

Q & A with Nelson Beete, former CEO of the Water Supply Asset Holding and Investment Fund (Fundo de Investimento e Património do Abastecimento de Água, or FIPAG) Mozambique

About the Interviewee

Nelson Beete (NB), served as the chief executive officer (CEO) of the Water Supply Asset Holding and Investment Fund (Fundo de Investimento e Património do Abastecimento de Água, or FIPAG) from its inception in 1998 until 2011.

FIPAG is a public institution of national scope, endowed with legal personality and administrative, financial and patrimonial autonomy supervised by the Ministry of Public Works, Housing and Water Resources of the Government of Mozambique. Mr. Beete played a prominent role as a top government official in the water sector before the creation of the Delegated Management Fund (DMF), and he went on to serve as the CEO of FIPAG for more than 10 years. He has a great deal of experience and knowledge of the water supply (WS) utility aggregation process, and he played a central role in decision making related to water supply utilities aggregation in Mozambique.



Question: Please describe the immediate country, political, and economic context of WSS utility aggregation. Why was water supply (WS) utility aggregation politically supported, and can you discuss any changes in leadership, financing, and other areas?

Nelson Beete: When the water utilities were integrated under FIPAG (asset holding and investment fund), the municipalities were initially uncomfortable. They perceived the integration as a move contrary to decentralization. On the one hand, they were extremely skeptical; on the other hand, they were concerned because the water services were in poor shape owing to inadequate management and a lack of investment.

Two important elements in changing the operations of WSS utilities were that the utilities' leaders were appointed on the basis of merit and that strict key performance indicators (KPI) were introduced and monitored. Those elements were set up to be the basis for tracking the envisaged profound organizational changes toward results. Benchmarking among utilities also helped in building the results-driven approach of the managers and staff, and it enabled municipalities to assess the performance of the utility operating in their jurisdiction.

Q: What was the purpose of utility aggregation? What problems were leaders trying to solve?

Nelson Beete: To turn around the poor water supply services in urban areas and to attract the most needed investment and human resources capacity, the government designed and implemented the *delegated management framework* (DMF) in 1998.

The purpose of utility aggregation was to improve operational efficiency, to bring the decision making closer to customers, and to optimize the use of scarce human resources. The regional aggregation allowed optimization of resource use and improved the dialogue with local authorities, particularly in defining priorities and solving problems. At the central level, efforts concentrated on major capital investment and on transferring operation responsibility to regions and cities.

The beauty of DMF is the segregation of functions, whereby the responsibility is assigned to the level at which it can be best performed. From the onset, it was clear that the operation issues are better dealt with at the local level. So as the utilities matured, more responsibility was transferred to the local level, based on economic, financial, and operational rationales. Therefore, economy of scale was key, and the first step was to bundle the utilities by region for logistical reasons and for economy of scale and scope.

In fact, integrating the utilities under FIPAG was a form of aggregation in grouping on a large scale. Grouping the utilities in regions was a first stage of unbundling but maintaining a critical mass in terms of scale and scope to bring about gains in efficiency.

Apart from sharing resources among the utilities, the biggest challenge in Mozambique is logistics. The distances between places are so great that procurement of goods, services, and works can be effective only if it is done in bulk. In a country with scarce skilled staff and difficult access (roads, railways, and so forth), small individual utilities face daunting challenges to provide high-standard quality service at controlled cost. Bundling utilities was an obvious solution to overcome those difficulties.

One should also remember that when the DMF was introduced and in subsequent bids, the private sector's participation was not as desired or expected. In fact, in 2010 FIPAG had to take over operation of all utilities under the DMF while a new model was being designed.

Q: Who were the key actors? What actions did they take as the process began?

Nelson Beete: The key actors were the Ministry of Public Works and Housing (MOPH), FIPAG, CRA, and the municipalities. MOPH provided the political and strategic guidance. Most importantly, ministers Roberto White and, subsequently, Felício Zacarias were the champions in getting the political buy-in. Minister White, a low-profile visionary with rare knowledge and professionalism, was the centerpiece in designing and pushing forward this reform. He knitted the process from the dream until an international operator was in place and an independent regulator established. During White's tenure, many other reforms took place in the public works sector. Minister Zacarias simply provided the autonomy to the entities of the DMF as required, and the results were quite impressive. The water coverage rose about 20 percent in five years!

The CRA approach to regulating these WSS utilities was to set an evolving target aimed at improving service levels according to each utility's characteristics and stage of development. This approach was key to encouraging utilities' development. FIPAG was key in setting the rules and standards to ensure a smooth and efficient transition. A set of KPIs were carefully monitored, and rewards were given to regional and city utilities that met the agreed targets. The municipalities were fully involved and brought the local perspective to the decision-making process.

Q: How were assets transferred to the new utility entity?

Nelson Beete: The government decree establishing the DMF created FIPAG as the asset holder and investment fund. All the assets were to be transferred to the FIPAG balance sheet, and the organization was responsible for expanding the water schemes and repaying the loans.

The existing assets were not transferred to the new utilities. They remained under FIPAG, which was given the responsibility under DMF to oversee investment and do the debt service - asset management. Autonomous operators run the utilities using FIPAG assets. Only operational assets belong to operators.

The assets transferred to FIPAG came from different types of arrangements. In Maputo, a state-owned company (Águas de Maputo) held the assets. In Beira, although a state-owned company (not fully formalized) was running the utility, there was in fact a 50-year concession in place whereby the municipality was the lessor and Companhias das Águas was the concessionaire. We had to wait for the concession to expire—luckily, there was only one year left after DMF was enacted.

In the early 1990s, the parliament passed a law on local authorities that stated that “water supply, sanitation, and electricity services were the municipality responsibility.” Except for a few cases, in practice this hasn’t really happened to date, but when discussion about transferring the assets to FIPAG started, the municipalities used this law to claim they owned the utilities. In anticipation of this battle, the DMF also created a stakeholder forum as the minister’s advisory board and had the mandate to short-list people to be appointed for FIPAG’s board. The forum and mandate, together with the obligation for FIPAG to get municipality approval for investments in the water schemes, were powerful tools in the mayors’ hands. The municipalities had a bigger say with respect to the water supply services without being involved in their operations. As a result, the water utilities could be managed professionally while still taking into consideration the political aspects involved.

Another incentive for the municipalities was that they depended on national government support to raise the funds for any substantial capital investments. FIPAG’s involvement assured the government and funders that the investment requirements had been objectively assessed and that the project would be efficiently and professionally implemented.

Members of the stakeholder forum were the mayors of municipalities under DMF and representatives of the Ministry of Public Works, the Ministry of State Administration, the Ministry of Finance, and CRA.

Today, the water supply assets in Mozambique are either under FIPAG or under AIAS (Administração de Infraestruturas de Água e Saneamento), an organization that is similar to FIPAG but that deals with smaller towns water schemes.

Q: What was the biggest conflict that emerged? Who was involved and how did they resolve this conflict?

Nelson Beete: We had two types of conflicts. One type came from utilities that were doing well—normally the bigger ones—who were trying to get out of the regional setup. That conflict was a major risk for the reform because a cross-subsidy was required at the regional level,

without which the smaller utilities would face big challenges and the resources at regional levels would not be used in an optimal manner.

The second type of problem came from nearby utilities—normally the smaller ones—who wanted to join FIPAG to improve their service provision and get investments for their infrastructures. FIPAG could not absorb all utilities because of its obligation to repay the loans. To resolve this problem, another institution (AIAS) was created, which dealt with smaller utilities.

Q: Given your experience, what are your recommendations for practitioners and political leaders considering utility aggregation?

Nelson Beete: Utility aggregation must be part of an overall sector development strategy. It is a means to achieve improved service levels and operational efficiency. This must be clear, and thus KPIs must be strictly monitored and managers must be accountable for any deviation. The utilities must be run professionally and kept at arm's length from political interference.

Q: What do you see as the main ingredients in ensuring the continuation of DMF in Mozambique?

Nelson Beete: Sector transformation is based on a set of principles such as segregation of functions, autonomy, and financial sustainability, among others. Those principles must be revisited as often as possible—particularly before major decisions are made—to prevent setbacks that may jeopardize progress and defeat the purpose of the reforms. For example, reducing autonomy or experiencing a lack of tariff adjustment work must be weighed against promoting sector investment and utilities financial sustainability, which is the basis for the sector successful reforms.

Editor's Note:

To learn more about global experiences and trends with WSS utility aggregation, [check out the toolkit](#), discover the [case studies](#), listen to the [interviews](#) and read the [report](#).