

WATER AND SANITATION DIVISION (INE/WSA)

NATIONAL WATER COMMISSION (NWC)

JAMAICA: SUPPORT TO NWC FOR IMPROVEMENTS IN CORPORATE GOVERNANCE ARRANGEMENTS

(JA-T1118)

TERMS OF REFERENCE

1.0 Background

- 1.1 National Water Commission (NWC) was established by the National Water Commission Act (1980) and is charged with the responsibility, within the limits of its resources, to provide and improve water supply services throughout Jamaica. NWC is an agency of the Ministry Of Industry, Economic Growth & Job Creation. The Board of Commissioners, comprising nine members, is appointed by the responsible Minister for a set period to establish policy and to give general direction to the company. At least one member of the Board of Commissioners must be a duly qualified civil engineer and at least one must be experienced in commercial undertakings. The Minister may at any point during the Board's tenure revoke the appointment of any member of the Commission.
- 1.2 NWC provides water and sewerage services to 73% and 15% respectively of the population of the island. This is achieved with just over 1,800 employees operating more than 140 wells, over 200 water treatment facilities and other water supply facilities, as well as 70 sewerage systems with associated wastewater treatment plants.
- 1.3 The GOJ has the objective of increasing the access of Jamaicans to potable water to 100% by 2030, with at least 85% having access to piped water supply and the remainder utilizing other acceptable modalities. It is intended to increase access to sewerage services to at least 35% by 2030, by extending the sewer network and establishing new sewerage systems in the country's major urban centres.
- 1.4 There is need, however, to increase the reliability of service to existing customers even as the NWC moves to provide increased access to water and sewerage services.
- 1.5 NWC's operating efficiencies are very low especially in the areas of NRW and energy consumption. This is partly due to the state of the existing assets as well as operating practices. Improving operational efficiencies in these areas is also very important to the utility and its stakeholders.
- 1.6 At the same time, NWC is facing major challenges in meeting the tertiary standards currently required for effluents from sewage treatment facilities, as most of the existing facilities are old and were never designed to meet these standards. Further, many of these facilities were taken over from housing developers in various states of disrepair and need to be rebuilt or replaced. Aging sewage collection networks in some of the sewered areas also contribute to problems relating to the collection, treatment and disposal of sewage.

- 1.5 In 2008 the Bank hired a consultant to develop an analysis tool and a methodology whose application concurrently assesses the state of corporate governance in sector utilities and identifies possible courses of action to make improvements. The tool is outlined in the IDB Technical Note 106 Corporate Governance in water and sanitation enterprises and has been used in several utilities of water and sanitation in Latin America and the Caribbean.
- 1.6 Closely related to the issue of governance is the question of whether the private sector would do it better. The process of increased private sector involvement in publicly-owned enterprises is frequently open to criticism, particularly with respect to privatization of these enterprises. Issues of pace of change, sequencing, regulation and the role of the state, as well as of the transparency and propriety of transactions are common points of departure when having the discussion for or against such an endeavour. In developing countries, the question of major public utilities (water, power, telecommunications, railways) remains particularly controversial, with very little confidence in the independence or capacity of their regulatory bodies and little widely acknowledged evidence that the process has resulted in improvements in either quality or affordability of service. In many cases the lack of transparency – even extending to uncertainty over the receipt of the proceeds by the exchequer – has also been a major concern.
- 1.7 There is thus an obvious need to examine more closely the mechanics of having the private sector more deeply involved in entity's such as NWC and its potential advantages and dangers as an option compared with other means of reducing state control. The positive goals behind the introduction of public private partnerships could act as a starting point for such an examination. In the Jamaican context they might include:
- i) to attract investment (domestic and/or foreign) into a sector;
 - ii) to improve efficiency;
 - iii) to improve governance; and/or
 - iv) to remove a burden from the treasury.

The quality of evidence about the goals envisaged may vary from case to case, and the extent to which they were met, may also vary greatly, however a comparative approach should allow one to reach generally valid conclusions.

- 1.8 Accordingly, NWC is seeking the services of a qualified consulting firm to examine its existing corporate governance arrangements and identify areas that require strengthening in order to make the entity more attractive for the private sector to participate in various forms public private partnership arrangements.

2.0 Objectives

The general objective is to continue to support the National Water Commission (NWC) and the Government of Jamaica (GOJ) with improving the quality and sustainability of the NWC's services to its customers. The main objectives of this consultancy are to :

- a. Formulate an improvement plan for Corporate Governance practices within NWC.
- b. Define steps towards the diversification of the ownership structure of NWC to make it more attractive for the private sector to participate in various forms public private partnership arrangements.
- c. Formally train key officials of the Ministry of Economic Growth and Job Creation, NWC Board members, NWC officials on the CG tool and concepts.
- d. Explore the Impact of Privatization of the NWC in achieving the goals outlined in paragraph 1.7, and on conditions supporting success or leading to failure;

3.0 Characteristics of the Consultancy

3.1 **Type of Consultancy:** Firm

3.2 **Start-up date, length and duration:** This will be a 110-day consultancy (discontinuous days) starting 2017 and ending 2018.

3.3 **Place of work:** Jamaica and consultant's base of operations

3.4 **Qualifications:** The Consultant shall be a qualified firm and will provide the necessary expertise in order to contribute to the achievement of the objectives and activities relating to the Project. The firm will be expected to have expertise in: Institutional arrangements of water utilities; Legal and regulatory requirements; and Corporate governance and change management.

3.5 **Payment schedule:**

Reports and Payment schedule	Payment
First payment Upon submission of the work plan for the consultancy	25%
Second payment Upon submission of Draft Reports	50%
Final payment Upon the acceptance of the Final Reports	25%

4.0 Activities

To fulfill this general objective, the following activities will be carried out by the consultant:

Corporate Governance

- 4.1 The consultant will apply the GC tool (TN 106). This exercise will have two components:
 - i. review the effective implementation state of CG practices currently in place, and
 - ii. those planned to be adopted in the short term.
- 4.2 The consultant will be responsible for data collection and analysis, technical support for utility's questions and doubts, and for validating the obtained results. It is expected that NWC's upper management and Board will participate in completing the information required by the tool and have interviews with the consultant for exchanges on the specifics of the concepts and information needed.
- 4.3 The NWC shall make available all the documentation required by, and relevant to the development of the consultancy:
 - i. Articles of incorporation, bylaws, statutes, regulations of the board, codes of ethics;
 - ii. Audit and other company analyses and performance reports;
 - iii. Company organograms, general policies for employees, internal labour regulations, regulations for training and development, performance evaluation forms;
 - iv. Strategic and technical document of the loan agreement with the IDB, and progress reports or equivalent.
- 4.4 The consultant shall determine and prepare, in consensus with the company team, the final design of the model of governance and an Action Plan that includes the detail of good CG practices to be implemented by the NWC in the short and medium term.
- 4.5 The consultant will prepare a Technical Note with the results of each application, synthesizing the main results about CG. In addition, training is to be provided to selected officials of the MEGJC and NWC and the NWC's Commissioners in a 2 day workshop.

Diversification of Ownership Structure

- 4.6 Review the various models of public private partnership arrangements that have involved water utilities in Latin America and the Caribbean and elsewhere, broadly categorizing them into: (a) management contract, (b) lease contract, (c) BOT/BOO (d) concession, (e) fully-utility concession, and (f) asset sale (privatization). In addition, examination of instances of public offerings and private placement should also be reviewed.
- 4.7 Review case studies of water authorities of similar regulatory environment and size in LAC and elsewhere, that have been subject to privatization arrangements – either partially privatized through joint private/government ownership or those that have been fully privatized. The review should consider:

- i. the objectives of each situation that it examines, if these are discernible, and the extent to which they were met.
 - ii. the macro-economic impact of the privatization arrangement in each country, including its impact on labour markets, income distribution, and poverty, as well as investment and growth.
 - iii. distinguish between immediate and medium-term impacts, and between direct consequences of privatization arrangements and those of broader changes occurring
 - iv. assess the impact of privatization arrangements on governments' fiscal and quasi-fiscal positions.
 - v. assess the impact of utility privatization arrangements on the delivery of key services, both as regards quality and reliability and as regards cost.
 - vi. consider the extent to which pre-privatisation services were actually delivered in accordance with the mandates of state-owned enterprises, particularly to poor people, and the extent to which corresponding services are delivered post-privatisation (whether or not the mandate of the privatised enterprise requires it).
 - vii. assess the nature of regulation in place, and the impact this has had on the delivery of services – particularly in cases of natural monopoly.
 - viii. assess the various post-privatisation review mechanisms as far as information permits, and the quality of corporate governance in privatised enterprises.
 - ix. outline the process involved in developing privatisation arrangements and the extent to which they have contributed to increased transparency (or increased corruption).
 - x. assess the extent to which private ownership of previously state-owned enterprises increases or reduces the scope for diversion of public funds compared with the previous position.
- 4.8 Review options for privatization arrangements of NWC (Initial Public Offering, Private Placement, Sale through public tender process etc.); discuss the benefits and challenges of each of these options and discuss the cost and timing implications of these options.
- 4.9 Present a list of activities which should be undertaken before the ownership is divested.
- 4.10 Prepare draft Terms of Reference and procurement documents for the selection of privatisation experts and sector consultants for those areas where further work would be required to explore the prospect of privatisation more in depth.

5.0 Expected Results

The consultant will prepare the following reports:

Corporate Governance

- 5.1 An Inception Report, with the general activity plan, within a week from contract signing.
- 5.2 A Draft Final Report on Corporate Governance with the Technical Note containing the results of applying the tool to the utility as well as a comprehensive and detailed Action Plan for implementation of the recommended solutions for the improvement of governance of the NWC.
- 5.3 A final report with all results from the study as well as from the workshop, including any comments provided by the utility and the Bank.

Diversification of Ownership Structure

- 5.4 An Inception Report including a proposed list of country case studies
- 5.5 A Draft Final Report
- 5.6 A Final Report

6.0 Coordination and Supervision

6.1 The consultant will report to be conducted by Mr. Vernon Barrett, Vice President - Investment & Performance Monitoring who will assign the counterpart NWC team with whom the consultant will work.

6.2 The consultant will submit reports stated in the Payment Schedule above to the Mr. Barrett.

WATER AND SANITATION DIVISION (INE/WSA)
NATIONAL WATER COMMISSION (NWC)
JAMAICA: SUPPORT TO NWC FOR IMPROVEMENTS IN
INSTITUTIONAL STRENGTHENING AND O & M
(JA-T1118)
TERMS OF REFERENCE

7.0 Background

- 7.1 NWC provides water and sewerage services to 73% and 15% respectively of the population of Jamaica. This is achieved with just over 1,800 employees operating more than 140 wells, over 200 water treatment facilities and other water supply facilities, as well as 70 sewerage systems with associated wastewater treatment plants.
- 7.2 The GOJ has the objective of increasing the access of Jamaicans to potable water to 100% by 2030, with at least 85% having access to piped water supply and the remainder utilizing other acceptable modalities. It is intended to increase access to sewerage services to at least 35% by 2030, by extending the sewer network and establishing new sewerage systems in the country's major urban centres.
- 7.3 There is need, however, to increase the reliability of service to existing customers even as the NWC moves to provide increased access to water and sewerage services.
- 7.4 NWC's operating efficiencies are very low especially in the areas of NRW and energy consumption. This is partly due to the state of the existing assets as well as operating practices. Improving operational efficiencies in these areas is therefore very important to the utility and its stakeholders.
- 7.5 At the same time, NWC is facing major challenges in meeting the tertiary standards currently required for effluents from sewage treatment facilities, as most of the existing facilities are old and were never designed to meet these standards. Further, many of these facilities were taken over from housing developers in various states of disrepair and need to be rebuilt or replaced. Aging sewage collection networks in some of the sewered areas also contribute to problems relating to the collection, treatment and disposal of sewage.
- 7.6 A perennial challenge facing the NWC has been an inability to recover the full cost of service from consumers. This is partly due to excessive losses and inefficiencies as well as inadequate tariffs. The existing socio-economic challenges in Jamaica also contribute to the financial difficulties being faced by the utility. In order to address the financial viability issues, NWC will need to grow its revenues, improve collections, reduce costs and practice improved financial management.

7.7 The NWC has prepared a draft Capital Investment Programme (CIP) in which seventeen (17) major projects are broadly outlined for implementation during the period 2015 – 2030, estimated to cost around US\$3.4 billion. These projects are planned for funding through various modalities, such as grants, loans and public private partnership arrangements. Several of the projects under the NWC's CIP are classified as priority for implementation within the first five year planning cycle of 2015 – 2020. In order to efficiently and effectively execute such an ambitious programme the NWC will need to improve its CG framework and strengthen its business planning and operations and maintenance (O&M) protocols.

8.0 Objective

8.1 The general objective of this consultancy is to provide NWC with effective tools to improve in the areas of: (a) business planning and tariff setting/negotiations; (b) project identification, analysis (feasibility studies, etc.) and selection; (c) project development and execution; (d) customer service delivery; and (e) O&M. The specific objectives are to :

- i) benchmark good practices in the areas outlined above, of a well performing water utility from a comparable country and identify where NWC require improvements;
- ii) prepare training and capacity building programs that are to be institutionalized within NWC, based on the identified needs.

9.0 Characteristics of the Consultancy

9.1 **Type of Consultancy:** Firm

9.2 **Start-up date, length and duration:** This will be a 250-day consultancy (discontinuous days) starting 2017 and ending 2018.

9.3 **Place of work:** Jamaica and Consultant's base of operations

9.4 **Qualifications:** The Consultant shall be a qualified firm and will provide the necessary expertise in order to contribute to the achievement of the objectives and activities relating to the Project. The firm will be expected to have expertise in institutional strengthening/ capacity building of water supply and sewerage utilities with specialists in the following areas:

- General Management including Business Planning and Management
- Project Management;
- Operations Management;
- Maintenance Management;
- Asset Management

9.5 **Payment schedule:**

Reports and Payment schedule	Payment
First payment Upon submission of the Inception Report	15%
Second payment Upon submission and acceptance of First Interim Report	25%
Third payment Upon submission and acceptance of Second Interim Report	25%
Fourth payment Upon submission and acceptance of Draft Final Report	20%
Final payment Upon the submission and acceptance of the Final Report	15%

10.0 Activities

To fulfill this general objective, the following activities will be carried out by:

- 10.1 Review NWC's Corporate Business Plans over the last three (3) years and comment on the extent to which the stated outcomes have been achieved. Highlight areas of strength and deficiency in the Plans, and recommend how to address areas that require improvements.
- 10.2 Review NWC's organization structure and comment on the extent to which is able to deliver on its mandate and move towards realizing its 2020 vision.
- 10.3 Recommend improvements in its organizational arrangements to better align it with its strategic plans.
- 10.4 A review of NWC's draft Capital Investment Programme (CIP) is to be conducted and any areas of deficiencies identified in its development and presentation should be highlighted and recommendations made to address them.
- 10.5 Items of information required to improve the CIP in order to adequately address the key stages of capital programming and budgeting, including financial planning, project identification and prioritization, and program management are to pinpointed.
- 10.6 CIP document is to be revised to address those areas of deficiencies that are identified and thereby improve and update the draft CIP. These should include fine tuning assumptions made in project assessments and making investment decisions. It should be aligned for the expansion of water & sewerage systems to meet strategic objectives and satisfy development demands.
- 10.7 Prepare a draft Capital Investment Policy for consideration by NWC. This should include: (i) listing of the types of investment eligible for inclusion in the CIP and identify which types/components of cost should be included; (ii) defining what constitute a capital project, which include setting minimum criteria for inclusion in the CIP; (iii) criteria for prioritizing and selecting capital projects (iv) methods of financing capital projects (factor in the Government of Jamaica's Debt Policy); and use of public private partnerships arrangements.

- 10.8 The Consultant is to prepare an Assessment Framework document, which sets out the approach to assess, screen and prioritize projects based on project selection criteria. It is to include: (i) key assessment parameters; (ii) a high level pre-feasibility financial model which is to be used to analyse each project in the CIP (this model would be adjusted based on the specifics of each project); (iii) potential procurement model and screening methodology (e.g. conventional versus design-build versus PPP).
- 10.9 Use the project assessment tools to assess two of the designated high priority projects – one water project and one sewerage project.
- 10.10 Review NWC’s approach to performance monitoring in all areas of its operations and identify and recommend improvements where deficiencies are identified.
- 10.11 Review major operational and business processes and procedures to improve efficiency and effectiveness.
- 10.12 Review and upgrade facilities maintenance policies and procedures with emphasis on preventative maintenance.
- 10.13 Review and upgrade policies and procedures of NWC in the area of asset management
- 10.14 Review and upgrade policies and procedures for assuring quality and compliance with regulatory standards.
- 10.15 Make recommendations to institutionalize comprehensive program for reducing Non-Revenue Water (NRW) and increasing Billed Revenue building on the experience of the KSA NRW reduction activities.
- 10.16 With the recommendations emanating from Activities 4.11 through 4.15, prepare training/ capacity building modules to be institutionalized within NWC; and conduct training of trainers’ sessions to enable NWC to institutionalize key training practices.

In performing the works, the Consultant shall take into account all previous reports on the NWC of relevance, including, but not limited to:

- Work related to institutional strengthening of NWC in the areas of maintenance and water supply management funded by the Japan Bank for International Cooperation (JICA);
- Institutional strengthening of NWC in the areas of asset management, NRW reduction, operation and maintenance, energy cost reduction, rural water supply management, benchmarking and project management funded by the European Union (EU); and
- Support to the NWC for preparation of the 2016 Mid-Term Tariff Review funded by the IDB.

11.0 Expected Results

The consultant will prepare the following reports:

- 11.1 An Inception Report including a work plan and proposed list of country case studies.
- 11.2 A first interim report including deliverables for Activities 4.1, 4.2, 4.3 and 4.4.
- 11.3 A second interim report including deliverables for Activities 4.5, 4.6, 4.7 and 4.8.

- 11.4 A Draft Final Report including a comprehensive and detailed action plan for implementation of the recommended solutions for the improvement of the various areas of focus.
- 11.5 A Final Report subsequent to adjustments made based on comments received from the Client.

12.0 Coordination and Supervision

- 12.1 The consultant will report to conducted by Mr. Vernon Barrett, Vice President - Investment & Performance Monitoring who will assign the counterpart NWC team with whom the consultant will work.
- 12.2 The consultant will submit reports stated in the Payment Schedule above to the Mr. Barrett.