

**Regional Forum:**

**Regulatory Systems and Networking of Water Utilities  
and Regulatory Bodies**

**Regulatory Bodies, Public Awareness and Transparency**

---

**Arthur C. McIntosh  
Senior Project Engineer, AWWU/AWD  
Asian Development Bank**



## **REGULATORY BODIES, PUBLIC AWARENESS and TRANSPARENCY**

### **The Problem of Urban Water Supplies in Developing Countries**

The major problem is political interference in the autonomy of the water utility. This includes interference in tariffs, investments, staffing, new connections, disconnections, and appointment of consultants and contractors. This problem is compounded by a lack of accountability of the utility for performance, a lack of incentives in the utility for better performance, and a lack of separation of roles of the owner, regulator and operator.

When politicians decline to approve revisions in tariffs they normally cite one of three reasons: (i) the low efficiency of the utility, (ii) the poor people cannot afford the tariff increase, or (iii) upcoming general, local authority, or presidential elections. This author believes that none of these are valid reasons for not approving a tariff increase necessary to maintain financial viability of the utility, and in fact these excuses are but a smokescreen for the real reason, which is the politicians do not want to lose control of the money trail. Thus corruption and governance are at the heart of the matter.

### **The Consequences of Political Interference and Lack of Accountability**

The water service to existing and potential consumers has suffered most. For the unserved urban poor, not only must they struggle without direct connection to the piped supply, but also they end up paying 10-20 times as much for water as those connected, because they must buy it in small quantities from vendors. For those who are connected, the supplies are intermittent, often for one or two hours per day only, and the water is not potable. This results in additional costs to the consumer including storage and pumping facilities, and pumping and treatment costs such as filtering and/or boiling of water. Both consumers and the unserved urban poor experience a high incidence of water-related diseases.

Low tariffs mean there is no demand management of water resources by pricing, leading to earlier investment in new source development than needed. Low tariffs mean all investment has to come from outside sources, eroding the independence and autonomy of the utility. Low tariffs effect the financial viability of the utility to sustain services.

High unaccounted for water is a consequence of both political interference and lack of accountability. Part of this is leakage, that is not fixed due to poor maintenance, low staff morale, the perception that water has low value (low tariffs), and because it provides a legitimate smokescreen for the other half of unaccounted for water, illegal connections. Illegal connections are installed by the utility staff because they are so poorly paid they could scarcely earn a living otherwise. Meter readers collude with consumers to benefit one another. Poor standards of construction are common as consultants' and contractors' profits are cut to the bone by greedy politicians demanding their cut.

### **What Has Been Done To Correct This Situation?**

Governments rush to prepare policy statements at the behest of potential donors, but the policy is not conveyed to the people, nor is it implemented by the government. Multi-development banks such as ADB and the World Bank have sought to correct the situation through loan covenants, but these, especially the ones involving tariffs, are invariably delayed in compliance. We have seen corporatization of water utilities, but legislation, while being necessary is not sufficient to ensure autonomy. Political will is also necessary, and so often politicians ignore the autonomy granted to the utility by law. More recently we have had an accent on privatization. But the jury is still out on whether it is indeed bringing the twin benefits of greater efficiency and more investment funds. Regulation of the private sector has to date only been regulation by contract, meaning in reality it amounts to contract

administration. Attempts have been made to devolve power to local authorities, but often this is honored more in the word than the deed, as both appropriate financial and human resources are not provided to such local authorities. Nongovernment organizations (NGOs) are beginning to make their presence felt as watchdogs, and that is good, but they too are divided and don't yet enjoy the popular support of the people.

### **What Do We Need Now?**

First, we need a transparent government policy, written in language the people can understand, and addressing piped water coverage (investments), service levels, operator performance, and operator incentives. The policy must be communicated to the people through every means and kept in their view. Second, we need an independent regulatory body tasked with seeing that the policy is implemented. We need operators with incentives to perform against agreed criteria. These can be private operators, local authorities, or national water authorities. For accountability, we need water consumer societies to monitor the performance of the operator in delivering good services to the people. Most important of all, we need major tariff reform, so that tariffs directly cover the cost of new investments and the private sector are encouraged to offer their services without the perception that they are being subsidized by the government.

### **Why Will This Work?**

What we have today, that we did not have in the past, is access to information through the Internet. Although only a small percentage of the population in a developing country may have access to the Internet, through other media, such as radio and newspapers, the information on the Internet can be conveyed to people at the grass root level. One of the great benefits of the Internet is that it has provided transparency and public awareness. It will give teeth to the regulatory body that can maintain its own website. It will feed the water consumer societies with information and be an avenue for them to express their own views. Already the Internet has leveled the playing field somewhat on privatization by allowing people around the world to share their experiences. The power of the politician will be greatly diminished when the people know as much and even more than they do about a given subject. When the consumers, and those not yet served with piped water, know the facts, they will be the ones to spearhead the drive for higher tariffs, because he who pays the piper calls the tune. In the end, as in the e-commerce world, the consumer will be king, because of access to lots of information. The consumer will be the ultimate regulator, demanding accountability for government policy implementation. NGOs, journalists and academics are expected to play a major role in getting water consumer societies formed and keeping them well informed.

### **How Will This Work?**

The following scenario spells out necessary steps in the reform process. First, government (after consultation with key stakeholders) should declare its policy in a language understandable to the people, and then maintain that policy visible to the public at all times. An independent regulatory body should be established to oversee implementation of the government policy. Contracts can be prepared with private operators based on the government policy. Memorandums of understanding (MOUs) can be prepared between the regulatory body and other operators outlining performance and incentives. The operator should be encouraged to publish its own performance data on its own website. The regulatory body will employ a consultant to audit the performance of all the operators and then will publish these results and analysis alongside the stated government policy. The regulatory body will then recommend action for further compliance with government policy / contracts / MOUs and establish the necessary rewards and penalties. It will publish all this too on its own

website. Donor organizations or third parties like NGOs would then analyze the performance of utilities in various countries and publish them on the Internet.

**Key Factors for Success**

The above scenario cannot play out unless the government is committed first to a policy of good governance and transparency. Then it must produce a water supply policy that it means to implement. Such policy must include incentives for operators to improve performance and should include a tariff policy that promotes tariffs at levels sufficient to finance new capital works. The other key factors for success include establishment of strong water consumer societies and the active role of NGOs, journalists and academics as watchdogs on implementation of policy. Finally, professional public relations consultants should be employed to facilitate the involvement of all key stakeholders in the reform process.

