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Title: Reform of State Owned Enterprise, Phnom Penh Water Supply Authority

Name of Author	Sereyroth Lim
Name of University	Australian National University
Country of Study	Australia
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Introduction

In many developing countries, inefficiencies and inability to meet rapid growing demand usually occurs in public sector monopolies. A number of studies have found that annual losses from inefficiencies and below cost pricing policies are estimated almost equal to the annual infrastructure investment in developing countries (World Bank 1994). Therefore, developing countries have started to experiment with reforms for improvement of performance of public sector monopolies in numerous forms such as financial autonomy, privatization, corporatization and performance management contracts (World Bank 1995). Only a few reforms have proven to be successful, the majority have failed due to lack of political commitment, inflexibility and short-term donors' support, and lack of understanding of local context. However, a wholehearted support from political leaders, a plenty of time, and long-time funding from donors and introducing cost-recovery tariff, this paper argues, contribute to the success of the reform of Phnom Penh Water Supply Authority (PPWSA).

Overview of the reform

The PPWSA was an agency attached to the Phnom Penh Municipality Government (PPMG), and all levels of management and decisions were completely controlled by government. Under the management of PPMG, numerous problems in relation to inefficiency and poor management of PPWSA were reported. Water was available to less than half of the city's population despite the fact that water scarcity was not a problem. Furthermore, those did receive water only managed to get 10 hours of water a day with low water pressure (Das et al, 2010). Illegal connections were high in number as customers paid bribes to employees. This resulted in loss of water and approximately 72 percent revenue of this water authority (Araral 2008, p. 538). Moreover, inefficient management and lack of skilled personnel was also a problem. Like numerous state public enterprises in many developing countries, PPWSA was run by obsolete and corrupted bureaucratic rules and the staff recruitment and promotion usually involved with nepotism and political interference rather than being merit based. Therefore, the staff of public corporation was under-qualified, unmotivated and mostly inefficient, particularly if the payment was also very low. For example, the average monthly salary for the managers of PPWSA was only approximately \$20 US dollar (ADB 2008). These are major issues that necessitated for reform of PPWSA and the drives of the reform were international community organizations such as World Bank, Asian Development Bank (ADB) and United

Nations Development Program (UNDP) and bilateral donors (Japanese International Cooperation Agency – JICA and French).

In the 1990s, the number of state owned enterprises in Cambodia, including Phnom Penh Water Supply Authority (PPWSA) started reforming by adopting private commercial principles. The purpose of the reform was to make PPWSA an autonomous public enterprise with a mandate to operate more efficiency and effectiveness in accordance with commercial principles. The reform took almost 15 years to implement. The PPWSA started with the internal reforms included restructuring top-management, investing in staff, providing incentives and promoting transparency, and investing in modern management procedures and technology. Young qualified personnel were promoted into senior positions with more direct responsibilities and unqualified senior staff was moved to dormant roles. The PPWSA changed its organizational structure by closing some unimportant units, creating training unit and a separating inspection unit, which directly handled by General Director (Chan 2009, p. 599). The planning and accountability were decentralized. Each department had to produce its own annual plan and responsibility to implement and monitor it under guidance and monitoring from the planning department. PPSWA evaluated the department and individual staff performance and achievement based on its plan, and outputs. This was a result of revising of employment policy based on merit (Das et al 2010). Incentives and bonus had been improved by increasing salary from \$20 US dollar (1993) in managerial position to \$200 US dollar and \$800 US dollar for top position in 2008, sharing profit and providing retirement welfare (Das et al 2010, p. 27). Furthermore, management information system and computerized billing system with an up-to-date consumers' data based were operated within PPWSA. This allowed PPSWA easily to monitor the default of water bill payment and to access the most recent financial report, which was very important for management decisions (Chan 2009, p. 600).

Besides the internal reforms, PPWSA had increase in tariff and improved bill collection (Biswas & Tortajada 2010, p. 163). In 2001, the tariff was revised by separating into three clusters: domestic, government and commercial and calculated based on total expenses. Another important reform, which reduces non-revenue water (NRW), was production and operations (Das et al 2010, p. 33). PPWSA established mechanical maintenance teams at three treatment plants with a routine maintenance schedules. It created programs for monitoring water meters and leak detection and illegal connections. The leak detection and repair team were provided incentives based on amount of reduction of leaks or penalty if they perform ineffectively.

Evaluation of the Reform

There are four main reasons contributing to the achievement of the reform in PPWSA in Cambodia. Firstly, the vigorous support from political leaders allowed PPWSA effectively and successfully carrying out its reform from designing phase to actual implementation. The government of Cambodia, particularly the Prime Minister, showed a strong commitment to both policy formulation and implementation of the reform by guaranteeing available funds through arrangement for grants and loans from a number of multi-lateral agencies (Araral 2008, p.8; Das et al. 2010, p. 540). This included passing a law on granting the state owned enterprises as independent legal status, and sub-decree that allowed PPWSA to be an autonomous public enterprise with independence of operational decisions and finance (Law 1996; Sub-decree No.52, 1996). Moreover, Caiden and Sundara (2004, p. 375) points out that the political commitment in both verbal and actions can overcome an unavoidable resistance against reform vested interest groups who fight to maintain the status quo and more likely to lose personal benefits as a result of the reform, and assure public support for the reform. PPWSA also experienced a strong resistance from its employees as well as customers, who were senior government officials and army, when it started restructuring the top management positions based on merit qualifications, and enforced water tariff and bill collections. For example, those affected managers tried to fight back with different actions, sometimes with the support of some powerful persons and even the media. While the army initially refused to install meter for measuring its actual water consumption, and denied to pay bill as they used to get free water service (Chan 2009). However, these issues have been solved by a new appointed General Director of the PPWSA with vision and a focused commitment, and by public proclaim from the Prime Minister requesting cooperation from individual user and institution to bill the water consumption in order to improve good quality of service delivery (Biswas & Tortajada, p. 165; Chan 2009, p. 602).

Sufficient time-bound is another significant factor to enable the successful PPWSA reforms. Caiden and Sundara (2004, p. 375) argues that the reform required adequate time to bring relevant stakeholders onboard and thus, 'lack of time makes reform, particularly hazardous'. This was because the reform involves the complexities and fundamental change of the system, including reformulation of policies, and institutional norms and culture. The reform of PPWSA was fully implemented in 1997 after it was granted as a public autonomous institution in the end of 1996 by the law and sub-decree and finished in 2008. Within this time-frame, it allowed PPWSA to carry out appropriate key activities of the reform. Transforming the PPWSA's norms and culture towards the efficiency, accountability and transparency was not an easy task and it was time-consuming for

this rampant corrupted and inefficient institution (Biswas & Tortajada 2010, p. 162). PPWSA spent a few years to develop staff capacity, skills, and disciplines as well as to motivate them to focus on new approach of result based performance. In addition, before introducing a new water tariff, which increased price according to number of water consuming, and building consumers' confidence and trust, PPWSA improved quality of service delivery through reducing time-spending on water connection and illegal connections leading to lower water pressure, and improving water quality and grievance mechanism (Das et al 2010). This momentum of the improvement from time to time inspired donors to add more fund and political leaders to enhance their support for this reform.

Long-term financial and technical support from various donors is also crucial factor that enabled the reform of PPWSA to be successful. Without fundamental funding from donor agencies, the reforms in Cambodia would not be smoothly implemented. This was due to the fact that the government of Cambodia relied heavily on foreign aid with approximately half of its budget getting from donor assistance (Araral 2009, p. 537). Under this funding, PPWSA was able to invest in improving water facilities, staff capacity and information technology management. The rehabilitation of water treatment plants, transmission and distribution was very costly. However, these water facilities improvement was funded approximately \$52 million US dollar by JICA, French and ADB. UNDP and the World Bank provided technical assistance on capacity building and institutional arrangements (Das et al 2010, p. 18). Moreover, PPWSA received a part of funds from the World Bank project on the Provincial and Peri-Urban Water and Sanitation to increase water supply to the urban poor by providing a subsidy for the connection cost and consumption fees (Chan 2009, p. 604).

Polidano and Hulme (2010) argue the donors' involvement in the reforms did not necessary lead to the success if the reforms suggested and decided by donors without considering local situation in some developing countries such as in Malawi and Mozambique. However, these were not a case in the reform of PPWSA in Cambodia in terms of local ownership and donors' coordination. The reform was entirely managed and implemented by PPWSA, and covenants that attached to conditions of grants and loans had to be related to the local context (Chan 2009, p. 606). The PPWSA used its reforming plan as framework for implementation of the reform as well as a long-term basis in receiving assistance from donors in order to avoid donor conflict (Tortajad and Biswas 2010).

Lastly, this paper argues that introduction of a new water tariff with improvement bill collections contributes to the sustainable success of the PPWSA reform. A revision of water tariff in 2001 based on cost recovery allowed PPWSA become a financial self-sufficiency without creating any social

and political disorder (Biswas & Tartajada 2010, p.164). The tariff was calculated by taking into consideration of the total expenses of the PPWSA, including operation and maintenance costs and the depreciation of all its assets. Moreover, the tariff calculation needed to conform with the National Water Policy that ensured low price of water and accessibility of water to citizens (Chan 2009, p. 603). With this reform, PPWSA progressively had increased its net annual profit after paying taxes to the government of Cambodia since 1998 like other private business institutions. This allowed PPWSA to increase its investment on enhancing performance, expanding its geographical areas of coverage as well as increasing more consumers. Without any political change and interference, it assumed that the PPWSA's income will grow steadily (Biswas & Tartajada 2010).

Conclusion

In conclusion, the reform had transformed PPWSA into a new institution with a different mindset and team spirit that moved forward to the efficiency and effectiveness in delivering water services. The PPWSA had a huge progress in the technical, managerial, and financial performance indicators. The success of this reform was not undeniable with contributions from political leaders and donors support, and sufficient time-bound as well as introducing of water tariff. Under political support, PPWSA had overcome both internal and external resistance against the reform from those who fought to maintain the status quo and consumers who refused to bill water, and funding challenges. Continuous funding from various donors with understanding of local situation allowed the PPWSA having a full ownership of the reform and implementing its reform smoothly according to the plan. With sufficient time, the reform had been effectively implemented without producing any social and political unrest by competent and qualified staff and involvement of stakeholders. Moreover, a result of introducing a new tariff with cost recovery, PPWSA became financially self-reliant with increasing net profit every year. Therefore, to sustain the success of the reform, the PPWSA should allocate its profit to invest on retention and recruitment of highly motivated staff in the future by paying comparative financial package.

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