

social accountability NOTES

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Introducing Accountability and Transparency to Water and Sanitation Services in Honduras through Enhanced User Participation

In recent years the Honduran municipality of Puerto Cortés has received significant attention for managing its own water and sanitation sectors. National reforms made this possible. This case examines these reforms, with an emphasis on:

- **User Involvement in Decision Making.** As a result of these reforms, water users in Puerto Cortés now participate in decision making for water and sanitation services at various levels, including by becoming members of the water and sanitation utility itself. Users are also involved in the control and oversight of concession awards, either by becoming members of the local regulatory agency or becoming involved with the utility's management board.
- **Inclusive, Transparent Board Management.** More than 50 percent of water users are members of cooperatives that hold stock in a mixed capital utility, establishing a direct relationship between users and the utility operator. This has fostered a climate of trust and transparency, and as a result both groups have committed to improving service. In addition, the bill collection rate has exceeded 93 percent as of 2007.

Context

Prior to the national reforms, water services in Puerto Cortés were managed by the Servicio Autónomo Nacional de Acueductos y Alcantarillados (SANAA, or National Independent Aqueduct and Sewerage Service). Service quality was poor and SANAA resorted to water rationing for prolonged periods. The situation

Box 1. Good Practices Checklist: Steps Toward Effective Water and Sanitation Management at the Municipal Level

- Spread awareness of the importance of reform at the community-level through workshops and town hall meetings
- Engage the public in decision making and monitoring
- Establish channels for complaints
- Allocate resources to a trust fund designed to disburse money to achieve agreed-upon service delivery goals
- Ensure independence of the regulator
- Independently develop guidelines that governing the relationships between the service provider, regulator, and users

worsened in 1993 when the tropical storm Gert destroyed the utility's intake facility. Honduras' Municipalities Law permits municipalities to provide public services, either through direct management or by transferring operational responsibility to private-public enterprises.¹ When the central government did not address the city's water supply needs in the wake of tropical storm Gert, Puerto Cortés resorted to the Municipalities Law to provide residents with improved water quality, coverage, and services. Ultimately, Puerto Cortés transferred responsibility for water and sanitation services to a third party. The municipality maintained its regulatory and oversight roles, such as determining billing criteria.

¹ Municipalities Law, Honduras, Article 25, paragraph 2.

Process

In 1994, Puerto Cortés Municipality (MPC) launched a reform of its public services. This included franchising a number of services, including waste collection, food markets' management, and gutter and street cleaning. At the same time MPC initiated programs to limit public expenditures, increase public capital investments, and increase revenues by improving the collection of taxes and fees for services. In addition, it benefited from a technical assistance program from the World Bank, which provided guidance on how to establish new and sustainable municipal organizations.

As part of the reforms, MPC secured financing to improve the potable water supply system. On April 22, 1995, SANAA and MPC signed an agreement that transferred responsibility for water utility management and operation to MPC. The agreement stipulated that MPC would operate and maintain the potable water supply service for a period of sixteen months. At the end of this period SANAA would assess MPC's administration and evaluate the likelihood of a final transfer of responsibilities to MPC.

At the beginning of the sixteen month trial period MPC created the Cortés Municipal

Water Department (DAMCO) to manage and operate the municipality's potable water system. Further municipal-level reforms resulted in the introduction of micrometering, the expansion of water supply coverage, and the planned expansion of sewage facilities.

Honduras initially lacked the legal and regulatory framework necessary for a clear devolution of water management and operational responsibilities from the national level to the municipality. MPC therefore asked the National Congress of Honduras to pass legislation that would permanently give the municipality responsibility for supplying its own water services. The law would take effect upon the expiration of the 16-month MPC/SANAA agreement. The congressional decree was issued in 1997.

A series of operational and commercial improvements modernized the management of DAMCO. Innovative programs promoted the sustainable use of water resources. For example, a program was launched to protect the Tulian River watershed, which is the main source of water for Puerto Cortés. MPC subsequently executed a cooperative agreement with the Choloma and Omoa municipalities, with which it shared the watershed. MPC would proceed to lead a watershed protection program to ensure that it provided a sufficient flow of potable water to the municipalities. The program included reforestation, environmental education activities, water quality monitoring, rural community sanitation programs, and demand-driven economic initiatives requested by residents.

As is the case with other municipal departments, DAMCO depended on the municipality's hiring decisions for local government workers. This made DAMCO vulnerable to capture by political interests. Therefore the mayor of Puerto Cortés, Mr. Marlon Lara, undertook consultations to identify an inclusive business model for the water utility. After reviewing the options, the mayor decided to establish a mixed capital enterprise with MPC as a shareholder. Under this model, civil society cooperatives would represent the water users' interests.

In 1999, MPC organized a new mixed capital enterprise: Aguas de Puerto Cortés. MPC awarded the new company a ten-year concession to lease the municipality-owned

Box 2. Puerto Cortés Water Utility: Empresa Aguas de Puerto Cortés S.A.

On November 16, 1999, a mixed variable capital enterprise designated Aguas de Puerto Cortés Water and Sanitation Enterprise was established with an initial capital of L 100,000 (approximately US\$5,300) and a maximum capitalization of L 1,000,000 (approximately US\$53,000). Its stockholders were the Puerto Cortés Municipality, which held 95 percent of the shares, and five organizations representing MPC's civil society, each holding 1 percent of the enterprise's stock. These organizations included three savings and loans cooperatives, the Puerto Cortés Chamber of Commerce and Industry, and the Association of the Central Market's Merchants (ASOVEMECA).

The Honduras Commerce Code, in force when the utility enterprise was created, required at least five partners. The membership was thus chosen to reflect diverse community interests. The five partner cooperatives represent approximately five thousand affiliates who make up a large percentage of potable water service users.

potable water and sanitation supply system. Aguas de Puerto Cortés accepted responsibility for management, operation, and maintenance. Its duties included billing, revenue collection, and mobilizing working capital for the lease. MPC retained responsibility for determining rate schedules.

Revenues from service users were deposited into a trust fund established by MPC. The fund would repay debt incurred by Aguas de Puerto Cortés to undertake infrastructural improvements to water and sanitation services in Puerto Cortés. MPC also provided capital directly for infrastructure investments. To ensure that Aguas de Puerto Cortés used funds exclusively for water and sanitation-related sector projects and investments, MPC organized the trust fund in a way that would guarantee transparency. Aguas de Puerto Cortés was obliged to produce detailed investment plans for new projects, assuring MPC that the projects would not drain the trust fund and jeopardize the financial sustainability of the utility. For example, the launch of a program to expand water coverage was contingent on the utility either securing subsidy from MPC or collecting sufficient revenues from users to cover the cost of expansion.

Toward the end of 1999, MPC established an oversight and control unit to act as a local regulator. The unit would ensure that Aguas de Puerto Cortés met its obligations and addressed any complaints from users, and would operate at a distance from MPC and independently from the utility. MPC also

transferred its authority to oversee contract performance to the regulator. Finally, the local regulator prepared Users' Regulations Guidelines to govern the relationships between MPC, Aguas de Puerto Cortés, and service users. These guidelines specified users' rights and duties and included guidelines for enforcement. A 5 percent share of the revenues from the annual lease paid by Aguas de Puerto Cortés to MPC would cover expenses for the regulator.

The regulator comprises three representatives from professional associations related to health, engineering, and legal services. The representatives must also be users of Aguas de Puerto Cortés' water services. These three representatives are selected from among candidates short-listed by the stockholders of Aguas de Puerto Cortés and serve a term of three years.

Initially, the shareholder distribution of Aguas de Puerto Cortés comprised 95 percent stock held by MPC and 5 percent held by five civil society cooperatives. Further reforms led to the sale of MPC's stock, which increased the enterprise's capital. The reforms permitted the member cooperatives and other users of potable water and sanitation services to purchase up to 5 percent of the expanded corporate capital. The total number of partners rose from six to thirty-seven. Partners now own 81 percent of the enterprise's stock, while MPC owns just 19 percent. The utility has reorganized from a mixed capital company into a private enterprise ("Sociedad Anónima"). Table 1 illustrates the stockholders' organizational structure in the new enterprise.

Table 1. Aguas de Puerto Cortés Shareholder Structure

Name of partner	Members	1999			2006		
		Stock capital in lempiras	Percent stockholding	Total stock share	Stock capital in lempiras	Percent stockholding	Total stock share
Puerto Cortés Municipality	n.a.	95,000	95	95	95,000	950	19
CACEENP	6,600	1,000	1	1	50,000	500	10
COOMPOL	2,500	1,000	1	1	50,000	500	10
COMIXVEM	n.a.	1,000	1	1	50,000	500	10
COMIXPROL	1,700	1,000	1	1	50,000	500	10
CCIPC	240	1,000	1	1	50,000	500	10
ASOVEMEPO	52	0	0	0	10,000	100	2
HONDUPETROL	Private company	0	0	0	50,000	500	10
Others	Users	0	0	0	95,000	950	19
Total		100,000	100	100	500,000	5,000	100

Mechanisms

MPC introduced several accountability and transparency schemes for the provision of water and sanitation services (see Table 2 for examples).

Other accountability and transparency mechanisms include:

- **Information Available to Users.** During the reform process, municipal authorities introduced an ongoing information dissemination program. MPC determined that user feedback was especially important at the beginning of the reform process in order to guide the direction of reforms and to scale up local decision making and citizen involvement. As a result, popular understanding of the importance of paying service fees improved. Aguas de Puerto Cortés’ administrative and commercial facilities also opened customer services offices to receive user complaints and assign repairs through internal coordination with the operator’s maintenance personnel.
- **User Consultation Processes.** Throughout the reform process, municipal authorities ran a consultation program through open town hearings where users could voice their opinions. These consultations helped MPC determine the willingness of users to pay for potable water and sewerage service improvements. The municipality also held meetings with other stakeholders, including trusts, teachers, cooperatives, professional associations, and merchants’ associations.

The operating enterprise also requested a review of the rate schedule. As part of this process, consultations and consensus-building meetings with the community were

held at the open town hearings. Meetings with community trusts, councils, and other representative groups were also held. The municipal government, the local regulator, and the Aguas de Puerto Cortés utility jointly organized this consultation scheme with service users. It was not, however, mandated by the concession award contract or the users’ regulations.

- **Individual and/or Partner Company Group Representation.** No defined legal body involves service users in decision making. MPC has, however, adopted a model to facilitate the involvement of the numerous users who belong to Agua de Puerto Cortés’ partner cooperatives and associations. Users can file complaints with either the authorities themselves or with their own representative organizations. The representative organization will in turn send the complaints to the operating enterprise’s management, steering council, or shareholders’ meeting. In this way, users can indirectly influence decision making. Since corporate statutes mandate that decisions are made by majority voting, this indirect influence has increased as the municipality reduced its share in the operating utility’s capital stock (from 95 percent to 19 percent).

Similarly, the local regulator comprises users who are not government officials, but who have strong reputations and are technically, administratively, and financially independent. These representatives act independently from the operating company and the municipality, which assures users that the utility is free from political interference.

- **The Local Regulator as a Consensus Builder.** If the operating enterprise fails to

adequately address a user’s complaint, then the user can make the complaint to the local regulator in writing or at public hearings. The regulator then brings the user and Aguas de Puerto Cortés to an agreement. Generally, however, complaints filed before Agua de

Table 2. User Information Scheme

Type of participation	Participation channel	Level of participation
Reports underscoring the utility’s accomplishment and emerging challenges	Company	Individual users and user associations
Dissemination of Sector Master Plan	Company and MPC	Individual users and user associations
Annual Company Reports	Company	User associations
Dissemination of new investment plans	Company and MPC	Individual users and user associations
Information sent to users in their bills about rate changes, payment and complaint offices, user rights and duties, etc.	Regulator	Individual users

Puerto Cortés are resolved based on the conditions outlined in the lease contract and the utility's service guidelines. Accordingly, only about two users per month are granted a hearing before the regulator.

- **User Involvement in Decision**

Making. When MPC decided to organize water and sanitation services into a mixed capital

enterprise in 1999, the municipality invited cooperatives to join the utility to increase user participation. By 2007, member organizations had significantly expanded their stock holding. The enterprise's capital structure increases the representation of a large segment of users in the operator's steering council through board members appointed by their respective organizations. In addition, users are represented at the operator company's shareholder meetings. Since 1999, the regulator has also selected three users to be representatives—one each from health, engineering, and legal professional associations. The improved user participation in decision making has significantly increased user confidence in the city's water and sanitation. Table 3 summarizes the mechanisms for user participation in decision making.

- **Complaint Mechanisms.** The concession model includes several mechanisms for service users to file complaints: at the concessionaire's customer care offices; via written complaint to the local regulator if the supplier fails to address the users' grievances; and at the Consumer Protection Prosecutor's Office. Complaints are typically first heard by the customer care department, which redirects them to teams designated to address specific types of complaints.

Table 3. User Participation in Decision Making

	<i>Participation channel</i>	<i>Level of participation</i>
Users as company owners	Company	Voting and proposals for policies and administrative measures
Within the regulatory body	Regulator intervention	Voting and ensuring compliance by operator and MPC
User representatives before the supplying company administrative board	Company	Vote
Trust councils and associations consulted at open town hearings	Regulator and local government interventions	Consultation
Opinion polls	Company	Consultations

Table 4. Formal Legal Complaint Mechanisms

	<i>Participation channel</i>
Complaints before the company	Company
Complaints before the local regulator	Regulator
Complaints before the municipal commissioner (local government)	Local government
Complaints before the Consumer Protection Prosecutor's Office (national government)	National government

The teams then evaluate complaints and may issue work orders for inspection and evaluation, and, if necessary, repairs. The customer care department also keeps a record of all filed complaints. Tables 4 and 5 list the types of complaints filed in 2006.

In 2006, Aguas de Puerto Cortés reported that the customer care department properly addressed most complaints, and users did not need to appeal to other formal bodies for review. A very small number of complaints required mediation between the user and the local regulator.

Results and impact

The quality and coverage of potable water, sewerage, sanitation and solid waste management services improved dramatically during the period of decentralized municipal administration and subsequent creation of a mixed capital enterprise. The new capital structure also fostered increased user involvement, which enhanced transparency in service operations and increased user trust in the utility. As a result, users were more committed to service improvements, and bill collection improved to over 93 percent.

Table 5 shows the management indicators used to measure the performance of potable water and sanitation services in Puerto Cortés. Between 1994 and 2007, service coverage

has expanded and the number of connections has increased. Continuity of service has also improved: while previously rationing was common, services now run 24 hours a day. In addition, water pressure has increased, allowing water to reach the lower portions of the network, such as streets and showers. More potable water is now available, and the capacity of the potable water treatment plant is being expanded from 150 liters per second to 310 liters per second. Daily output now matches water intake, which allows more water to enter the potable water system.

Over the same period, micrometering also expanded from practically zero in 1995 to 10,000 installed meters by May 2008. As a result, average water consumption per user dropped from 55 m³ per month to 34 m³ per month (see Figure 1). This development reduces the water consumption of existing users and justifies the expansion of water coverage to new users. Micrometering also provides users with more equitable water billing based on water consumption instead of flat rates.

The productivity ratio for workers engaged in connecting users to potable water outlets has also improved, reflecting better human resource efficiency. While the productivity ratio is typically high in state-run service providers, a mixed capital enterprise is often subject to greater capital constraints and thus must use

its resources more efficiently. On the other hand, mixed capital enterprises may also be better equipped to avoid connection problems since shareholders—who for the most part are users themselves—are inclined to deliver services effectively.

Billing rates have also increased. During SANAA's central administration, the tariff was L 8.00. When MPC decentralized the management of water, tariffs increased to L 20.00. Tariffs have subsequently increased further to ensure that the enterprise can honor its lease contract and preserve purchasing power by paying back debts. Despite the rate increases, bill collection has risen from less than 50 percent under SANAA to more than 93 percent. This may reflect the enterprises' effective management practices and increased user satisfaction with services.

Constraints and Difficulties

Despite its successes, the process still faced difficulties:

- **Little Willingness to Pay More for Better Services.** Part of the reforms in Puerto Cortés included the development of a sewage and waste water treatment system to serve the urban area. Prior to the launch of this project, only 3 percent of the urban population received sewage coverage.

Figure 1. The Introduction of Water Meters to Puerto Cortés Reduced Average Water Consumption and Costs of Service

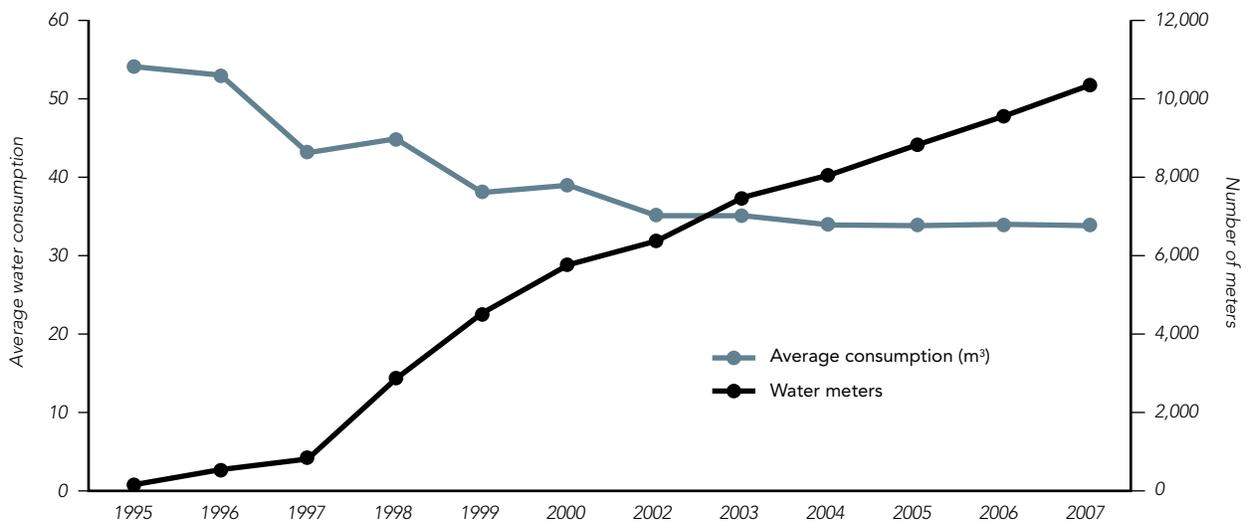


Table 5. Service Supply Progress Indicators

Indicators	SANAA 1994	DAMCO 1999	APC 2007
Water coverage (percentage)	79	90	98
Service time (hours per day)	14	24	24
Daily output (m ³)	14,500	21,200	35,000
Micrometering (percentage)	3	33	87
Sanitation coverage (percentage)	5	5	50
Effluent treatment (percentage)	0	0	100
Employees per 1,000 connections	7.6	3.9	5.5
Billing (L per employee)	90,000	600,000	2,500,000
Collection rate (percentage)	22	90	94
Basic household rate (L per employee)	8	22	44
Average water us (m ³)	55	43	34

The remainder use latrines with excreta disposed in the local Alvarado Lagoon. Launching the sewage and waste water treatment project has nevertheless been a challenge. The MPC invested more than US\$ 20 million from concessionary resources to construct collector mains, pumping stations, and a waste water treatment plant. To cover operating costs and debt amortization, sewage services must cover a larger number of users. Yet new connections are proceeding at a slow pace because individuals not yet connected to the grid are unwilling to pay higher rates for existing services, even though doing so would hasten their connection to improved services. Instead, they continue to use the latrines. After one year of operation, only about 15 percent of the urban population has been connected to the new sewage and waste water treatment system. MPC is considering a communications campaign to demonstrate to potential users the advantages of better hygiene and health conditions. This would be combined with a program to subsidize household connections.

- **Financial Sustainability of Water Services.** For the enterprise to be sustainable, the value of its assets must be preserved. This will enable the municipality to maintain leased assets and pay back the debt hired to improve services. The success of this arrangement is contingent on keeping revenues high, which depends on rate levels, efficient collection, an increased

number of household water and sewage connections, and the continued sustainability of the trust fund.

- **Using Water for Political and Election Objectives.** The political campaign for the city's mayoral election, in which Marlon Lara ran for reelection, coincided with the installation of water micrometers. Another candidate promised that no more meters would be installed, and therefore that the cost of water services would not increase. Lara was eventually reelected, although by a margin of less than 1 percent. The meters were installed and a program to reduce water leaks was launched. Users eventually realized the meters resulted in a decrease in average costs, and demand for meters has accordingly increased.

