Modernizing Public Water Services in Uruguay through a long-term partnership

Challenge

Uruguay’s economy is one of the most prosperous and its society is one of the most equal in South America. After decades of relatively slow economic growth, the economy grew by an average of 6.7 percent over the five years through 2008, reducing unemployment to 8 percent from 13 percent and poverty to 25 percent from 42 percent. Against this backdrop, Uruguay is now well-positioned to further expand universal public service provision and enhance its economic competitiveness as it becomes a regional trade and logistics hub.

Given Uruguay’s comparatively small size (its population is just over 3 million people), it is not surprising that its public utilities—water, electricity and until recently telecommunications—are monopolies in their respective sectors, making it difficult to benchmark their performances against other entities providing the same service. In addition, since these public utilities historically planned investments, carried them out, and monitored their own service provision in each sector, there were few entry points to push utilities to improve performance. While Uruguay has made impressive strides to achieve universal access to basic infrastructure services over the past two decades, access to piped sewerage at about 53 percent remains relatively low when compared to Chile, Colombia, and Mexico, as well as several comparable Brazilian states. In addition, the country’s public water & sanitation utility, OSE, has historically lagged behind other public service providers (in electricity, for example) in terms of operational performance and customer service. In part, this reflected the sensitive nature of water and sanitation services, which made policy makers reluctant to push OSE too hard to improve its services. Finally, until recently, Uruguay lacked independent and transparent regulation and a framework for the accountability of public service utilities.

Results

- With the help of IBRD, Uruguay’s OSE has slowly evolved from a highly inefficient water utility into a solid one over the course of the last two decades,
- Labor productivity has improved to 4.3 employees/1000 connections in 2006 from 12.7 employees/1000 connections in 1987.
- Water treatment capacity at the Aguas Corrientes treatment plant, which supplies water to roughly half of Uruguay’s total population, increased to 630,000 m³/day in 2006 from 440,000 m³/day in 1988. Water quality has improved significantly through the introduction of re-chlorination stations at intermediate points in the transmission system, which has allowed OSE to maintain chlorine residuals throughout the distribution network. The expansion of water production capacity has allowed OSE to connect over
235,000 additional people in metropolitan Montevideo alone.

As a result of an internal benchmarking system established within OSE to compare performance across different parts of the country, OSE has introduced quality of service indicators and improved its performance on several key fronts: attention to commercial and operational claims as well as water quality are consistently rated excellent nationwide, while the speed with which water service is restored after a pipe break is excellent in almost all parts of the country. OSE’s indicators use a grading system from Uruguayan public schools and so are easily understood. These are regularly published in the press along with a commitment by OSE management to reach defined performance levels by clearly-defined deadlines. This creates expectations for better service among the general population and pressure within OSE to meet those expectations.

IBRD has financed 12,300 sewerage connections in 12 cities as well as three sewage treatment plants in Minas, Treinta y Tres, and Durazno covering 60,000 people.

IBRD has financed the installation of 125,000 new water meters and the replacement of 80,000 old or faulty meters, increasing the fairness of water billing.

As a result of IBRD involvement, Uruguay has created a more transparent and accountable water sector. OSE, which formerly acted as de facto policy maker and regulator in addition to service provider in the water sector, is now part of a wider system that includes an autonomous water and electricity regulator, and a separate policy-making agency, created in 2006.

Approach

Uruguay has long valued a consensus-driven approach to problem-solving and has managed an impressive level of continuity in sector policies across governments of different political stripes. The water sector is a case in point. Over the course of governments from three different political parties over 20 years and with steady engagement by IBRD, the Uruguayan water sector has been transformed from one in which a monopoly utility set its own standards and provided poor and inefficient service to a more accountable and efficient one in which service provision is separated from regulation and policy definition. IBRD’s long-term engagement fits well with the historical pace of reform in Uruguay—slow and cautious but with a high level of policy continuity across administrations, ensuring steady improvement over the long term.

IBRD Contribution

The Bank has supported development of Uruguay’s water and sanitation sector for the past two decades through three infrastructure investment loans: US$22.3 million between 1988 and 1999; US$27 million between 2000 and 2007; and an ongoing program for US$50 million since 2007. Additionally, it extended Uruguay a Technical Assistance Loan of US$6 million between 2001 and 2008 to improve regulation and accountability across public services more generally. Japan also contributed a grant for water sector regulatory reform. Parts of several development policy loans have also helped to advance the reform agenda:

- OSE Modernization and Systems Rehabilitation project, APL-2 (ongoing since 2007) — US$50 million.
With one (or at times two) investment and technical assistance loans under implementation at any one time over the past 20 years, IBRD has committed over US$2 million in supervision resources to Uruguay’s water (and more broadly public utilities) sectors which has allowed IBRD’s Latin America region to field multi-sectoral teams including sector and macro economists, engineers, specialists in pumping technology, low-cost sewerage, financial specialists, social and environmental specialists and regulatory experts. At critical junctures, (as with the presidential transitions in 2005 and 2010) this long-term presence allowed IBRD to produce short policy notes with snapshots of key sector issues and possible policy options.

Partners

Government of Japan

Next Steps

IBRD support for Uruguay’s water and sanitation sector is continuing under the OSE Modernization and Systems Rehabilitation project, APL-2, approved in 2007. Given OSE’s operational improvements over the past two decades and the fact that OSE now charges water and sanitation tariffs that are more than enough to cover all operation and maintenance expenditures and some investment costs, the sustainability of OSE’s existing assets is assured. The main challenge, for both the government and for OSE, is to raise additional resources to increase sanitation coverage and sewage treatment to reach all Uruguayans.

Despite significant progress in terms of regulatory reform, the information asymmetries that often make it difficult for governments to hold public utilities accountable for results, have been reduced but by no means eliminated. It is also worth mentioning that despite OSE’s operational improvements through sustained commitment by the national government and the Bank, other pieces of Uruguay’s 1990s reform agenda worked less well, including the goal of introducing private service providers into Uruguay’s water and sanitation sector alongside OSE to create competition and allow for performance comparisons. In 2004, Uruguayan voters approved a referendum that made water and sanitation services the exclusive purview of the public sector and the only large private water and sanitation concession in the country (in the department of Maldonado) was rescinded. Going forward, the government will therefore need to rely on internal benchmarking (within OSE) and external performance comparisons (through the regulator) to maintain the momentum for continuous improvement within the company.