepare an assessment of the Utility’s financial situation, which can be used as a basis to develop recommendations to improve the financial performance of the Utility. This task comprises the following:

A.1 Restatement of accounts

The Consultant shall review the accounts of the Utility and restate to IAS.

A.2 Specification of Revenues and Costs

In order to analyse the operational efficiency and the level of cost recovery as well as provide a sound basis upon which to prepare financial projections the Consultant shall prepare a detailed specification of costs and revenues including:

- tariffs and revenue breakdowns for each consumer group over the last three years;
- operating costs breakdown between water and wastewater services, fixed and variable costs for each category;
- an explanation of any asset revaluation, confirmation of depreciation rates for different categories of assets and calculation methodology. Assessment of the adequacy of deprecations;
- an analysis of extraordinary expenditures, in particular tax and late payment penalties (basis and amounts).
A.3 Accounts receivables

The Consultant shall assess the level of accounts receivables. The Consultant shall:

• describe in detail how the billing and collection system works at present and assess the plans that the Utility has for its development;
• present the total amount of accounts receivable, broken down by category and age and expressed as a percentage of annual revenues by customer groups;
• list all major debtors indicating their ownership: the list shall include all debtors whose debt exceed 5 per cent of the total amount of accounts receivable, and at least the ten largest debtors;
• analyse the amounts due and collection record of the budgetary entities, including municipal, regional, and central (military, defence industry, hospital, education, etc.);
• assess the likelihood that the receivables are collectable and provide provisions for bad debt;
• identify what kind of collection methods have been used (default interest or other penalties, judgements, threat of bankruptcy proceedings, cut-off of water supply, etc.), and if these have proved unsuccessful, evaluate why.

The Consultant shall outline the scope for reduction of receivables.

A.4 Specification of liabilities

In the context of the financial performance review of the Utility’s liabilities the Consultant shall:

• specify total amount of debt, breakdown by category and age and expressed as percentage of annual costs by creditor groups;
• list all major creditors: the list shall include all creditors whose debt exceed 10 per cent of the total debt, and at least the five largest creditors;
• identify what kind of collection methods have been used by the creditors to collect their receivables, in particular any legal or other enforcement measures (default interest or other penalties, judgements, threat of bankruptcy proceedings, non-delivery of supplies, employee industrial actions, etc.) and to what extent this has caused disruptions to the Utility’s ordinary activities;
• analyse wages and tax arrears.

A.5 Conclusion

Based on the conclusions from the sub-tasks outlined above the Consultant shall prepare a summary which will conclude on at least the following points:

• financial standing of the Utility;
• level of costs and operational efficiency;
• adequacy of current tariff level.

TASK B: Institutional framework assessment

Part 1 – An assessment of the present legal status of the Utility and the institutional framework in which it operates is required. As part of this the Consultant shall:

(a) identify the respective roles of central, regional, and local authorities in water supply and environmental infrastructure financing and management including the method and responsibilities for the setting of tariffs; the regulatory responsibilities of various organisations that exist to oversee water quality and environmental standards and the
nature of their relationship with the Utility, and issues related to the ownership and control of both the Utility and of the water and sewerage infrastructure assets. As a part of this work the Consultant shall collect, translate (the relevant parts) and outline the main contents of relevant laws and regulations governing these relations;

(b) analyse the relationship between the Utility and the [City or Region]. This analysis shall include a specification of the rights and responsibilities of the Utility and to what extent the water utility operates at an “arms-length” basis from the [City or Region] (i.e. are the objectives of the utility clearly defined, to what extent does it operate flexibly and freely in pursuit of those objectives, and the degree of accountability that characterises the relationship). Describe the legal status of the Utility and present the statutory documents of the Utility (in English);

(c) identify legal/political issues or problems which would prevent the enterprise from evolving into the autonomous water utility. Consider specifically issues related to ownership and control of assets, the establishment of tariffs, management independence, investment and personnel decisions, etc.

Part 2 – An assessment of the specific legal issues affecting Utility operations. As part of this the Consultant shall review the adequacy of legal procedures and enforcement measures to: enforce payments, disconnect illegal connections or delinquent customers, register and invoice consumers in areas of illegal or quasi-legal construction. Where specific legal issues are identified the Consultant shall propose mitigation or reform measures.

TASK C: Assessment of operational efficiency

The Consultant shall assess the operational efficiency of the Utility, in particular identifying areas where cost savings can be achieved through planning, rationalisation, system optimisation and development and the separation of non-core activities. The tasks shall include:

(a) assessment of the organisational structure and management: number, skills and attributes of employees; human resources development policies and practices, including training and incentive schemes; appropriateness of the organisational structure; operation of major departments or groups identified on the existing table of organisation; policies and practices relative to strategic planning, project preparation and implementation, operational planning and control, allocation of tasks, supervision of task execution, and related matters;

(b) assessment of administrative systems and procedures: customer service, accounting and record keeping, personnel management and training programmes, financial record keeping, financial planning and management, investment planning and execution, and management information systems and related matters;

(c) definition of benchmarks of operational efficiency of the Utility (i.e. number of connections per employee, number of residents served per employee, level of breakdowns, response time for breakdown/accident reporting, number of administrative staff, etc.);

(d) assessment of operation and maintenance (O&M) of assets: methods, policies and procedures relating to the operation and maintenance of facilities, including support systems such as repair facilities and spare parts inventories, existence of preventive maintenance programmes, pressure and energy management, meter management, system information and mapping, and other matters relating to O&M. As a result of such
assessment the Consultant shall identify measures of efficiency improvements that could lead to a reduction in operating costs.

Other key areas in which there is scope for improved operational and financial performance (like collection performance and unit electricity costs) are addressed in task A and E respectively.

TASK D: Key socio-economic data and preliminary affordability analysis

The Consultant shall prepare a socio-economic / affordability study assessing:

- the scope for tariff increases in relationship to fair market rates and customer affordability;
- the need for tariff restructuring (e.g. to eliminate unfair cross subsidies);
- the existence of, or the need for, any transitional social arrangements that will ensure the funding of access to essential services for the poor;
- willingness to pay for different service level options.

TASK E: Technical evaluation of current water and wastewater service provision and development needs

The Consultant shall review the current and forecast water supply and waste water scenarios for the Utility's service area. The content of this review is outlined below:

E.1 Water services

Compile, present and assess data and information, covering the past three years, on service characteristics, water consumption patterns, losses and unaccounted-for water, etc.:

- define the service area and coverage and specify numbers of consumers and connections in each relevant consumer category, i.e. domestic, industrial, commercial, official, public, etc.;
- define likely scenarios for the development of service area and number of consumers;
- define the level of service provided: specify the biological, physical and chemical quality of water provided and compare with national regulations as well as service quality in western European countries (EU standards), also specify water availability to customers (pressure and reliability);
- assess the current methods and practices of water consumption metering and the use and application of water consumption norms;
- specify water consumption for each category and list the ten largest consumers with the level of consumption; also specify per capita water consumption for domestic use and compare with consumption levels in western and eastern Europe;
- present unaccounted-for water and water losses: determine the difference between the amount of water produced and delivered into the system from all sources and the amount sold, estimate magnitude, causes and importance of physical and administrative losses; establish water balance (production = consumption + physical losses + administrative losses); estimate in-house water losses;
- based on the above analysis the Consultant shall prepare likely future scenarios for the water production needs and for the quantity of water sold taking into account the various means which could be introduced as a part of this project to control water consumption.
E.2 Water system

Describe and assess the present water system, including:

- provide a description of existing systems and facilities including water source works, water treatment plants, transmission, pumping, storage, and distribution system. Present a schematic map;
- evaluate the main components of the system in terms of capacity, energy efficiency, performance, state of repair, maintenance practices, age, quality of materials and equipment (treatment plants, pipes, valves, pumps, etc.), adequacy, bottlenecks, etc. Outline and assess leak record and detection/repair policy;
- evaluate the operation of the water network: Based on simple hydraulic assessments of flows and pressure in the primary distribution system, summarise and evaluate interplay of major system components (transmission, pumping, storage, distribution [pressure zoning]) and detect critical problems and bottlenecks.

E.3 Wastewater services

Compile, present and assess data and information covering the past three years’ service characteristics, including:

- define the service area and coverage and specify numbers of consumers and connections in each relevant consumer category, i.e. domestic, industrial, commercial, official, public, etc. Define likely scenarios for the development of service area and number of consumers;
- wastewater flows and characteristics: present total and per capita flows, solids and organic loads or other important characteristics of strength of wastewater – if important, distinguish between industrial and other wastewater sources; determine relationships between dry weather and wet weather flows for combined systems, frequency and magnitude of stormwater overflows and water bodies into which they flow, and reconciliation of wastewater flows with water delivered to customers;

E.4 Wastewater system

Describe and assess the present wastewater collection system, including:

- describe the existing systems and facilities, including area served, length, diameter and type of main sewers, whether separate or combined, pumping stations, discharge points and stormwater overflows, location of major wastewater contributors (industry); present schematic map;
- evaluate the main system components in terms of capacity, energy efficiency, performance, state of repair, reliability, adequacy, maintenance practices, infiltration/inflow, age and quality of materials and equipment (pipes, valves, pumps, etc.);
- evaluate the operation of the sewerage network: based on maximum flow and maximum water level in dry weather and in wet weather (during a ten year return period rainfall) in main collectors, summarise and evaluate interplay of major system components (main collectors, pumping stations, storm water overflows) and detect critical problems and bottlenecks.
E.5 Wastewater treatment

Describe and assess the present wastewater treatment system, including:

- describe and assess the existing wastewater treatment facilities, including sludge handling and disposal: type of process, capacity, flow, technological appropriateness, treatment effectiveness, condition, maintenance practices, suitability, bottlenecks and quality of materials and equipment;
- describe and assess present effects (environmental impact) of treated and untreated wastewater and sludge discharges on receiving waters in case of direct discharge into surface water bodies and/or on environment and ground water in case of discharge to evaporation fields. Analyse compliance with applicable ambient water quality standards and effluent standards and applicable regulations.

TASK F: Preparation of a long-term Strategic Plan

The objective of this Task F is to prepare a long-term Strategic Plan identifying the longer-term investment needs which shall set the general direction and determine the basic strategy, policies and parameters which would lead to least cost improvement of water supply and wastewater services within the [City or Region's] financial constraints.

In order to review the overall framework for the development of the water sector in the [City or Region] the Consultant shall review and agree with the [City or Region] and the Utility a set of strategic goals on all key areas (water and waste water):

- city expansion plans;
- service objectives;
- water consumption targets;
- metering policy;
- tariff policy.

Based on the agreed strategic goals for the development of the water sector (in particular the revised water demand projections), the strategic system plan for water supply shall outline in broad terms how the water system should evolve over the next ten years. The plan, supported by simple hydraulic assessments of the primary system, shall show the major improvements and expansions to be made to the water supply system, including source development, water treatment, transmission, storage and distribution. The Consultant shall summarise in appropriate maps the location and capacity and staging of major infrastructure components and explain and justify the proposed course of action.

In a form similar to that for water supply, the Consultant shall present a Strategic Plan for the development of the wastewater collection and treatment facilities.

The Consultant shall also provide outline cost estimates to ensure that the proposed investments are in tune with the Utility's financial capacity and public affordability.

TASK G: Identification/preparation of a Short-Term Investment Programme (STIP)

The Consultant shall identify an affordable priority Short-Term Investment Programme. The selection of all STIP project components must be justified within the context of the Strategic Plan.

The identification of the STIP will be based on: (i) the Strategic Plan prepared under Task F; (ii) the Utility's proposed STIP, (if proposed) (no physical field measurements by the Consultant are foreseen); (iii) affordability of the STIP; (iv) sustainability of the STIP; (v)
compliance, or phased compliance, with national or EU norms and standards; and (vi) that no tendering process has started that would conflict with EU/IFI or national procurement rules for the proposed components.

For each STIP sub-component items the Consultant shall provide cost estimates. Cost information shall be presented in local currency and Euros.

**TASK H: Financial analysis / forecast and plan**

The Consultant shall demonstrate by means of a financial model, that the Utility will have the financial capacity to fully support their operations and to finance the STIP.

The financial viability of the STIP must be demonstrated by means of financial projections over the life of a loan or other proposed financing option. A base case financial model will be developed, with projections based upon assumptions consistent with sound banking criteria. The financial model together with the affordability studies from Task D shall be used to determine an appropriate tariff adjustment policy to support the STIP. Outputs of the model shall include a sensitivity analysis identifying key variables.

The Consultant will assist the Utility to identify potential investment financing or co-financing. Where potential sources are identified, the consultant will identify the procedures that need to be followed in order to access such financing.

**TASK I: Project Procurement and Implementation Plan**

The Consultant shall prepare a Project Procurement and Implementation Plan for the STIP.

**TASK J: Project Environmental Impact Assessment**

The specific requirements for an Environmental Impact Assessment or Environmental Appraisal prepared for the STIP must be carried out to meet the minimum national requirements for EIAs as well as the minimum standards acceptable to international institutions for financing (e.g. EU, EIB, EBRD, IBRD environmental standards).

**TASK K: Utility preparation**

Based on the institutional assessment outlined in Task B the Consultant shall provide recommendations to address the key shortcomings. The Consultant should identify specific areas in which the contractual arrangements between the Utility and [the City or Region] need to be clarified, refined or, in some cases, introduced, in order to enable the Utility to have clear performance targets and incentives for achieving these targets, as well as for the City to be able to monitor and regulate the Utility’s activities properly. The Consultant should make recommendations in these areas, including a draft public services agreement between the Utility and its public owner.

Building on the analysis carried out under other tasks (especially A, B, C, and D), the Consultants shall identify key financial, institutional and operational areas in which the Utility could consolidate or strengthen its performance and its underlying creditworthiness. The Consultants should define measures in these areas for inclusion in a Financial and Operational Performance Improvement Programme (FOPIP). The FOPIP should serve a number of functions:
it should influence or form part of the Utility’s business strategy;
- it should help the Utility to build its creditworthiness and value as a company;
- it may form the basis of loan covenants set by financiers.

**TASK L: Terms of Reference for assistance required during Phase 2**

As a final task the Consultant shall prepare Terms of Reference for the technical assistance which is required to be conducted in order to finalise the preparation of the project. The Phase 2 assistance envisaged shall cover:

- preparation of applications/submissions to obtain investment financing identified in Phase I;
- preparation of tender documents for the selected investment components of the STIP and assistance to the utility in the tendering and contractor engagement process;
- implementation of Financial and Operational Performance Improvement Programme.

4. **STAFFING**

[Optional: outline of specific expertise required]

All key staff must be registered professionals within their respective discipline.

The CVs of the proposed staff and the Consultant’s schedule of deployment of staff in home office and in the field are to be forwarded for approval.

Local consultants shall be fully integrated into the Consultant’s team.

5. **REPORTING and TIMETABLE**

The Consultant shall, within [six] weeks from the start of the assignment, deliver a brief *Inception Report* (in English and local language) to the City or Region and the Utility which highlights the key issues and preliminary work product.

The Consultant shall, within [insert] weeks from the start of the assignment, deliver the *Draft Final Report* (in English and local language) including all deliverables identified in Tasks A through L above. This report shall be finalised to such an extent that if there were no comments from the City or Region / the Utility Representative, it could be considered final. Within one week of receiving the comments from the City or Region / the Utility Representative, the Consultant shall prepare the Final Report.

The Consultant’s Draft Final Report is to include the *Terms of Reference* (local language and English) for the technical assistance to be carried out during Phase II.

All reports (in Word) and the financial model (in Excel) shall be made available on CD-ROM. The consultant should prepare ten copies of the Draft Final Report in local language and ten copies in English, and similar numbers of the Final Report.

6. **COUNTERPART ASSISTANCE**

The Consultant’s main counterpart is the Utility. For the success of this assignment, it is important that the Utility and the [City or Region] are closely involved in the study process and that recommendations are made in consultation with the relevant local / national stakeholders.
The Consultant will have the following main points of contact:

- The City or Region: [insert name and contact details]
- The Utility: [insert name and contact details]

The Utility will provide assistance to the Consultant in respect of data collection, local transportation, etc. Also an office in the Utility’s premises will be made available for the Consultant; however the Consultant will be expected to bring relevant office equipment.

The initial kick-off meeting for the study is planned to be [insert date]. However, it is expected that the Consultant will submit a number of questionnaires to the Utility prior to this meeting with the view that the Utility can initiate the collection of data as early as possible. Furthermore, one week before the kick-off meeting the Consultant will forward a notice to the Utility, outlining the purpose and objectives of the visit, duration, proposed programme, meeting schedules, staffing, etc. so as to allow the local counterparts to prepare for the meetings in advance.

7. MEETINGS

The Consultant will arrange a kick-off meeting on [insert date] in which the plans for the conduct of the study will be presented.

Within one week after delivery of the inception report the Consultant shall arrange a meeting in [the City or Region] with the Utility, the [City or Region] and [insert any other key stakeholders] to discuss preliminary findings and issues presented in the report.

Two weeks following delivery of the Draft Final report the Consultant shall arrange a meeting with the Utility, the City or Region, and [insert any other key stakeholders] to discuss the findings presented in the report.