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**UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT**

**AND**

**NATIONAL WATER SUPPLY AND  
DRAINAGE BOARD, SRI LANKA**

**WATER SUPPLY AND  
SANITATION SECTOR PROJECT**

**USAID PROJECT NO. 383-0088**

**EXECUTIVE SUMMARY  
FINAL REPORT ON  
INSTITUTIONAL DEVELOPMENT  
OF THE NWSDB**

**AUGUST 1991**

**ENGINEERING - SCIENCE. INC**

PASADENA, CALIFORNIA, USA

IN COLLABORATION WITH

**RESOURCES DEVELOPMENT  
CONSULTANTS, LTD**

SRI LANKA

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## I N T R O D U C T I O N

The purpose of this report is not only to satisfy the USAID contractual requirements for a formal documentation of project activities but also to present to a wider audience the more significant elements of what is perhaps the most comprehensive and innovative institutional development project carried out to date for a public sector water supply agency in a less developed country.

Because of the increasingly widespread appreciation of the advantages of institutional development as a key factor in supporting both the sectoral and national development plans of external support agencies, and in helping to achieve specific project sustainability, it is believed that interest in this report will not be restricted only to those who have been actively involved in the project. In particular, other external support agencies, other public sector authorities both in Sri Lanka and elsewhere, USAID missions in various countries, and specialists in the field of institutional development should find in the report something of relevance to their own particular interests. The implementation timeframe of this institutional development effort was almost six and a half years of continuing consultant input. Many lessons were learned in this period and many of these lessons are highly relevant, not just to the specific case of the National Water Supply and Drainage Board, but also to institutional development of utility agencies elsewhere. The report concentrates on the institutional development elements of the Water Supply and Sanitation Sector Project, other project activities which were not directly related to institutional upgrading are dealt with in separate reports.

It is hoped that this report will assist in some way to stimulate the growing interest among donors, practitioners, and utility agencies in the important field of institutional development. It must be stated at the outset that although problem areas and impediments to institutional development are discussed, no criticism is intended of any individual, group or organization. Rather it is believed that a frank but objective review of what really happened will be of benefit to all concerned parties and to external observers. Resistance to change is a characteristic of any organization and must not be seen to be something peculiar to either the National Water Supply and Drainage Board in particular or Sri Lanka in general.

## PROJECT SYNTHESIS

The Water Supply and Sanitation Sector Project (WSSSP) was conceived by USAID in response to a growing recognition among the international donor community of the advantages to be gained from strengthening participating-country institutions in order to maximise the benefits of development initiatives. This recognition was none more acute than in the water supply and sanitation sector, where it soon became apparent that the goals of the International Drinking Water Supply and Sanitation Decade (IDWSSD) would not be achieved unless the inherent serious weaknesses in the ability of sector institutions to manage, operate and maintain water and sanitation systems were corrected.

The focus of the WSSSP was the National Water Supply and Drainage Board (NWSDB) of Sri Lanka. The NWSDB had been formed out of the Department of Water Supply and Drainage in January 1975 as an autonomous body under the then Ministry of Local Government, Housing and Construction (MLGHC). It was charged primarily with developing, providing, operating and controlling efficient water supply facilities, to distribute water for public, domestic or industrial purposes and to charge for same. Other duties of the NWSDB included such functions as the provision of piped sewerage facilities, research and training. At its inception the NWSDB had a staff of about 1600 and was responsible for operating 96 schemes.

At the time of the project preparation in late 1983/early 1984, the NWSDB was responsible for the management of 161 piped-supply schemes and its staff had increased to almost 6000, about half of whom were casual employees. Although the agency was functioning reasonably well in terms of construction of new schemes, performance was less than satisfactory in the areas of scheme operation and financial viability. In 1983 for example, collections represented only 12% of O&M cost and the number of billed consumers to staff ratio was only 8.4.

The basic problems with the NWSDB at the time of project design was that it had not been able to come to grips with the very significant role shift occasioned by its change from a Government Department to a public corporation (see Figure 1). The new role demanded that its focus of attention be changed from capital projects to O&M and consumer billing. This change in focus represented a radical redirection of emphasis, one that the NWSDB was not easily in a position to absorb. The NWSDB management in 1984 was almost entirely comprised of the pre-1975 cadre, the organizational culture and operating procedures of the old department had been carried over to the corporation with no substantive change.

The operational deficiencies resulting from the change in emphasis could be summarised as follows:

- o Negligible emphasis on O&M
- o Minimal commitment to financial viability
- o Negligible accounting/budget discipline
- o No corporate planning
- o Little attention to community/user considerations
- o Reliant on Government subsidies
- o Totally reactive to direction from MLGHC, local authorities and Members of Parliament

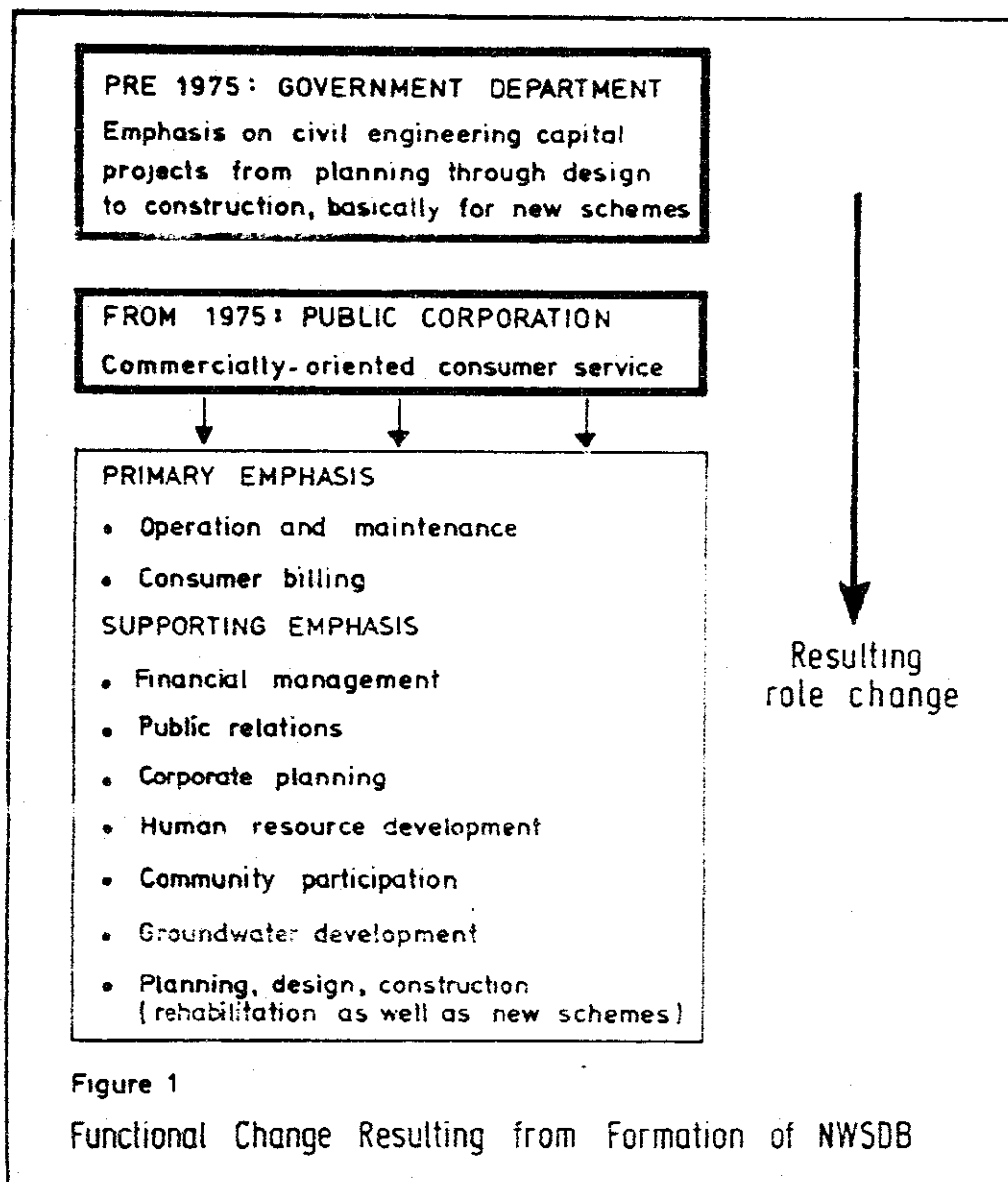


Figure 1

### Functional Change Resulting from Formation of NWSDB

These deficiencies could not be overcome without a change in basic NWSDB staff attitude, supported by new operational skills and procedures.

### Project Objectives and Terms of Reference

The project had two elements, a comprehensive institutional building component and a programme to improve health education and rural sanitation services through the integration of NWSDB activities with the Ministry of Health (MOH).

Three basic objectives of the institutional - building element were defined as follows:

- o consolidating the NWSDB organization responsible for a major World Bank-funded infrastructure project in the south-western portion of the country with the separate NWSDB organization responsible for activities in the rest of Sri Lanka

- o decentralizing to the regions
- o changing the overall organization structure, attitudes and actions to make the operation and maintenance (O&M) activities of the NWSDB the most important mission

The principal objective of the health education, sanitation and community participation element was to ensure, through a process of formal coordination among the NWSDB, MOH, participating Non-Governmental Organizations (NGOs) and beneficiary communities, that health education and sanitation services would be delivered to the communities simultaneously with the provision of new or upgraded water supply facilities.

The Terms of Reference included a comprehensive scope of work directed at satisfying the four primary objectives (reorganization/decentralization; upgraded policies/procedures; O&M emphasis; health education/sanitation/community participation). The principal items to be addressed under the institutional development (ID) component consisted of provision of technical assistance (TA), training, commodity procurement, regional facilities construction and rehabilitation and research activities.

The total estimated project cost at the time of inception, excluding contingencies and inflation allowances was \$13.85 million, of which TA costs related to the ID and health components were estimated to account for 25%, at \$3.52 million. Total USAID funds, of which 42% were grant funds, represented about 68% of the total estimated project costs. The inclusion of contingencies and inflation increased the total estimated cost to US\$19.6 million. In terms of NWSDB capital and operating budgets the Sri Lankan Government contributions to the project cost were not expected to represent more than about 3% and 5.4% respectively.

These data are presented to illustrate that although ID (and also health education) are essentially "software" projects, associated "hardware" (non-TA) costs represented no less than three quarters of the total project costs.

#### TA Resource Mobilization

Following a competitive request for proposals (RFP) procedure, the prime contract was signed between Engineering-Science Inc. (ES) and USAID in February 1985 with an effective start date of 1 April 1985. During the implementation of the project a number of consulting companies and specialist service companies were sub-contracted to ES, primarily to provide local professional expertise. The main subcontractors were as follows:

- o Ernst & Whinney, Sri Lanka (later changed to Ernst & Young, Sri Lanka)
- o Resources Development Consultants Ltd., Sri Lanka
- o Ceywater Consultants, Sri Lanka (Colombo Water Supply Master Plan Component only)
- o Connell Bros. Company Ltd. USA (procurement service agency)

The prime contract was amended on a number of occasions throughout the life of the project, the net result being that the original project duration was increased by 93% from 40 to 77 months, and the professional input (on-site expatriate and Sri Lankan) was increased by 79% from 440 to 786 person-months. This input excludes that allocated to the upgrading of the Greater Colombo Water Supply Master Plan, a separate component added to the project in 1990.

### PROJECT IMPLEMENTATION STRATEGY

The project was implemented on the basic premise that ID is internal organization development (OD) combined with harnessing the opportunities and countering the threats which exist in the external environment impacting the institution (Figure 2). Whereas OD is the development of an institution's effectiveness within the confines of the institution's stated mission and culture, ID seeks in addition to take account of the wider institutional ramifications, such as linkages with other authorities, sectoral goals and policies and possible modifications of the role of the institution within the external environment.

In the case of the NWSDB, a strictly OD approach would concentrate on improvements in internal organization procedures, technical task-specific target development, upgrading management effectiveness, operational planning and performance monitoring. By comparison, ID would add on an analysis of national sector policies and goals, corporate planning in the context of sector needs, external stakeholder priorities and an analysis of liaison mechanisms and degrees of influence relating to key agencies operating in the external environment, particularly government Ministries and external support agencies (ESAs).

It soon became apparent that in order to engender support for the more sensitive aspects of the ID process that linkages had to be established with the wider operational environment. These linkages served two principal purposes, firstly, to widen the consultation process and secondly, to explore the possibilities of leverage being applied to accelerate the change momentum. These informal liaison linkages are shown in Figure 3. The frequency of the ad-hoc meetings varied, those involving USAID, MHC and the ESAs, were typically on a quarterly basis. On occasions NWSDB executive management were involved in the USAID and MHC sessions. The strategy used to involve the external stakeholders and thereby support the ID initiatives were broadly as follows:

- o Establish long-term performance improvement programme (done participatively with counterpart staff)
- o Continually seek support of Ministry of Housing & Construction (MHC)/External Support Agency (ESA) for general concepts of performance improvement programme
- o Link goals of performance improvement programme to those of ESA stakeholders (eg. cost recovery, tariff reform)
- o Identify short-term achievable improvements that will please political stakeholders (eg. reduce consumer complaints, improve water quality)
- o Sustain the cycle by constantly reviewing the improvement programme and modifying as necessary to reflect changing priorities (eg. new emphasis on decentralization)

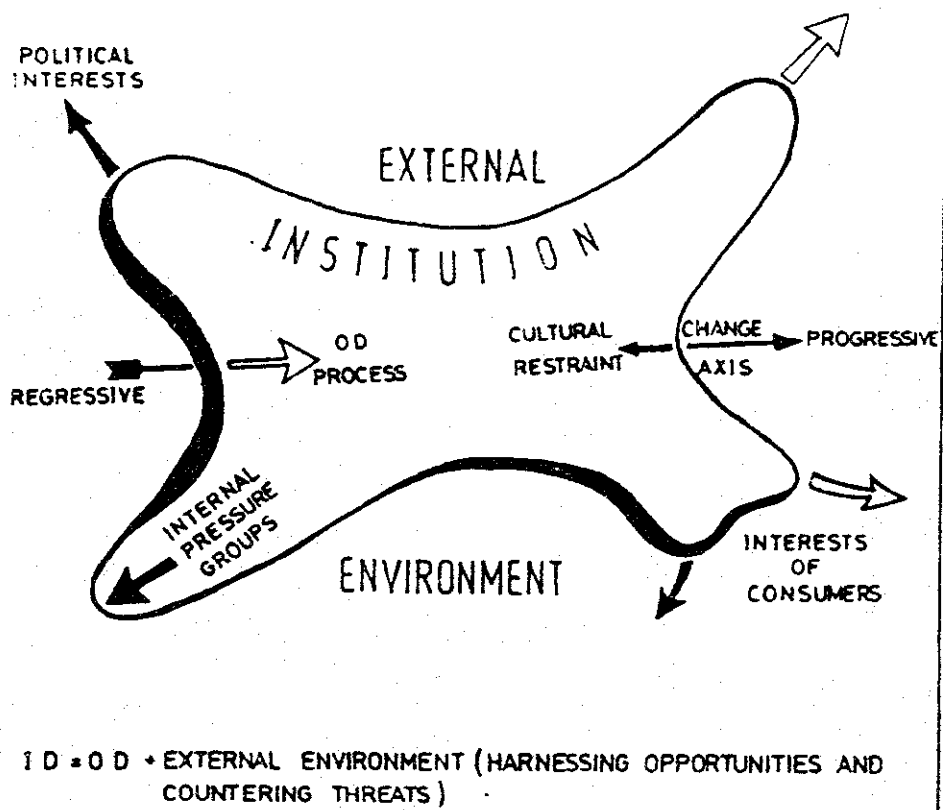


Figure 2

Institutional Development Defined

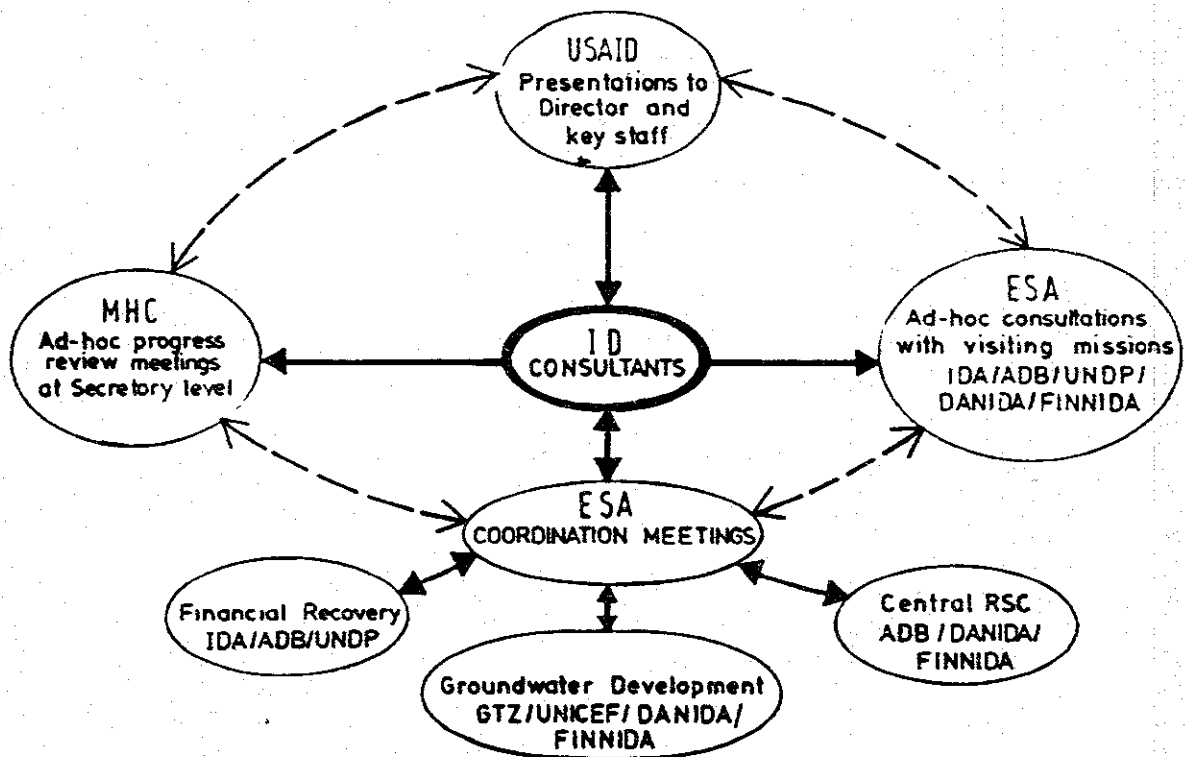


Figure 3

Informal Organization Linkages



In accordance with the philosophy of serving as process consultants, change agents or catalysts, the TA team basically operated in a pivotal role, facilitating and monitoring the ID process (Figure 4). Of course, when it was necessary to secure the support of external stakeholders in order to sustain ID momentum, a more prescriptive mode was adopted. This dual approach demanded a very delicate balance between coaching and helping the institution to solve its own problems and applying pressure to overcome those blockages that appeared to be particularly intransigent to the process consultation method.

The decision to move into the prescriptive mode was not taken lightly, it was discussed in detail with the external actor concerned and great care was taken to ensure that the pressure was in accordance with the stated ID goals, supported by the wider sectoral goals of government. Typical examples of problems which were overcome by this method included some senior staff changes, delegation of authority to RSCs, staff retrenchment and tariff reform. Of course, the end results of such pressure were not always as anticipated. The effect was to unleash a force which impacted the institution in such a way that the reaction could be in various dimensions.

Although the use of external stakeholders became a recognised and indeed an essential element of the ID process, it was politically dangerous, both because of the unseen spin-off results and the risk of exposure which could totally negate the confidence built up between the TA team and the institution. Of course, the use of the external environment in this way did become more widely known, but it was never openly discussed, probably because it was seen by all parties that its net effect on institutional change was generally positive.

#### ID Bubbles

A trend which the ID consultant must continually guard against is that of the institution becoming dependent on the consultant. This trend is more prevalent with long-term team members who often unwittingly take on more and more implementation responsibility so that when they eventually leave the reforms fail because there has been no effort to achieve sustainability. The net effect is akin to an "ID Bubble," which is blown up by the outside experts and which bursts when the support is withdrawn at the end of the project. The only way to guard against consultant dependency is to continually monitor the individual team member's input, and to insist on occasional pulling back so as to permit the client to take on the ownership of a new procedure. Regular staff meetings, one-on-one discussions with team members and probing interviews with counterpart staff are essential tools for the Project Manager to use in this area.

#### Cultural Compatibility

An ID consultant must be sensitive to the culture of the organization in which he is working. This may not be easy if the consultant is from a western society and the institution is located in Asia. At the start of the project the understanding of the N&SDB culture was sparse to say the least and many of the early ID initiatives, as well as the degree of emphasis placed on specific objectives at the project preparation stage, reflected a lack of appreciation of the forces and norms at work within the institution. Differentiating between what people "say" and what people actually "do" is not an ability which can be learned from a few quick

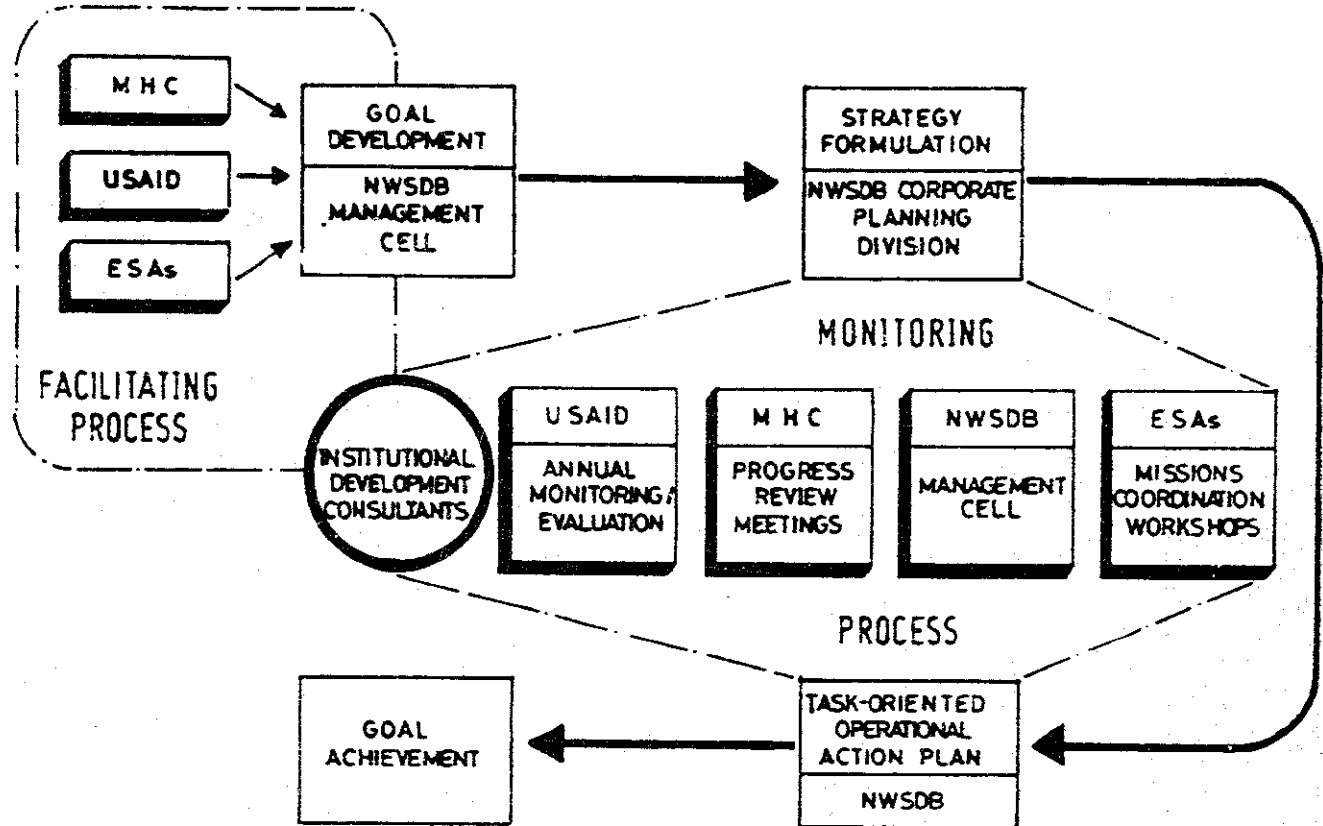


Figure 4

#### Pivotal Role of Consultants in the Institutional Development Process

visits and formal discussion sessions. The only way to understand a culture is to live in it, for a considerable length of time, and not just as an outside observer, but as a participant.

One of the fundamental facets of the NWSDB culture was that it was an engineering-dominated organization. The ID project introduced a different emphasis, on O&M and commercial awareness for example, functions that were alien to traditional civil engineers and were seen as a threat to their power base. The project, therefore, generated a basic feeling of insecurity on the part of the engineers. The ranks were closed, and resistance to the project grew until sacrifices had to be made through implementing major changes in key personnel in both the TA team and NWSDB executive management towards the end of the first year.

At the start of the ID intervention the culture of the NWSDB could be summarised as exhibiting the following features:

- o conflict avoidance
- o sub-group cohesiveness (engineer-dominated)
- o peer sensitivity and a high level of protectiveness
- o burying individual accountability in collective responsibility
- o personnel/group agenda rather than corporate agenda
- o avoidance of open communication
- o reliance on written procedures (no flexibility or innovative approaches to problem solving)

- o hierarchical management style
- o status conscious (professional engineers)
- o negative outlook towards problem resolution
- o committees solve everything
- o avoidance of performance measurement
- o jealousy of individual success (contra to group collectivity and sameness)

Culture is dynamic, people from one culture can adjust to another culture and a host culture can also change. If this premise were not so then advances and ideas developed in one country would never be absorbed by another. Such change was evident on the WSSSP, with most of the TA team members gradually coming to understand and respect the institution's culture, whilst at the same time the culture of the institution gradually changed as the project progressed. The culture of an organization may be changed by shock treatment (say by making an abrupt change in organization structure, bringing in new managers from the outside) or it may be changed by a more gradual consensual process among the organization's members by seeking prior agreement on the direction in which they should be moving. Both dimensions were at work in the NWSDB.

## IMPLEMENTATION OVERVIEW

### National Environment

The WSSSP was implemented during a period of national upheaval, in terms of both economic stability and social upheaval. From 1983 the ethnic conflict in the Northern and later the Eastern Province resulted in serious damage and dislocation to the production capacity of the area. Development virtually ceased, communities were dispersed and the local economy functioned well below the normal levels. The second major problem was the period of civil disturbance connected with the Janatha Vimukthi Peramama (JVP) which after smouldering during 1987, rapidly escalated in the Southern Province in 1988 and threatened to engulf almost the entire country in 1989. The number of violent deaths resulting from the ethnic conflict and the subversive insurrection during the second half of 1989 was equivalent to an annual rate of about 165/100000 population. Work stoppages, disruptions to transport, communications, banking and financial services which resulted from the civil strife, all had a serious negative impact on the economy.

With the holding of national general and presidential elections in December 1988 and February 1989 respectively, and the suppression of the JVP insurrection by the end of 1989, the overall situation began to improve. The new government began to implement a structural adjustment programme aimed at reducing wastage and inefficiencies in the government sector and encouraging private sector investment and expansion. Two other key policies were a new industrial strategy designed to diversify the economy and ensure a more equitable distribution of income and wealth and a poverty alleviation programme founded on helping the poor build up their asset base through productive employment.

The effect of this national upheaval on the operations of the NWSDB was significant, although not as catastrophic as might be imagined. Apart from the fear psychosis which affected almost everybody in Sri Lanka,

day-to-day operations were frequently interrupted by JVP-inspired curfews, campaigns to refuse paying water bills and even intimidation of NWSDB officers who were involved in revenue-related activities such as meter reading, disconnections and payment collections. NWSDB property was damaged and on one occasion the staff of a Regional Office were physically attacked.

One of the most visible impacts of the national situation was on collections. On average, the period of insurrection reduced total national collections by about 30%. The adverse effect of the external political environment on the NWSDB financial status was particularly marked in 1988 when electioneering gambits such as a government-mandated salary rise of about 45% and the conversion of almost 2500 casual employees to permanent status increased operating costs by about 12%.

### ID as an Evolutionary Process

The process of ID is dynamic, cyclical and subject to all the positive and negative forces at work both within the institution and in the external environment. The process is shown diagrammatically in Figure 5 as an ascending spiral, with a range of positive forces being brought into play to counter and overcome pressures acting against change. The need for "hardware" inputs such as equipment, facilities and overseas training tours is recognised, not just to upgrade the asset base of the institution but also to provide incentives to accept changes.

The net effect of the four main forces at work (internal culture; OD; political environment; ESAs) is to produce a series of overlapping or inter-twined ID sub-cycles. Specific examples are shown in Figure 6. Constant attention must be paid to the relative strengths of these forces, the objective being to continually manage the ID interventions in such a way that the combined affect of all the forces remains positive (above the horizontal axis in Figure 6).

### Project Phases

The project exhibited a progression of distinct phases as the initial resistance faded and support for institutional strengthening increased. Modifications to the project scope also signalled changes in emphasis with corresponding phase shifts. In a simplified form, the more easily definable project phases are identified in Figure 7.

An ID project is usually commissioned at the behest of the institution, generally because its management or directors wish to improve the institution's effectiveness, or because it is moving into a new field or because new ownership demands a new business philosophy. In the case of the NWSDB the real impetus for change came initially from the donor community who wished to see an increased level of accountability and a greater return on their investments.

Traditionally, an ID intervention proceeds along a carefully balanced path, specialist consultants are called in (assuming that there is no in-house OD/ID capability) to assess the weaknesses, and over time strategies are developed, in participation with the staff of the institution, to bring about change. In accordance with the theory of process consultation, reforms must be developed with the full involvement of the staff so that the ID process is "owned" by the institution.

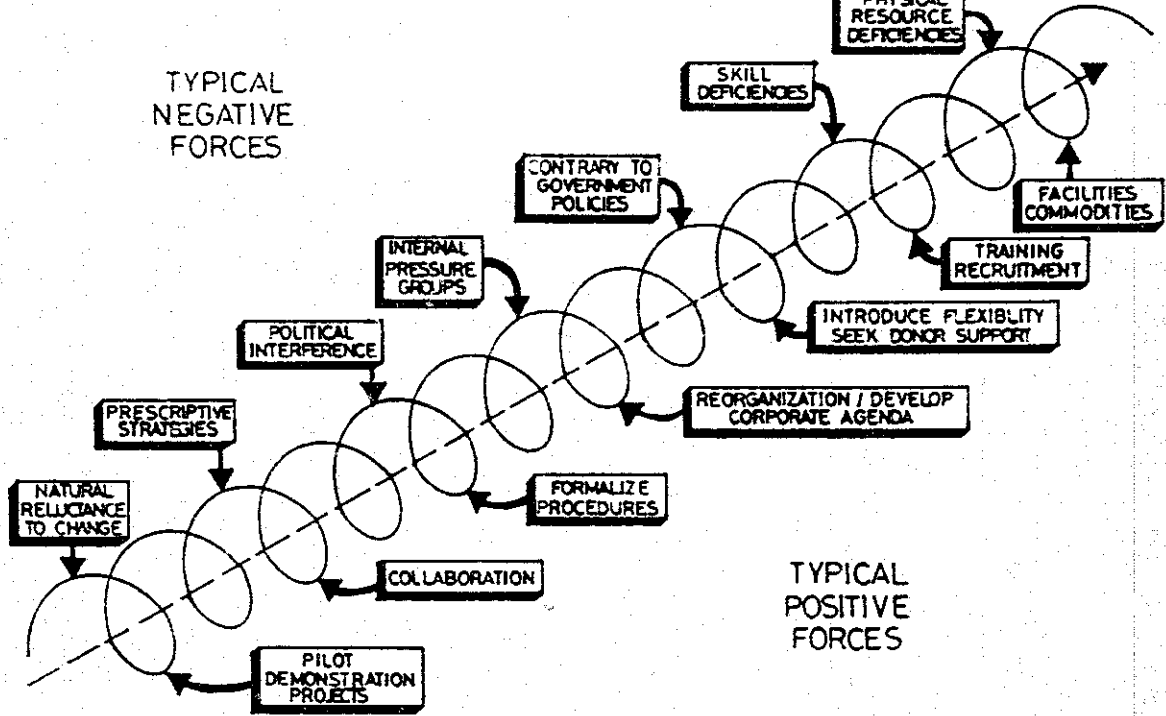


Figure 5  
Ascending Spiral of Institutional Development

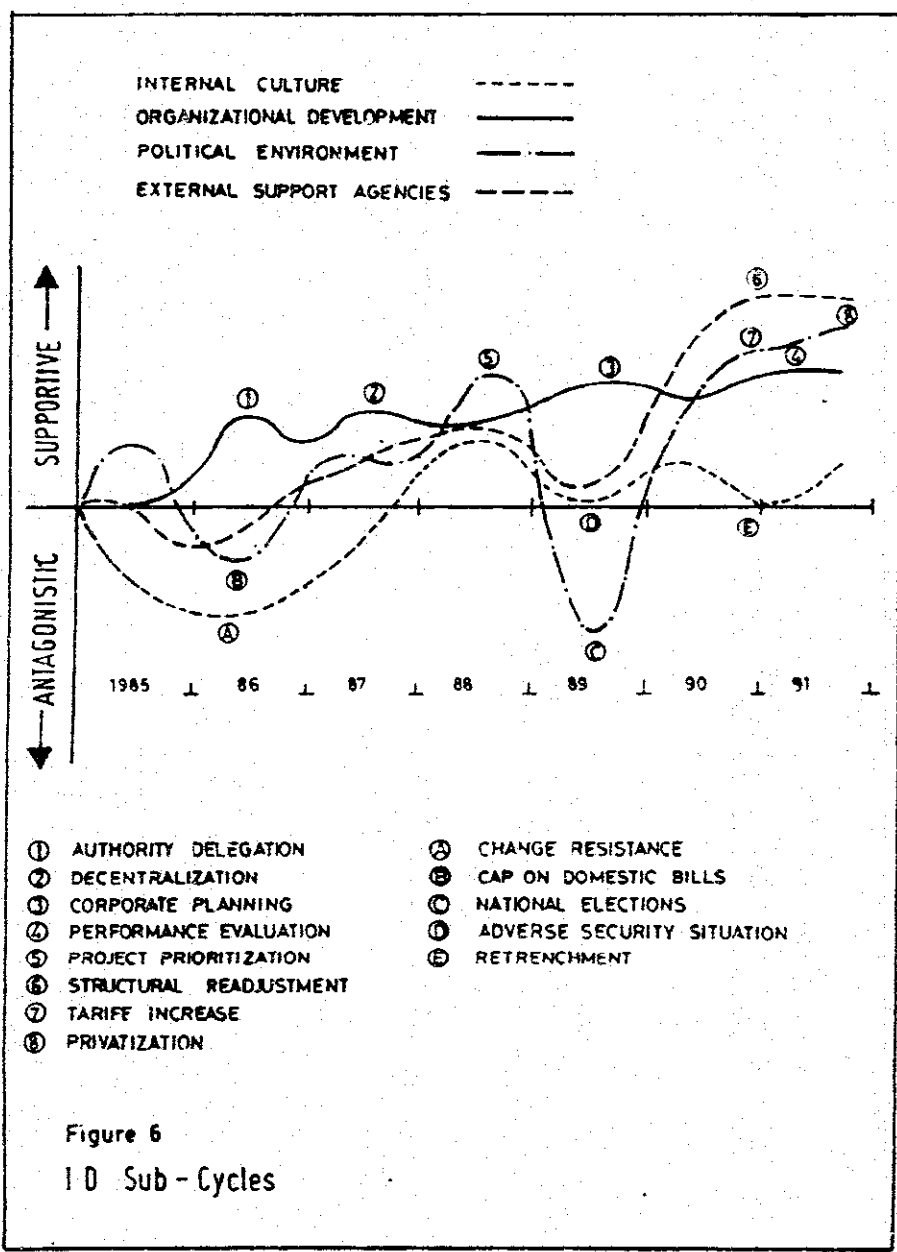


Figure 6  
I D Sub-Cycles

1984	<u>PROJECT DESIGN</u>	DONOR DRIVEN
1985	<u>LEARNING/ADJUSTING</u> • NWSDB REORGANIZATION • RESTRUCTURING TA TEAM • NEW NWSDB CHAIRMAN	THREAT TO EXISTING ORDER/RESISTANCE TO CHANGE
1986	<u>DEVELOPING STRATEGIES FOR CHANGE</u> • DEMONSTRATION PROJECTS • NEW PROCEDURES • NEW NWSDB CHAIRMAN	BEGINNING OF PROJECT ACCEPTANCE
1987	<u>IMPLEMENTING CHANGE</u> • DEFINE NWSDB VISIONS • DEVELOP PERFORMANCE INDICATORS • NEW NWSDB GENERAL MANAGER	CRITICISM BECOMES CONSTRUCTIVE
1988	<u>WIDEN CHANGE SCOPE</u> • INCREASED AUTONOMY • DONOR COORDINATION • ACCELERATE DECENTRALIZATION	CHANGE FROM PERSONAL TO CORPORATE AGENDA
1989	<u>CONSOLIDATION</u> • CORPORATE PLANNING • MANAGEMENT ACCOUNTABILITY • BUDGET DISCIPLINE	FINANCIAL MANAGEMENT MATURITY
1990	<u>WIDEN CHANGE SCOPE</u> • EXPANDED DECENTRALIZATION • COLOMBO MASTER PLAN • ENHANCED DELEGATION	IMPROVED NWSDB PERFORMANCE RECOGNISED
1991	<u>TOWARDS SUSTAINABILITY</u> • NATIONAL SECTOR POLICIES • RSC FINANCIAL AUTONOMY • EMPLOYEE PERFORMANCE EVALUATION	FINANCIALLY VIABLE- POLICIES UPHELD/ INCREASINGLY INSTITUTION DRIVEN

Figure 7

### Institutional Development Phases

In the case of the NWSDB, the sudden-shock approach was used for project start-up. There were a number of reasons for this decision. The project had been developed during 1983/1984 through visits of USAID-sponsored experts to assess NWSDB operations and it was firmly believed by USAID that the recommendations of such visits were wholly appropriate, to the extent that they were enshrined as concrete objectives and outputs in the Project Paper. An additional reason was that the timeframe for the project did not permit a gradualist approach. Although the Project Paper specified an overall 5-year period, from project authorization in August 1984 to completion in August 1989, the period allotted for TA input was only 40 months. It is probably correct to state that although this sudden-shock approach to project initiation and the almost wholly prescriptive nature of the project design were totally counter to the more traditionalist philosophy of the gradualist approach, with all that it implied in terms of building client ownership of the change process, the positive result was that the institution was forced into addressing the change issues.

The "learning/adjusting" and "developing strategies for change" phases (Figure 7) which were evident during the initial project implementation period of 1985/1986, were symptomatic of the project start-up approach. The natural resistance to change which had been simmering since the project started in April 1985 finally came to a head towards the end of the year with a succession of accusations from the NWSDB engineer-managers that the TA consultants were not having any beneficial effect and were in fact counter-productive. These accusations were directed to the parent Ministry and the net result was the changes in key TA team members and NWSDB executive management previously referred to.

One positive outcome of this change resistance was that the ready use made by those mounting the resistance to seek support from the external, political environment, was instrumental in bolstering and improving the liaison process between the ID consultants and the same external forces. There was now a common meeting ground and it was found that the objections raised by the various pressure groups could be put in perspective and almost totally nullified by the adoption of appropriate strategies which had the backing of the external political sector.

### Identification of Key Areas

As the project progressed and the initial resistance began to subside, a strategy was mapped out to prioritize the consultant input in such a way that success could be achieved in key areas which would in turn generate increased support for further changes. The initial concept of overall outreach was changed to one based on pilot demonstration projects. In the time available and with the limited specialist resources (at least until the prime contract was amended) it quickly became evident that a great deal of effort was being expended for very little return. Countless consultant hours were being spent in protracted deliberations over such issues as job specifications, scheme design criteria, community participation techniques, and commodity listing. Important as these issues were, they were not directed towards the major focus of change to create a commercially-oriented water supply agency with considerably enhanced autonomy, in terms of its freedom to develop policies and implement procedures.

Six principal pathways to institutional strengthening were identified, not all at once, some only became apparent in the second year of the project. These pathways are identified in Figure 8, the pathway - nodes signifying specific interventions which were key building blocks in securing goal achievement.

The concept of pilot demonstration projects was applied to almost all the pathway nodes shown in Figure 8. In this way a more intensive concentration of effort could be directed, usually in a specific region, problems ironed out in a collaborative mode, and ownership by NWSDB staff secured relatively early.

The positive result of demonstrating the applicability of a particular strategy in one area was that the NWSDB staff associated with the pilot test became advocates of the process and helped to "sell" it to the rest of the institution. Also, as the project progressed, those regions or areas which had not been involved in the test started to demand that they also be included, they did not want to be left behind. Eventually, the process developed its own momentum and, particularly in issues related to decentralization, accelerated and expanded to such an extent that it was difficult for the ID team to provide the necessary support.

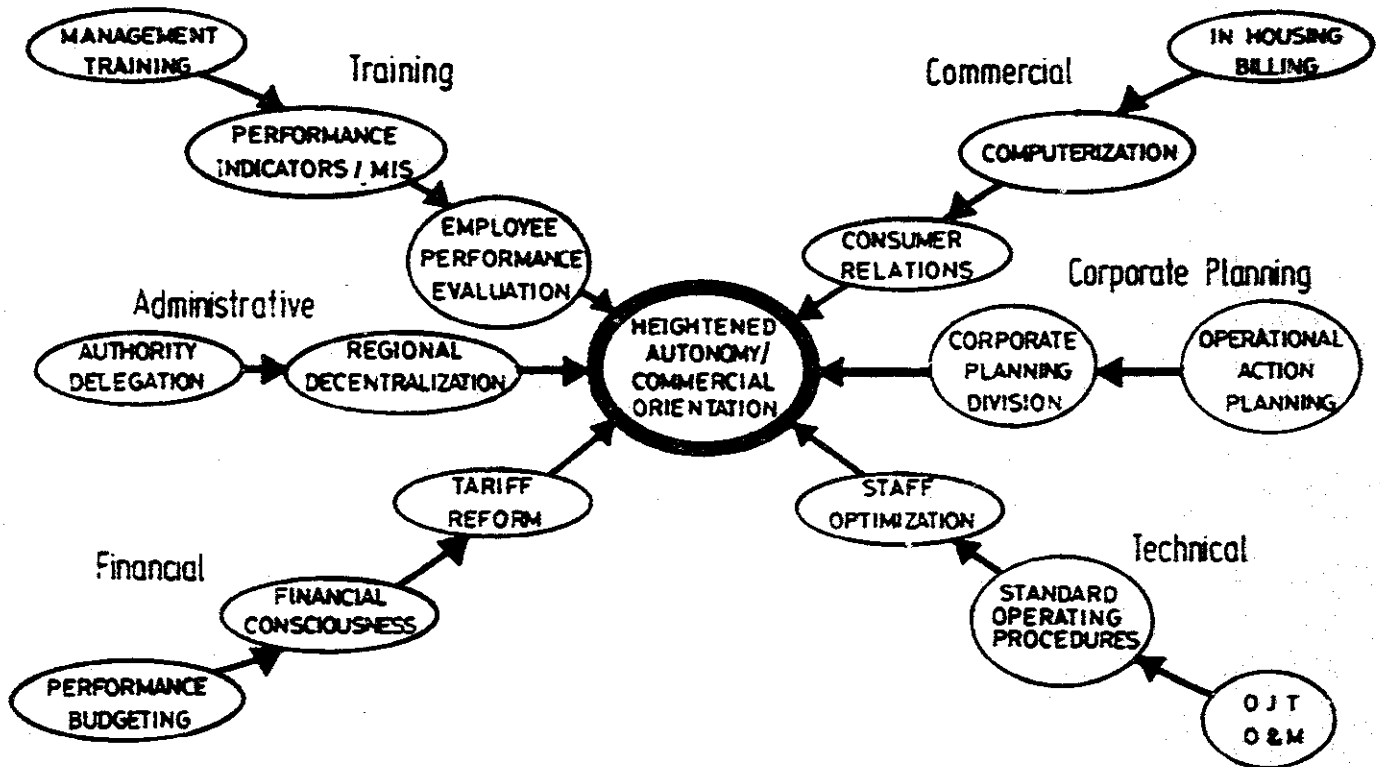


Figure 8

Principal Pathways to Institutional Strengthening

## TYPICAL ID INITIATIVES

### Decentralization

Decentralization of the N&SDB was without doubt the most significant ID initiative undertaken, not least because it resulted in so many other positive spin-offs which assisted the ID momentum overall.

The five RSCs as existing in August 1991 are shown in Figure 9. A high degree of decentralization had been achieved in two RSCs, (Southern and Central), a somewhat lower level in Greater Colombo and Western RSC and, with the exception of Ampara Region which came under the temporary purview of Central RSC, no progress at all in North-Eastern RSC because of the continuing adverse security situation.

The degree of Head Office authority delegation achieved was far in excess of that ever envisaged at the start of the project, the shift of functional area responsibilities being summarised in Table 1. One of the key components of the decentralization effort was the delegation of financial responsibility. The level of financial authority enjoyed by the RSC senior managers at the end of the project was twenty times greater (Rs.500000 compared to Rs.25000) than that enjoyed by the engineer managers responsible for regional operation at project inception.



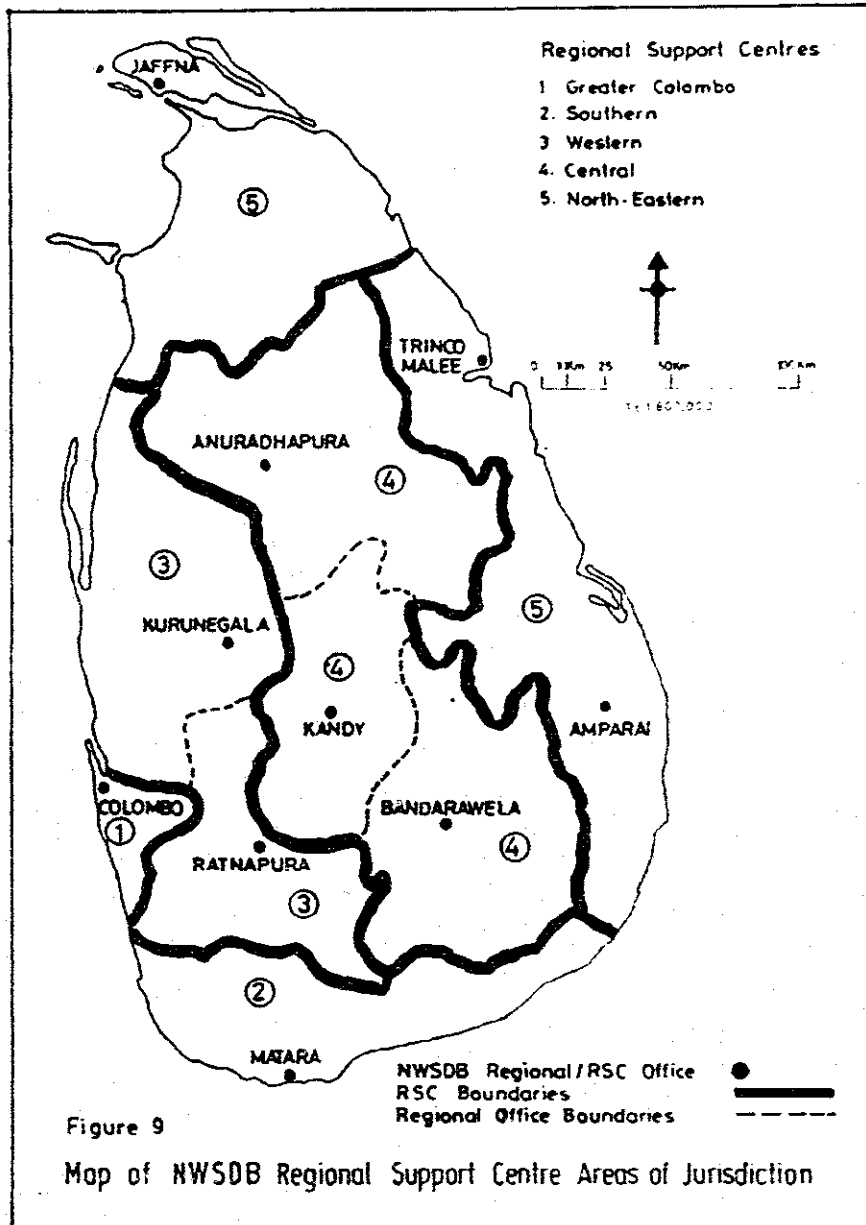


Table 1. Division of Responsibilities Between Head Office and the RSCs

Head Office	Regional Support Centre
<ul style="list-style-type: none"> <li>o water sector master plans</li> <li>o planning/design/construction supervision (major new and rehabilitation projects)</li> <li>o corporate planning</li> <li>o policy preparation</li> <li>o development of new management systems</li> <li>o financial reporting</li> <li>o personnel functions</li> <li>o audits/quality assurance</li> <li>o bulk purchases/imports</li> <li>o training (overseas, inter-agency coordination)</li> <li>o performance evaluation</li> <li>o MIS coordination</li> <li>o national data bank</li> </ul>	<ul style="list-style-type: none"> <li>o planning/design/construction supervision (extensions, minor new and rehabilitation projects)</li> <li>o groundwater development</li> <li>o operations and maintenance/water quality monitoring</li> <li>o community support/sanitation</li> <li>o billing/collection</li> <li>o financial management/budget control</li> <li>o personnel functions</li> <li>o local purchases</li> <li>o local and on-the-job training</li> <li>o performance evaluation</li> <li>o MIS</li> <li>o liaison with decentralized government agencies</li> <li>o training</li> <li>o regional data bank</li> </ul>

It is difficult to summarise the ID approach that was used to achieve this decentralization success. So many interventions were running concurrently that there was not, in fact, one specific intervention labelled "decentralization." If it is possible to define the "model" that evolved, it is probably something on the lines of that shown in Figure 10. The ID team were involved in each of the activities indicated, with the intensity of involvement decreasing as the project progressed and the RSC staff gained more confidence in trying out new systems themselves without consultant support.

It is pertinent to note that decentralization is a time-consuming process. In general it required from about 2 to 2.5 years to achieve 50% decentralization status and from 3 to 3.5 years to achieve 80% status.

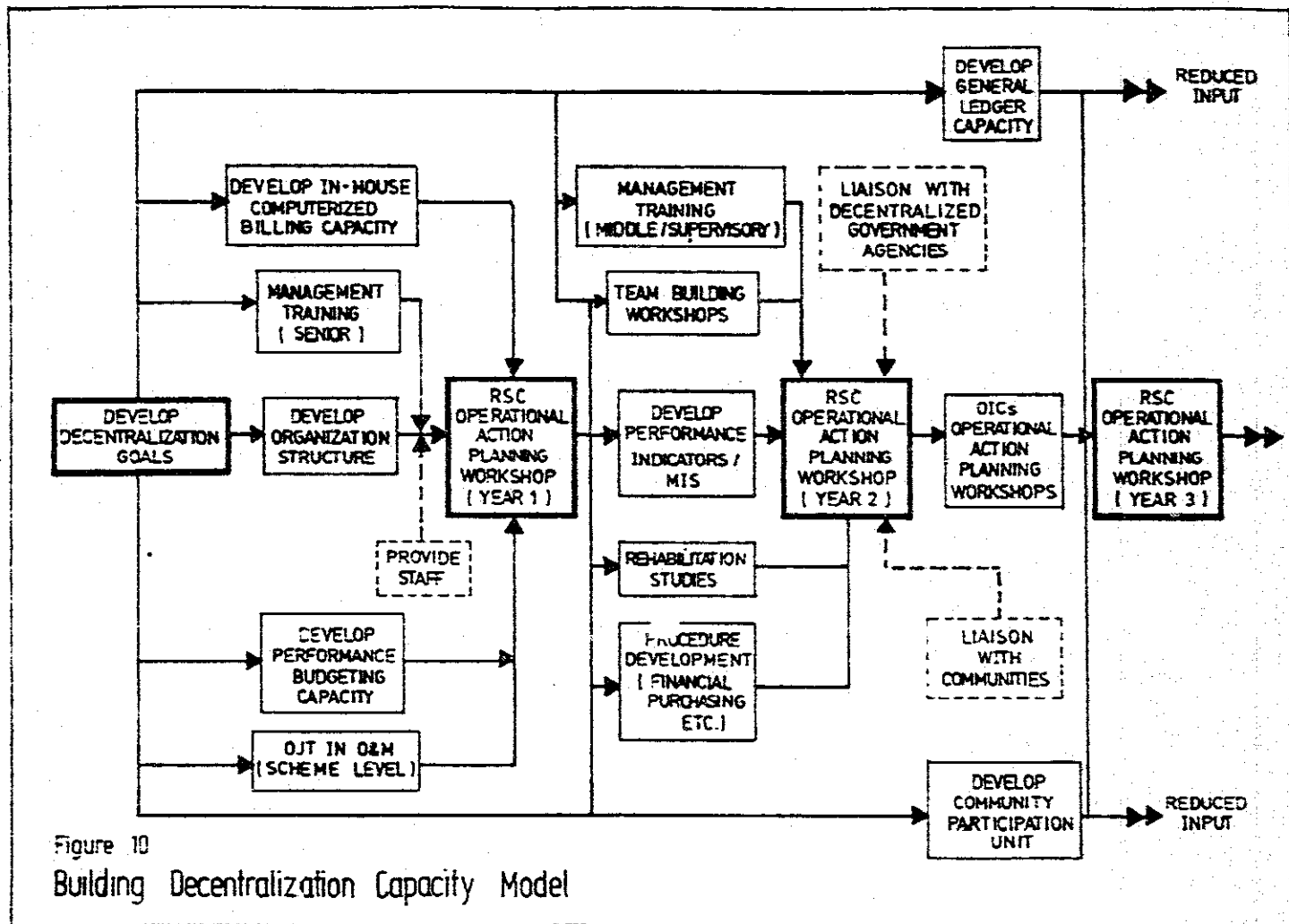


Figure 10  
Building Decentralization Capacity Model

The overall national decentralization programmes also stimulated further decentralization within the RSCs. An innovative approach first introduced in Southern RSC was the concept of a "Mobile RSC Office" whereby the RSC management and support staff visited towns in their area of authority on a rotation basis in order to discuss problems and explain the reasons for such measures as tariff increases, service interruptions, etc. The "Mobile Office" had the effect of introducing consumers to the District Engineer, OICs and other staff responsible for their area and also improved the responsiveness of the NWSDB staff to the consumers. This concept was most successful in the south of the country where the civil insurrection had created a wide gulf between the people residing in the area and public-sector officials. In 1991 Central RSC also adopted the strategy with similar success.

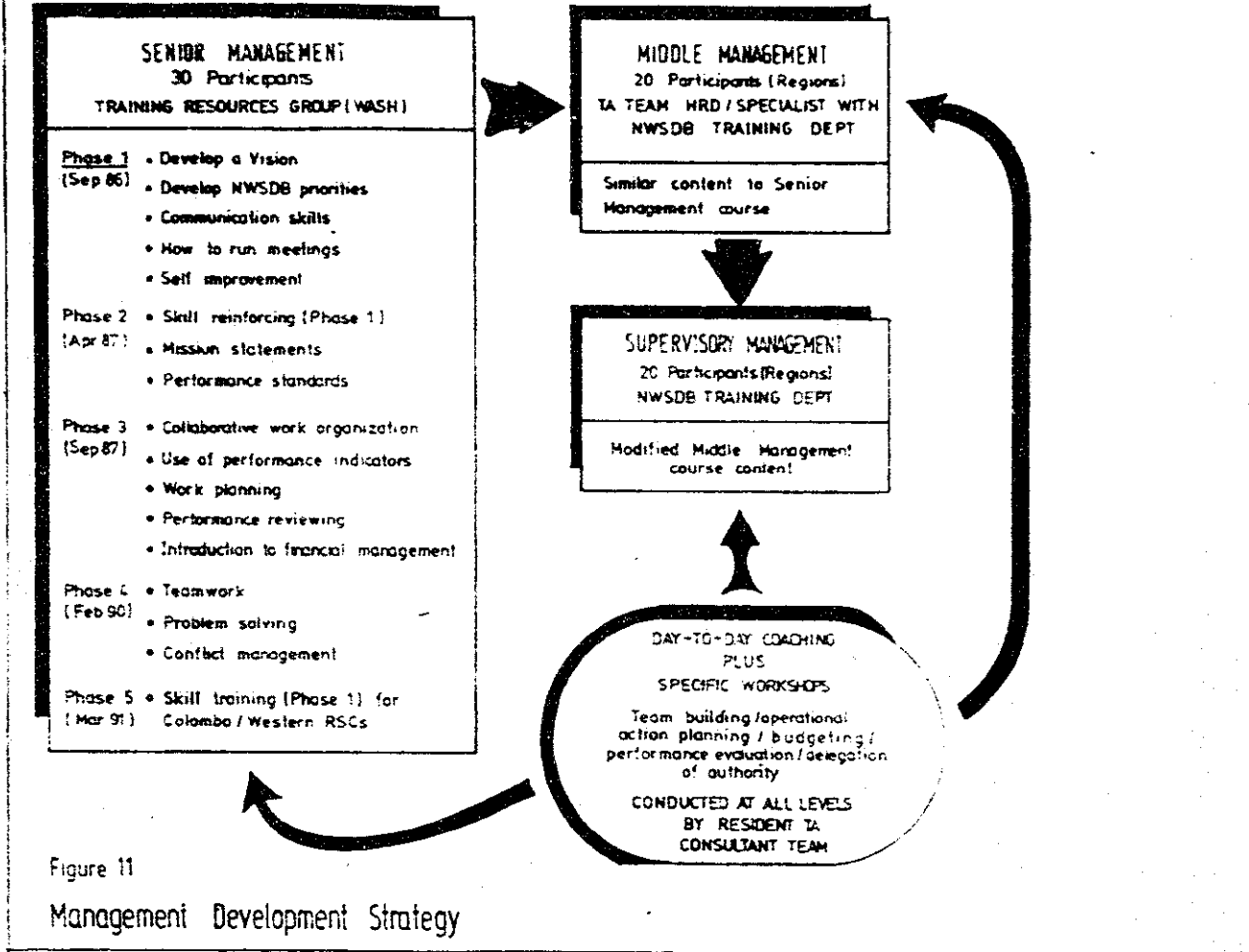
### Management Development

The management profile of the NWSDB in 1985/1986 tended to show the following characteristics:

- o Unwillingness to make decisions
- o Limited delegation of responsibility, most decisions, even of an operational nature, made by executive management
- o Power and influence dominated by civil engineers who had a strong bias towards capital works
- o Limited group management skills, meetings dominated by individuals who were generally the most senior managers present
- o Lack of accountability and suppression of initiative, reluctance to be innovative
- o Absence of basic management systems (MIS, performance indicators, budgets)
- o Strong sense of pessimism and criticism of the institution
- o Strong resistance to change, although there was an awareness that change was required

The management development intervention comprised a series of interconnecting levels and continued at varying degrees of intensity over the duration of the project. The basic strategy, as shown in Figure 11, was to actively follow up the formal training courses with day-to-day coaching by the resident TA team. This follow-up manifested itself in two ways, through facilitating and assisting in every-day operational issues and through workshops designed to address specific issues. These workshops ranged from half a day to three days in duration and whenever possible were held away from the office, usually in a resort hotel. As for senior management training, the workshops were preceded by an intensive series of surveys designed to clarify need assessment, to surface problems and to secure the involvement of the NWSDB staff in the design and actual implementation of the training event.

Building team spirit was a hidden agenda in almost every management development initiative. The TA team laboured the point continually, constantly showing how the managers could profit from the support and experience of their peers and how a cohesive group was better able to establish a positive identity and thereby demand and receive additional resources. Over time, particularly at the regional level, high levels of team spirit were developed, regardless of the professional leanings of the managers or their seniority. A truly decentralized corporate identity came into existence during late 1989/early 1990, the upsurge of activities following the breaking of the JVP insurgency and the huge national sigh of



relief with which it was accompanied, served as a spur to this development.

A retrospective evaluation of managers' performance over the life of project showed that only those who had been involved in active day-to-day coaching by the TA team were able to adjust their management styles to suit different work situations. The observation suggests, although admittedly from a small sample, that formal training courses alone do not result in institutional management development. The key is continuing support and reinforcement through day-to-day facilitating and coaching on the part of resident ID consultants.

#### Corporate Planning

The initial project objectives envisioned the formation of a corporate planning committee as a key step in the institutionalization of the process and early in 1986 a committee was formed, based in the Ministry of Local Government, Housing and Construction (MLGHC) and chaired by a senior Ministry officer at the Additional Secretary level. Membership of the committee comprised the NWSDB Chairman and GM with co-opted members comprising the USAID Project Officer, the TA Project Manager and others as necessary depending on the agenda items. Later in the year the committee membership was expanded to include the MLGHC Director of Policy and Planning and a senior NWSDB manager to serve as technical secretary. The committee met monthly and reviewed and decided on policy and procedure recommendations submitted by various task forces and working groups. Typical items addressed were limits of financial and administrative delegation, procedures for project selection, functional area reorganization, role of community participation and financial viability.

Useful as these meetings were it soon became apparent that the committee was not actively helping the creation of a corporate planning process in the NWSDB. Being based in the MLGHC and chaired by a Ministry official it was little more than a formalized process to secure government clearance on policy and procedure recommendations emanating from working groups.

During the first half of 1987 when the rapidly deteriorating financial status of the NWSDB became recognised, a request was made to USAID by MLGHC for the TA team to take on line management responsibilities. USAID did not agree to placing the TA consultants in line management positions since even ignoring any potential serious problems of contractual responsibility for NWSDB operations, this was rightly seen as a move guided by a desire to solve short-term problems (primarily those related to financial viability) and one which would not be in the long-term interests of the ID process. Line management responsibility would also be totally contrary to the basic principles of process consultation. The decision was made to disband the corporate planning committee and to form a Management Cell which would report direct to Secretary/MLGHC on ID progress. The Cell comprised NWSDB executive management, the TA Project Manager and his deputy and the resident expatriate advisor to Secretary/MLGHC.

Although the Management Cell served an essential role in the policy development area, particularly with respect to preparation of Cabinet Memoranda on performance improvement strategies, deliberations on tariff reform, extent of decentralization, etc. it still did not meet the needs of establishing a truly participative in-house corporate planning capability.

Early in 1990 the Corporate Planning Division (CPD) was established, headed by an Additional GM. The CPD had a high visibility, on a par with the operations area, and was well-positioned to enhance the status of corporate planning within the organization.

Throughout 1990 the CPD spear-headed a programme of workshops designed with the specific purpose of securing total NWSDB management involvement in the corporate planning process. Following a two-day workshop in April attended by virtually all senior management to discuss various approaches to secure such involvement, a programme of two-day operational analysis/action planning workshops was held in the four RSCs and for the Head Office/Planning and Design and Construction Departments.

The basic message on each occasion was that the preparation and execution of a corporate plan was a fundamental step towards achieving corporate management. At each workshop the participants evaluated the strengths, weaknesses, opportunities and threats affecting their operations, conducted performance reviews and prepared formal plans for the three specific areas of O&M, water supply coverage and financial/management issues.

At a reconvening of all NWSDB senior managers at an intensive one-day workshop in September 1990 the individual area-based action plans were compressed into a NWSDB-wide action agenda with specific goals and more short-term targets established for the key areas of:

- o Decentralization
- o Service coverage (population served, new schemes/rehabilitation, policy on capital investment)

- o O&M (reduction in unaccounted-for-water, improvement in water quality, preventive maintenance)
- o Management improvement (staff optimization, employee evaluation, overtime control)
- o Financial issues (cost recovery, billing/collection targets, tariffs, decentralized financial autonomy)

Based on the outcome of the September 1990 institutionalization of corporate planning workshop, the CPD prepared the 1991 Corporate Plan which was issued in the first quarter of the year. The plan concentrated not only on specific NWSDB objectives but also introduced a new national strategy designed to secure total coverage of the population by adequate water supply and sanitation facilities by the year 2000. The plan and strategy were presented at a two-day workshop in March 1991 attended by representatives from the major ESAs active in the sector and from the national implementing agencies (formal and informal sectors).

This event marked a significant turning point in the development of the NWSDB. The evolution of the corporate planning process had resulted in the NWSDB changing from being totally reactive to parent Ministry dictates on matters of policy, to not only reaching out to reshape and guide the national sectoral environment, but also to demonstrate the confidence to present its ideas in an open forum before foreign donors and the Sri Lanka political lobby.

#### Financial Viability

The key project objective to turn the NWSDB into a financially viable organization was approached through a combination of the following ID initiatives:

- o Billing and collection improvements
- o Performance budgeting (develop financial consciousness)
- o Management development (initiate performance-based operations)
- o Corporate planning (raise visibility of financial viability goal through interaction with external environment)
- o Financial procedures (upgrade existing systems)
- o MIS (provide timely financial information)
- o Cost containment measures
- o Tariff reform

The basic strategy was to awaken an interest among NWSDB management (at all levels) for financial discipline and improvement, to develop the mechanisms to enable financial information to be made widely available in a timely fashion, and to develop collaboratively financial targets supported as necessary by key actors in the external environment (notably ESAs, MHC and Ministry of Finance).

A more rigorous approach to cost control was developed through the introduction of a performance-based operations budget from 1988 onwards. This technique placed the responsibility for budget preparation on the line managers, with costs and inputs having to be matched to performance and output.

The introduction of performance budgeting drastically improved cost-control and management effectiveness overall. As shown in Table 2, with the exception of 1989, actual expenditures from 1988 onwards were less than 3% above budget. The exceedance in 1989 was caused by a government - mandated salary increase of about 45% which was promulgated just before the national elections. The NWSDB had no control over this cost.

The management-improvement benefits resulting directly from the introduction of performance budgeting were numerous, the more significant being:

- o Improved communications between plant managers, regional managers, and executive management
- o Increased willingness to discuss performance openly against quantifiable indicators
- o Acceptance of the need for financial management to be an integral component of operations management
- o Enhanced understanding of financial issues by technical staff
- o Acceptance of an element of competition to improve performance through the adoption of performance-related incentive schemes
- o Sharing of experiences and identifying new initiatives to increase collections and reduce costs
- o Recognition that increased management responsibility must be preceded by improved financial performance
- o Collaborative goal setting
- o Increasing establishment of a corporate identity

Table 2. NWSB Financial Performance

Year	Billings (Rs.M)	Collections (Rs.M)	O&M Budget (Rs.M)	O&M Cost (Rs.M)	Budget Exceedance (%)	NWSDB Inflation (%)	O&M Cost Increase (%)	O&M Cost Recovery (%)	O&M Deficit (Rs/M)	O&M Plus Debt Service (Rs.M)	Total Cost Recovery (%)	Total Deficit (Rs.M)
1984	224	56	-	179	-	17.1	9.8	31	123	212	26	186
1985	256	119	-	195	-	14.9	8.9	61	76	293	40	150
1986	209	163	190	225	18.4	5.6	15.4	72	62	316	51	155
1987	267	191	272	287	5.5	2.5	27.6	67	96	504	38	313
1988	287	240	358	365	2.0	18.1	27.2	66	125	598	40	158
1989	282	221	367	391	6.5	18.5	7.1	57	170	685	32	364
1990	503	422	413	425	2.9	14.5	8.7	99	3	548	77	125
1991	894	774	441	441	-	-	3.8	176	(333)	481	161	159

Notes. Collections include arrears, 1991 data are budget projections.

The introduction of an efficient billing and collection system was seen as a fundamental key to improving the financial status of the institution. However, it was recognised that the introduction of improved billing systems alone would not necessarily result in improved collections if the service provided to the consumer did also not improve. The comprehensive nature of the ID project allowed parallel interventions to take place in the areas of service improvement (increased emphasis on rehabilitation, improved water quality) and consumer relations, with attention also being paid to cost containment, thereby lessening the severity of future water price increases. An in-house microcomputer-based billing system was installed initially in Greater Colombo and gradually extended to cover all the regions (except the North-East RSC) by the end of the project. The in-house system cost was only about 65% of that of the private bureau used previously, and the system produced impressive results.

The billing lag time (the time between meter reading and receipt of bill by consumer) which had averaged 6 months when billing was being carried out by a private bureau was reduced to 30 days. Because of the improved service, consumer billing complaints fell dramatically from over 10% of billed connections to below 2% by 1989, although there was an increasing trend from 1990 onwards, up to about 4% in 1991, as a result of tariff increases and resultant queries by consumers as to why their bills were suddenly higher.

Current collection ratios improved also as the consumers became accustomed to having to pay for water and the NWSDB became more aggressive in its collection practices. For example, during the first half of 1991 Colombo collections within 2 and 6 months of bill posting averaged about 60% and 74% respectively, compared to about 15% and 50% in 1986 when in-house billing and record-keeping commenced.

With the gradual development of a financial consciousness among NWSDB managers, both the attitude to waste and the lack of cost control changed, with the result that operating costs as a whole were held below inflation, a significant achievement which vindicated the emphasis placed on performance budgeting as a management development tool. As shown in Table 2 annual operating cost increases during the life of project were below annual inflation rates from 1989 onwards, the year after performance budgeting was first introduced. The high cost increase in 1988 resulted from an average 45% increase in salary levels mandated by government, and an increase of about 16% in electricity tariffs. These increases, over which the NWSDB had no control, were particularly onerous since personnel and electricity together typically account for a 85% of total operating costs.

With the approval of tariff increases in 1990 and 1991 and the implementation of a staff cost reduction programme (based on overtime control, use of scheme caretakers and pensionable retrenchment) the financial situation of the NWSDB at the end of the project was vastly improved from that existing at project inception (Table 2).

#### Human Resources Development (HRD)

The development of an expanded training competence within the NWSDB was based on a strategy of Training of Trainers (TOT)/On-the-job training (OJT) and the extensive use of other training resource centres available in Sri Lanka. As the project progressed there was a significant change in emphasis from formal classroom training to OJT using NWSB officers in a



training mode. This was particularly successful in the O&M, financial and commercial areas with substantial skill upgrading taking place in the regions. In addition to the QJT programme a significant amount of skill training was given by the ES Training Specialists and NWSDB Training Section staff. During the last two years of the project, for example, the Training Section was able to offer in excess of 5000 person-days of training per quarter, compared to only 732 person-days during the last quarter of 1985.

Some of the most impressive skills training was in upgrading basic management competence for middle managers and supervisors. These formal courses proved to be very successful, being carried out throughout the regions on a rotational basis. Networking was used extensively in an attempt to secure replication of achievements in one area across the whole institution.

Throughout the project great stress was placed on learning from water authorities in other less developed countries (LDCs), particularly those in similar conditions (climate, socio/economic status). Study tours were arranged to Singapore, Penang (Malaysia) and SANEPAR (Brazil), the latter two authorities were recognised as being highly efficient models of utility agencies in LDCs.

During 1990 the NWSDB played host to visits by water utility officers from Bangladesh who had requested an exposure to NWSDB operations. Furthermore, in 1991 a request was received from Hanoi for the NWSDB to provide training to 12 officers in a range of functional areas. A small beginning perhaps, in the sense of the NWSDB become a centre of technology transfer and HRD for water supply agencies, but it demonstrates that the successful ID of the NWSDB was being recognised internationally. Such recognition and a request to share in the institution's experience was a quantum leap from the situation existing in 1984.

The development of an employee performance evaluation system was a key component of the upgrading process. A two-pronged strategy was used to build up an acceptance of the principles involved, this strategy comprised stimulating the demand and defining the procedural details. A period of 4 years was necessary to gain widespread acceptance as shown below:

Build Recognition of Need:

Mission statements	1987
Operational performance indicators	1987
Management information system	1988
Performance budgeting	1988
Operational performance review meetings	1988

Define Procedures:

Board of Directors approve policy	Nov 1986
Workshop procedure overview	Jun 1987
Working group recommendations	Nov 1988
Field test Kandy Region	1989
Adopted as corporate goal and procedure defined	Sep 1990
Implementation training workshop in each functional area based on case studies	Jan 1991

The recognition of need accelerated from 1988 onwards when it became apparent through operational performance review meetings that target non-achievement was not just system related, but also people related. With the enhanced management competence resulting from the formal training courses, and the introduction of performance budgeting and decentralization, the more progressive managers began to realise that the seniority system did not encourage promotion of the most competent people. It also came to be realized that an employee performance evaluation system would remove the growing frustration which was directly attributable to the seniority system.

One of the attractive aspects of the system was a performance award, equivalent in value to an annual salary increment, which it was decided would be given to those achieving more than 80% in the evaluation scoring system. Preliminary indications following the first series of evaluations carried out in 1991 were that considerably less than 5% of those evaluated were recommended for the award. At the other end of the scale, those scoring below 30% were not awarded the annual salary increment. About 10% of those evaluated fell into this category.

This ID initiative was a good example of how careful coaching, backed up with sound, collaborative demonstrations can realise success. The approach was gradual, not rushed, and any increase of pressure was carefully controlled to parallel the frustration among NWSDB officers resulting from the inadequacies of the traditional method of staff assessment and promotion.

### Community Participation

Community participation was a principal component of the project element to improve health education and rural sanitation services. A specific unit was established early in the project with the following functions:

- o To help other sections of the NWSDB in identifying and solving sociological problems in water supply and sanitation
- o To assist appropriate agencies in the government and the non-governmental organizations in understanding people and promoting self help and self reliance so that people could actively participate in the planning, construction and operation and maintenance of water supply and sanitation projects
- o To ensure proper use of water and sanitation facilities
- o To provide orientation and training in health education, environmental sanitation, control of water and sanitation related diseases, community organization and participatory approaches to NWSDB employees, field level officers of related government departments and personnel of the NGO sector
- o To experiment with and share innovative methods and materials in rural water supplies and sanitation with the MOH, other agencies and the NGO sector

Approaches to community participation were tested using demonstration sub-projects. Progress on water supply upgrading in these sub-projects was slow as a result of the inordinate amount of time taken to secure the involvement of the NWSDB planning and design staff. On the other hand, community participation, health education and latrine construction, all

proceeded on schedule through the dedication of the sociologists and MOH officers responsible for collaboration in the field. All the sub-project communities were integrated into the project cycle, health education curricula developed and utilized and 5400 adult latrines constructed. An additional 1300 pre-school latrines were also constructed which demonstrated a significant impact on childhood diarrhoea episodes. Approximately 370 volunteer village health workers were trained to carry out health education activities.

At the end of the project the specialised unit (Community Participation Unit - CPU) was slowly advancing its coverage among the RSCs, with sociologists being attached to Southern, Western, and Central RSC. With the active support of ESAs, most projects outside the Greater Colombo area now included an element of community involvement, perhaps not as detailed and intensive as that developed on the demonstration sub-projects, but a start nevertheless. Also, affordability considerations were now an integral part of the project selection process and the formation of standpost committees was becoming almost a routine matter.

### Engineering Initiatives

The scope for ID initiatives in the engineering aspects of the NWSDB's operations was immense. This was understandable since the agency had traditionally concentrated on planning, design and construction supervision of new water supply facilities. However, developing ID strategies for the engineering area was a veritable minefield since one immediately came face-to-face with the formal point of change resistance, not just resistance to the change in overall mission, but a more fundamental opposition to being told that existing technical procedures could, perhaps, profit from some improvement.

Since it was obviously an impossibility to attempt to cover all areas, the decision was made to concentrate on the planning area, together with the production of a series of technical procedure manuals. In addition support had to be given to the regional facilities programme and to the establishment of a new Research Section. This programme effectively ignored construction supervision, but it was believed that of the basic engineering functions being carried out by the NWSDB, that the staff were reasonably experienced at site supervision and construction management because of the recently completed Southwest Coast project. Other consultants were available in any case under later World Bank funded assistance to help develop this activity. This supposition was vindicated by the excellent performance demonstrated on the construction of the demonstration sub-projects.

The demonstration sub-projects were used as a testing ground to develop manuals on prefeasibility and feasibility studies. Emphasis was placed on the need to involve the community from the beginning of the project-cycle. A detailed procedure was developed for project prioritization which later proved to be one of the key foundation blocks for helping to build an institutional capacity to resist political pressures for new schemes regardless of real need or financial viability.

The procedure laid down a step-by-step approach to involving the community, analysing the technical, social and financial feasibility and securing an agreement with the local authority, covering such items as

cost recovery, prior to commencement of construction. A Project Evaluation Committee was formed to implement the procedure and to prioritize the competing projects. The procedure was approved by the MLGH and circulated among all local authorities and Members of Parliament (MPs).

An important component of the decentralization and reorganization efforts was the construction or rehabilitation of physical facilities, particularly regional offices, workshops and laboratories. The programme was large but was plagued by delays and stoppages almost from its inception. The situation at the end of the project was that out of 23 programmed physical facility installation contracts, 6 had been satisfactorily completed, 3 were to be completed at a later date using the NWSDB's own resources, and 14 others never got off the drawing board, were abandoned at the tender stage because of non-responsive bids, or were affected by the adverse security situation. The less than total completion did not materially effect the overall decentralization programme since other arrangements were made, primarily through additional space and facilities being provided by other donors.

Obviously the adverse security situation was the prime factor for the lack of progress in Jaffna, and to a lesser extent in the Ampara Region. However, failures in the other areas appeared to be the result of a combination of low calibre contractors, less than adequate site supervision (in the sense of recording contractors's performance against targets), delays in completing design and contract documents, a refusal by government to accept bids for housing contracts which were above the engineer's estimate, price escalation over and above normal inflation rates (USAID stipulated fixed price contracts), and an overall reluctance on the part of the NWSDB and the local consulting engineering company to pressurize the contractors. The USAID-mandated strategy to use a local consulting engineering company was not welcomed by the NWSDB and the priority given to this programme thereafter was low as a result.

A point worth mentioning is that the space requirements in the RSC offices at the end of project were 30 to 50% greater than envisaged during facility design. This was because the expanded decentralization programme now included the CPU, a computer unit, groundwater and enhanced financial services (general ledger, payroll in particular).

#### INNOVATIVE ID STRATEGIES

Four key strategies were adopted to achieve successful ID. These were inculcating ownership, developing a team spirit, establishing a corporate identity and involvement of the external environment. By themselves they would not have had any impact on institutional upgrading. All four strategies operated within and around a web of discrete interventions, typical examples of which are listed below. The strategies supported the interventions, whilst at the same time the interventions depended on the strategies:

- o Corporate planning - introduced an operational analysis and action planning capability
- o Financial management - through performance budgeting and billing/collection procedures a financial consciousness was developed

- o Public relations - widened the vision, built confidence and narrowed the gap between the institution and its customers
- o CPU - involvement of the community in the project cycle
- o O&M - changed the emphasis from building new schemes to providing the consumer with a better quality service

### Inculcating Ownership

The TA team used four approaches to develop NWSDB ownership of change strategies. These were as follows:

- o One-on-one coaching
- o Pilot demonstrations in restricted areas
- o "Catalyst papers" to key decision-making/policy review groups
- o Collaborative working groups covering a wide spectrum of NWSDB managers

One-on-one coaching was the favoured approach for addressing the definable individual problems, particularly those related to management style. However, the time taken to "sell" a new management style could take as long as two years, even with regular one-on-one sessions at monthly intervals. The period shortened as the project progressed because as time went on it was possible for the client to draw comparisons with colleagues in the institution - real live role models being always better than examples from the consultant's previous experience.

The pilot demonstration approach was commonly used to try out the various primary interventions prior to their being replicated across the institution. Examples included the basic concept of decentralization, MIS, in-house billing and collection and O&M training. The approach was better suited to those issues which impacted more than one individual or group of people, all the examples listed had wide ranging effects, being multi-functional area in nature.

The approach of "catalyst/papers" was simply the preparation of an issues paper (strategy/analysis) which reviewed the shortcomings of current policy and recommended a range of changes. These papers were tabled at policy review bodies such as the Management Cell where they were discussed and a decision reached that reflected the external political as well as the internal NWSDB environment. The role of the consultant in this approach was to prepare the papers, not to lead or try to influence the ensuing discussions. The responsibility for role of paper preparation was gradually transferred to the CPD as the project progressed.

### Team Spirit

A distinctly overt approach was usually adopted to develop a team spirit, namely to face the issue head-on and arrange regular meetings of managers at which the main topic of discussion was just that - how to work as a team. The advantages of teamwork were illustrated with case study examples, with every attempt being made to show how in many instances the group was already exhibiting teamwork even if it was not aware of it. This approach was most successful in the regions where the managers were quite young, willing to improve, and realised that they alone did not know all the answers. They also realised that strength grew out of cohesiveness and that a stronger region would be able to resist unwanted pressures from the external environment, which to their way of thinking also included Head Office.

## Establishing a Corporate Identity

Individual ownership followed by team spirit lead naturally to a corporate identity, provided that the goals of the organization are clearly defined, are achievable, and have been developed collaboratively.

The central theme running through the consultation sessions in all the TA activity was how to improve the institution. All the case studies and working group topics focussed on such issues as improving financial viability, improving consumer service, reducing plant down-time. etc. The concept of corporate identity did, therefore, evolve without too much recourse having to be made to overt strategies such as "corporate identity workshops." Of course, the interventions dealing with goal setting, mission development, performance budgeting, performance monitoring and in particular corporate planning, were all strongly supportive of corporate identity development even if it was not explicitly stated. The fact that the managers were negotiating and agreeing amongst themselves on institution - wide goals and targets inevitably transferred such debate from the personal (and group) to the corporate arena.

There was strong evidence of a sustainable corporate identity by the end of the project. The 1991 Corporate Plan was a good example of a corporate vision in practical terms, developed through an intensive series of collaborative workshops.

### Involvement of External Environment

This strategy was two-pronged. One aim was to reduce the negative involvement, the other to increase the positive involvement. The strategy recognised that the institution did not function in isolation and that the external environment represented a major source of positive and negative forces. At the start of the project few of the positive forces were in evidence.

### Reducing the Negative Involvement

Through the government structure/political lobby the NWSDB was impacted in five principal areas:

- o Finance - all capital finance was channelled through government, when collections did not meet O&M costs the NWSDB was entirely reliant on government subsidies
- o Scheme selection - the project prioritization procedure developed under the ID project required the parent Ministry to approve those projects being evaluated and also those being recommended for implementation. The procedure was bypassed on a number of occasions by government directive.
- o Staffing - pressures to hire unwanted staff were ever present, particularly prior to elections. The presence of resident politically-appointed members of the Board of Directors tended to encourage such hiring, and also encouraged the tendency for those staff members faced with disciplinary action to seek political support, often on spurious grounds
- o Internal procedures - despite being a public corporation, the NWSDB followed tradition in linking its remuneration, hiring and promotion policies to those of other line agencies of the parent Ministry. Direct interference by the Ministry was

related to the calibre of the senior Ministry officers. An administrative, rather than a results-oriented bias, would typically result in the NWSDB being sent circulars instructing executive management when to hold internal meetings for the purpose of receiving consumers, what hours to work in the office and even what items of furniture to purchase. This degree of interference quite naturally prevented any exercise of initiative on the part of NWSDB management and the whole area of procedural reform became emasculated, if not entirely stifled

- o Sector policy - it would be unrealistic to expect the NWSDB to be totally divorced from government policy regarding the national water supply sector. However, interference could arise if government attempted, for example, to minimize budget allocations for rehabilitation of existing schemes compared to construction of new schemes.

Over the course of the ID project a series of interventions were implemented which had the effect of lessening the negative involvement of the external involvement. These included:

- o Developing a financial management consciousness with resulting tariff adjustments and cost reductions
- o Developing project selection criteria, involving the community and developing closer liaison with the political lobby at the regional level
- o Developing job descriptions, upgrading management performance, building a team spirit and establishing a corporate identity
- o Introducing new personnel policies and procedures (particularly employee performance evaluation), considerably enhanced delegation of administrative and financial authority
- o Development of an in-house corporate planning capability

#### Increasing the Positive Involvement

Every attempt was made to harness the positive forces at work in the environment. These forces were represented by those ESAs with an interest in seeing the institution develop, and at the same time having strong financial leverage (through controlling loan disbursements); and key actors in government who had an objective interest in supporting any appropriate (and politically acceptable) initiative which would help to improve the NWSDB's effectiveness.

Most of the support was engineered to overcome cultural or political impediments to upgrading. A typical example of the former was when the recommendations of the first Tariff Task Force were presented to a meeting of senior managers. Certain representatives of executive management conveniently forgot that the task force had been a counterpart/consultant group, and instead placed the responsibility for recommending a price increase on the consultants! This about face was in order to show support for those senior managers who were politically against a price increase at any cost, and to sympathise with those who had not been involved in the task force. The harnessing of ESA support through the parent Ministry by way of setting financial conditions to loan disbursement eventually resulted in a tariff increase taking place.

## MEASUREMENT OF ID PROGRESS

Monitoring and evaluating the progress of an ID project is vastly different from monitoring a more conventional intervention which has clearly defined physical outputs. The WSSSP involved a mix of capital development (physical outputs) and TA, but by the very nature of the ID initiatives, the TA was not easily measurable since it was the counterparts who had the final responsibility for implementing the recommendations, not the TA team.

The inherent difficulties of monitoring an ID project were recognized by USAID right from the start and the Project Paper contained specific sections highlighting the critical questions, key indicators, data collection and analysis necessary for project monitoring and evaluation. Overall monitoring was carried out by USAID on the basis of a logical framework matrix which was designed to overcome the three major problem areas which tended to constrain meaningful project evaluation, namely vague project planning (multiple objectives not clearly related to project activities); unclear management responsibility (reluctance to take on responsibility because of external factors beyond management's control); and a negative attitude in general to the evaluation concept (caused by lack of clear targets and responsibilities).

An innovative and highly successful approach which was also adopted by USAID was the annual project monitoring carried out by a two-man team from the Water and Sanitation for Health Project (WASH). The team leader remained unchanged throughout the project and since he had also been involved in the initial project preparation he had a comprehensive appreciation of project needs. The second member of the team was selected to reflect a current priority area at the time of project monitoring.

The procedure used was as follows:

- o Monitoring team interviewed counterparts to assess their reaction to the project, to review progress, and to define problem areas and perceived priorities
- o Monitoring team interviewed TA team to assess problems and progress since last visit
- o Monitoring team interviewed USAID officers, parent Ministry officials and ESAs (if in-country at that time) to ascertain any positive/negative feedback or suggestions for priority shifts
- o Five-day workshop in an out-of-town location to address key ID issues and to develop an action plan for the next year. The workshop was attended by counterparts and the TA team
- o Presentation of final report with debriefings to USAID/Colombo, NWSDB executive management, Secretary/MHC and TA Project Manager

This annual event was respected and appreciated by counterparts and consultants alike since it gave an opportunity for all the main internal NWSDB actors involved in the ID process to meet, away from the demands of day-to-day operations, and to discuss objectively how things were going. The fact that the monitoring team leader had been involved with the project from the outset meant that he knew all the personalities involved and could stand back and analyse exactly what was happening and why. The TA team certainly found the event highly profitable since it enabled priorities to be re-focussed and helped prevent the consultants from becoming institutionalized themselves.



The TA team used the following techniques to review progress:

- o Staff meetings
- o Initiative review meetings
- o Monthly/Quarterly progress reports
- o Operational action planning

The operational action plan was the chief monitoring tool used by the consultants to quantify progress on a regular basis. The plan was flexible, in that new tasks were added as they evolved, and it covered the following main areas of activity:

- o Project management
- o Corporate planning
- o MIS
- o Decentralization
- o Billing and collection
- o Public relations
- o Engineering
- o O&M
- o Community support and sanitation
- o HRD/training
- o Colombo master plan update

A total of 154 individual tasks were identified, each task specifying the target date and person(s) responsible (a mix of counterparts and consultants). The technique was relied upon by the TA team to track specific initiatives and the inclusion of the counterpart names did result in some degree of leverage. The plan was submitted to USAID in each formal progress report.

Indicators of institutional performance were monitored throughout the project. The premise is put forward that the major part of the change in performance resulted from the ID project. It is believed that this premise is substantiated by the following facts:

- o The TA team was actively involved in mobilizing positive external forces (ESAs, parent Ministry)
- o The leverage exerted by the ESAs was designed in consultation with the TA team to ensure that it would have the desired effect, ie. that it was achievable
- o Formal ESA mission aide memoires made specific reference to the need to continue upgrading the institution through the resources of the USAID project, and in certain instances made favourable reference to specific ID initiatives
- o The TA team was acutely conscious of the need to harmonize the main direction of institutional upgrading with the changing political environment. This harmonization was achieved through regular briefings at the Secretary/MFC level
- o That resistance to change was eventually overcome is testament to the internal interventions taking place. The interventions were the sole purview of the TA team
- o The annual project monitoring reports presented an objective assessment of progress, and focussed almost exclusively on the linkages between ID inputs and NWSDB operational requirements

- o The counterpart staff, if questioned, would probably unanimously agree that the main reason for the change in the institution's effectiveness was the ID project

A review of key operational indicators for the before-project situation (year ending December 1984) and at the end of 1990 is presented in Table 3. Data for 1991 have not been included, other than for the capital budget, because the major tariff increase which became effective at the beginning of the year could give an over-optimistic end-of-project status. The 1990 data represent the real status as it was at that time, not estimates or targets. There can be no argument that in almost every case the NWSDB was in a far better position in 1990 than in 1984.

Table 3. Some NWSDB Key Operational Indicators

Indicator	Before Project (1984)	End of Project (1990)
Piped water produced (M cu m/y)	155 (a)	219
Unaccounted-for-water (% produced)	40-50	37
Billed connections (thousand)	79 (a)	185
Employees (total)	6100	7128
Billed Connections to employeeec ratio	13	26
O&M cost (Rs million)	179	425
Debt service (Rs million)	33	123
Billings (Rs million)	224	503
Billings (% O&M cost)	125	118
Billings (% total cost)	106	92
Billing lag time (days)	180	30
Collections (Rs million)	56	422
Collections (% billings)	25	84
Current collections (% billings)	40 (b)	70
Collections (% O&M cost)	31	99
Collections (% total cost)	26	77
Collections (Rs per connection)	709	2281
Arrears (Rs million)	149	380 (d)
Capital budget (Rs million)	1126	2087 (e)
Rehabilitation (% capital budget)	0	62 (e)
Consumer complaints (% connection)	> 10	3
Training:		
Training Section staff (c)	26	30
Total training - trainees	458	991
- person days	3748	7044
Regional training days to Head Office training days ratio	1:26	5:1

Notes (a) Average of 1983/1985 data. (b) 1986 (earlier years not available). (c) excludes support staff. (e) 1991 budget.

## Consultant Team Selection

- o Prior regional experience in a long-term resident capacity is a highly desirable prerequisite for key team members
- o The team should comprise a mix of technical (functional area) specialists and OD/ID experts. The technical specialists should have good people skills and should be amenable to being coached in such skills by other team members
- o The Project Manager should have the same professional leaning as the key institution managers since this helps to strengthen the trust bridge between consultant/institution
- o The Project Manager must continually evaluate his team's performance, be attuned to the undercurrents of negative feedback and be prepared to remove a team member immediately it appears that his continuation would jeopardise progress
- o Team members, particularly those with a specialist technical input, will be more acceptable if they have had prior experience in an agency similar to the institution elsewhere
- o Cultural norms from the consultants' home country must not be imposed on the institution, the team should be careful not to make comments which offend, nor to insist on strategies which make the institution uncomfortable
- o Large numbers of ID experts with experience in LDC public sector agencies do not exist. The team must be a careful balance of ID and technical experts and time must be allowed to enable the ID concepts to be absorbed by the team

## Project Start-Up

- o A sudden shock approach to project start-up jolts the institution into having to face the change forces that are being unleashed. This in turn forces an introspective review on the part of the institution's staff of the current status and future goal of the organization
- o The linking of evidence of change to fund disbursements is a useful strategy to force attention on ID objectives, but the phasing of such conditions precedent should be extended over a reasonable period to enable appropriate change strategies and task-specific targets to be developed by the consultant working in the institution
- o The sudden-shock strategy introduces a high risk that the consultant will sooner or later have to sacrifice some of his team members, not necessarily because they are incompatible with project objectives, but to allow the institution to save face
- o A prescriptive project design must be avoided at all costs. Besides imposing a series of potentially unacceptable modifications on the institution, it emasculates the consultant in a grid of procedures and changes that he has to try to implement in order to satisfy his contractual obligations, but which in fact might cause his downfall
- o An ID project cannot be designed in detail through a series of short visits by specialists, however expert they may be. Such short visits should focus on the more global change requirements, the detailed strategies and task-specific targets should be developed collaboratively by the TA consultants and counterparts

## Transferring Ownership

- o All change strategies, new procedures and other project interventions must be owned by the counterparts. From ownership came acceptance and commitment which in turn lead to sustainability
- o The potential benefits of implementing new systems must be highlighted in order to engender enthusiasm for supporting the systems
- o Training in technology-transfer should be arranged early-on in the project for the ID team members
- o The consultants should regularly review progress regarding acceptance of new systems and procedures in their own areas of specialization. The results should be shared among the team members and frequent "brainstorming" sessions held to develop improved strategies to overcome ownership-transfer problems. The consultants must be skilled in the following areas:
  - o Working collaboratively with counterparts to develop change strategies
  - o Training counterparts to have a wider vision so that they begin to develop solutions to problems themselves
  - o Transferring a change concept to a counterpart in such a way that the counterpart believes that it was his idea
  - o Showing by example that ideas can work
  - o Recognising the optimum time when to introduce a new strategy and at what level in the organization (select the path of least resistance)

## Delegation Breeds Confidence

- o Positive delegation of authority programmes are essential for ensuring dissemination of new systems - ownership throughout the institution
- o Regional decentralization is a valid means of achieving delegation and is highly suited to a service agency which has a large area of jurisdiction
- o Promotion of delegation programmes must be backed up with initiatives to increase management and technical skills and to provide the necessary systems and procedures
- o The increased degree of confidence resulting from delegation manifests itself in a measurable improved operational performance and a willingness to take on more responsibilities
- o Intangible benefits of delegation are significant and contribute greatly to the institutional upgrading as a whole, particularly in the areas of sectoral policy formulation and liaison with the external environment
- o Care must be taken not to neglect those areas of the institution which are not directly involved in the delegation/ decentralization programme. Failure to become involved with such areas introduces the risk of creating a hardened resistance to change, which although small in size may hinder further ID initiatives if the personalities involved are sufficiently high in the management hierarchy

## Internal Performance Review

- o Performance indicators must be developed within the institution and must be seen to be relevant to the operations being measured
- o Superior performance must be seen as something which benefits those responsible for the operation, not in monetary terms, but in terms of reduced interference by upper management
- o Managers must be convinced that performance monitoring results in an easier working environment because operational problems are often linked to factors beyond their control. Monitoring will define those responsible
- o Performance targets must be achievable
- o Initially all functional areas should be involved in performance criteria development, even though some areas will never use them. This strategy supports institutional cohesiveness and prevents some areas from feeling that they have been singled out for monitoring
- o The first areas to be monitored should preferably not relate to the principle disciplines of the managers. A more open and objective outlook is possible with new operational issues (such as financial management for engineers) since there are no entrenched ideas about what is right and wrong
- o Performance review meetings should be held regularly, concentrating on specific functional areas. The meetings should be attended by top management (to show support for both the procedure and for those taking part) and peer review of area performance should be encouraged

## External Monitoring Process

- o There is a real risk on a long-term ID project for the TA team to become caught up in the minutiae of procedural details rather than focussing on the overall vision. There is also a high risk that the TA team may drift from the admittedly more difficult and time-consuming process consultant role to a more prescriptive role, which may appear to result in heightened progress but does not ensure sustainability
- o An external monitoring team visiting the project on a regular basis will help to counter the adverse tendencies mentioned above
- o The monitoring team should be comprised of the same members (or at least have the same Team Leader) in order to ensure continuity of approach
- o The monitoring team members must be well versed in ID concepts, with a highly attuned cultural sensitivity
- o The monitoring team must interact not only with the internal ID protagonists (consultants and counterparts) but also the key actors in the external environment (parent Ministry, ESAs)
- o The monitoring team should leave behind a well-documented report summarizing the concerns expressed at the interview, the outcome of the workshop (particularly the action plan) and general impressions of project progress
- o The team should focus continually on the issue of sustainability and not hesitate to recommend even major changes in project approach, resource inputs, project duration, etc. necessary to achieve this goal

- o The monitoring team should be willing to offer advice of a confidential nature to the TA team to help them overcome any specific implementation problems

### Involvement of External Environment

- o Political forces exist in the external environment which can be used to accelerate the overall ID momentum. Such forces should preferably be defined collaboratively with counterpart staff so the institution as a whole can realise the benefit to be gained of improving its performance so as to appear to the external environment to be worthwhile supporting
- o Formal meetings should be arranged on a frequent basis between the political lobby and the institution to review ID strategies and to openly discuss the effects of the external environment on the stated upgrading goals
- o Efforts should be made to consciously involve in the ID process those ESAs who are committed to linking funding to evidence of operational performance improvement
- o Negative forces in the external environment can only be dealt with by improving the institution's performance so that the positive forces outweigh the negative forces. Defensive operating strategies can be implemented such as formalized procedures to prioritize schemes, review tariffs, give new connections, etc
- o The ID team should identify those individuals in the external environment who can apply enough pressure to enable certain ID strategies to be accelerated if blockages within the institution arise. This strategy should preferably be covert (without the involvement of counterparts) and extreme care must be exercised to ensure that the forces unleashed are totally in accordance with the ID goals and do not negate the basic philosophy of achieving ID through the participative process
- o Using the external environment to support institutional upgrading is a valid strategy, but the ID team must always be conscious of the fact that this strategy must remain secondary to that of helping the institution develop itself from within. It is all too easy to drift from the process consultation to the prescriptive mode, with the result that the external environment becomes the main instigator for performance upgrading. Improvements achieved in this way will not be sustainable

### SUSTAINABILITY

Sustainability can be defined as the ability of the institution to perform effectively after the ID team has departed and after donor assistance has been terminated. Factors which suggest a strong likelihood of sustained performance at project completion were as follows:

#### Institution Related:

- o Decentralized structure (responsive to consumers)
- o Strong financial consciousness
- o Acceptance of employee performance evaluation process
- o Acceptance of community participation process

- o Financially viable
- o Corporate planning/policy development capability
- o Competent management skills
- o Potentially attractive for privatization

External Environment Related:

- o Water supply sector policy issues being managed by NWSDB
- o Strong support from ESAs
- o Government economic policy framework strongly supports financial goals of NWSDB
- o Parent Ministry highly appreciative of improved consumer satisfaction achieved through decentralized NWSDB offices and local political lobby

The financial health of the institution undoubtedly makes the prospect of privatization more attractive. The projected 1991 financial status indicates a substantial surplus for the institution as a whole (estimated Rs.293 million) even taking into account a portion of debt service repayment. Two out of the five RSCs show a surplus and within Central RSC, which shows a deficit as a whole, Bandarawela Region is projected to earn a total surplus of Rs.6 million in 1991. Tariff increases projected for 1992 and 1993 will enable total debt service to be recovered from end 1993 onwards, these tariff increases are unlikely to be too onerous, probably less than 10% overall.

#### CONCLUDING COMMENTS

The major lesson learned on the WSSSP has been that ID is possible to achieve in a public sector organization in a developing country, provided that enough time is allowed for the change strategies to take effect. It is suggested that six years is a minimum period on which to base a project design for this kind of intervention.

ID as defined in this report is not restricted to the internal organization, but encompasses also the external environment in which the institution operates. As a result a comprehensive ID project must seek to take into account the forces acting in the external environment in such a way that positive forces are harnessed to support specific institutional upgrading initiatives and strategies adopted to counter those negative forces which adversely impact the upgrading process.

High-specificity activities such as regional operations (O&M, billing and collection, consumer service) were generally in the forefront of performance improvement, compared to the lower-specificity activities such as support services and the project development cycle. This observation supports the premise that specialized organizations (RSCs) tend to outperform generalized organizations (Head Office) because a specialised organization concentrates on what it has to achieve whereas a generalized organization has time to waste continually adopting to changing environmental circumstances.

The project took place in an atmosphere of continuing cultural shock (civil insurrection, civil war, national economic reforms). It is a matter of conjecture as to whether or not the same degree of success would have been achieved without such forces at work. It is suggested that a stable political environment, a healthy economy and an absence of internal strife would have significantly reduced government incentives to support the changes taking place in the NWSDB. At best, the ID process would conceivably have taken much longer than 77 months.

To conclude, the project bore out one of the lessons learned over ten years experience from the WASH project, namely that institutional change is usually more complicated than it appears initially and requires great willingness to revise plans and strategies in accordance with events. The initial comprehensive approach to project design was sound but the implementation of a comprehensive approach right from the project start failed. The later adoption of a more selective implementation strategy, focussing on the more receptive and feasible operational areas, was successful. This observation suggests that success in selective areas will have a ripple effect on other parts of the institution. Although many projects espouse ID in name only very few are particularly concerned with the details of its implementation. The ID project for the NWSDB has demonstrated that ID concepts can be put into practice provided that an institutional and external-environment specific approach is adopted.