

EAP Task Force

Document 3

Joint Meeting of the EU Water Initiative's EECCA Working Group and the EAP Task Force Environmental Finance and Water Networks

29 March –1 April 2005, Chisinau, Moldova

Utility Performance Indicators and Benchmarking in the EECCA Chisinau, 9-10 December 2004

Workshop summary record

Participants are invited to take note of the document and to provide their comments on its content and possible ways forward for EAP Task Force work on water utility benchmarking.

ACTION REQUIRED: For information, discussion, and endorsement.

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in co-operation with

WATERBENCH-1

a project supported by the European Union 6th Framework Programme for Research and Technological Development

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Introduction

Ministers of Environment, Economy and Finance from the New Independent States (NIS) gathered in Almaty in 2000 and agreed that water supply and sanitation services in Eastern Europe, Caucasus and Central Asia (EECCA) are in critical conditions and continue deteriorating at increasing rate. High levels of water consumption and increasing water losses, frequent interruptions in water supply, poor potable water quality, and inefficient wastewater collection treatment are only a few consequences of the continuous degradation process in the water supply and sanitation sector (WSSS).

In response to this situation, the Ministers adopted Guiding Principles for Urban Water Sector Reforms in the EECCA region, and requested the EAP Task Force to monitor their implementation and to develop and execute a work programme to catalyze improvements in the sector.

Access to comparative data is an essential instrument for the effective fulfilment of the roles of utilities, municipalities, regulatory authorities, investors and other stakeholders. Currently, water utilities in the EECA region possess no standardized data collection systems and indicators, largely due to the disruption of regular reporting following the decentralization process. As a result, none of the stakeholders have access to appropriate tools to address the increasing problems in the sector.

In order to fulfil its mandate to catalyze and support improvements in the WSSS, the EAP Task Force conducted a survey of water utilities (vodokanals) performance based on the World Bank Start up Tool Kit. The Start up Tool Kit represents a set of indicators designed to initiate the systematic evaluation of vodokanals performance. In the course of the survey more than four hundred vodokanals in nine NIS countries were reviewed. The outputs of the study helped develop a web-based information resource that is currently administered and maintained by IB-NET, an entity that “provides means and a set of tools for water and sanitation utilities to develop national or regional groupings for the purpose of undertaking regular benchmarking activities”. IBNET also “provides the opportunity for these local benchmarking initiatives to undertake international comparisons by making available easy to use search and query features”¹

In 2004, in the EAP Task Force and the WATERBENCH-1² project set a joint initiative to further promote implementation of performance indicators and benchmarking (PI&BM) in the EECCA region and co-organized a WSSS expert’s workshop in Chisinau on 9th-10th December of 2004 in order to assess the progress in the field of PI&BM. The meeting’s goals were threefold: (1) to improve the communication in the WSSS in the EECCA region by bringing together experts from the EECCA countries; (2) to review the experience of some OECD and EECCA countries; 3) to identify the scope for practical applications of PI&BM in EECCA and actors that could play a leading role in the development; 4) to identify areas and particular issues where the EAP TF could constructively contribute into the process of the improvement of the WSSS in the EECCA region

¹ <http://www.ib-net.org/>

² The WATERBENCH -1 is the project supported by the EU in the framework of the EECCA component of the EU Water Initiative. The project aims at establishing benchmarking in the water and sanitation sector as a viable tool for investment decisions. It seeks to increase and better direct the flow of investment in the region so as to improve service quality and incorporate sustainability considerations.

Key issues and conclusions:

The discussions that took place during the workshop showed that there are many needs in EECCA that could be addressed through benchmarking approaches. Participants from all stakeholder groups saw potential benefits from a more wide-spread usage of benchmarking in the water supply and sanitation sector. This includes such diverse areas of application as performance contracts between utilities and municipalities; tariff regulation; to support state infrastructure and financial planning; to guide the allocation of public funds as well as commercial investors; utility benchmarking clubs; international benchmarking; to engage the water sector into a policy dialogue, as well as to improve utility consumer communication.

It was particularly important that IFIs and other investors identified themselves as potentially important users of water utility PI data, as investors are strongly interested in transparency and objectivity of information. Utility PIs have the advantage of reducing uncertainty and thereby attracting investors.

The discussion also brought-up the issue of the feasibility and sustainability of benchmarking systems. While external auditing to ensure data quality and accuracy appeared as an obvious solution, this is also very costly to implement. Benchmarking systems of any kind should therefore rather rely on self-reporting and self-policing, ensuring data quality through an incentive framework that makes it attractive for utilities to report honest data. These are also the preconditions to ensure that a benchmarking system is sustainable in time, generating both the finance that is needed to maintain it and the necessary data inputs from utilities. Starting with a small group of utilities and then extending the system step-wise was perceived to be the most realistic approach. The World Bank's IB-Net provides an attractive platform to start such an activity.

In this relation the group asked the EAP Task Force and Waterbench to work with IB-Net to ensure that all relevant materials would be translated into Russian, so as to allow EECCA utilities to participate fully in this benchmarking network.

Given the specific constraints under which the EAP Task Force is operating (i.e., a regional programme that needs to produce its results in the medium term) and the need to ensure good quality data from utilities, it was perceived that in the short term it would be most effective for the Task Force to work with water utility associations to develop benchmarking systems. Water utility associations are the best placed (as shown from Moldovan experience) to ensure rapid implementation, the sustainability of such systems, as well as generating good quality data, due to the high levels of trust that exist between such associations and their members. In this respect, the French utility benchmarking "club" experience presented by Waterbench appears to be a possible model for future Task Force activities. This model would lend itself to implementation and replication in several EECCA countries, thereby ensuring its relevance for the region as a whole. The EAP Task Force committed to developing a project proposal taking account of these conclusions and submitting it at the next meeting of its Group of Senior Officials for Water Supply and Sanitation Sector Reform in March 2005.

A second area where participants saw a possibility for the EAP Task Force to become active was in relation to the needs to use benchmarking in state administrations that were expressed during the meeting. The EAP Task Force will work with colleagues in the administrations to understand their apparently diverse needs better and to see what form of assistance could be developed to support them, including such crucial areas of application as health, environment.

The relevance of benchmarking for better consumer information had also been noted by participants. It was perceived, though, that to address these needs effectively, a high level of consensus on the definition and the interpretation of the PIs would be needed. Consumer needs could be better addressed at a second stage, once the use of PIs and benchmarking was more firmly established as common utility practice.

The use of performance indicators in performance-based contracts that had been discussed during the workshop, while being a crucial issue for the water sector, was perceived as being a topic extending clearly beyond the issue of benchmarking. The EAP Task Force is already dealing with this issue and has recently published “Guidelines for Performance-based Contracts between Water Utilities and Municipalities in EECCA”.

The EAP Task Force representatives pointed-out that the development of project proposals would be carried-out subject to the resource constraints that the Task Force operates under, as well as taking into account the Task Force’s mission and objectives. The European Commission pointed-out how benchmarking approaches could support the convergence of the EECCA water sector towards EU standards and that it could be interested to finance a project proposal that would be submitted by the EAP Task Force.

Summary of discussions, session by session

Session1: Status

In their opening remarks **Mr. Cojocaru and Mr. Becciev** introduced their agencies and stressed the crucial role of Performance Indicators and Benchmarking (PI & BM) in delivering improvements in the water supply and sanitation sector (WSSS) in Eastern Europe, Caucasus and Central Asian countries (EECCA). They also mentioned that in spite of the World Bank (WB) investments into the rehabilitation of the WSSS in Moldova, the financial and physical deterioration of the sector continues.

Mr. Börkey, OECD, France informed participants that the meeting was co-organized by the OECD EAP Task Force and the WATERBENCH project with kind assistance of the Moldovan Water Utilities Association “Apacanal” and briefed participants on the Agenda of the workshop. He highlighted the meeting’s main objectives:

- a) discuss current status quo of the sector;
- b) review practical applications of the PI & BM in Western Europe and EECCA;
- c) identify measures that can help to ensure the sustainability of benchmarking (BM) initiatives; and
- d) identify potential follow up projects in the PI & BM field, which could be carried out by the EAP TF in the near future.

The primary goal of the workshop is to prioritize future activities in promoting and implementing PI & BM and to identify follow up projects in the field.

Mr. Gritsinin, OECD, France presented a progress report on the promotion of PI & BM in the EECCA from 1998 through 2003 and presented a survey of EECCA water utility performance that has been developed by the EAP TF in cooperation with partners from the region. He also touched upon issues related to data reliability and credibility.

Mr. Mousnier-Lompré, Service Public 2000 (SP2000), France introduced the WATERBENCH project³, an initiative of three partners from Russia (the Institute of Urban Economics), Germany (ECOLOGIC), and France (SP2000 – project coordinator), supported by the European Commission. WATERBENCH focuses on *how benchmarking can support an uptake of investment in the water sector in EECCA*. This workshop was the first opportunity to discuss its results with a panel of stakeholder representatives from the region (governmental officials, utility managers, environmental and consumer NGOs). Mr. Mousnier-Lompré presented the key concepts (PIs, “metric” and “process” benchmarking) and project results. He mentioned various domains for potential applications in EECCA (regulation, allocation of funds, operational improvement, public information).

Mr. Van Vliet, European Commission-EuropeAid, Brussels informed participants about Tacis support to WSSS projects in the framework of the EU Water Initiative –EECCA component. He explained that both Technical Assistance and Investment co-financing will be supported. The latter will concentrate on EECCA countries which have to comply with specific IMF requirements. After the year 2006⁴ the European Commission will launch new cooperation instruments. These will include a Neighborhood Partnership Program with a budget of 14.9 billion euro (2007-2013). Countries of the western part of the EECCA region and of the Caucasus will benefit from this program. Central Asian countries will be covered by a separate instrument.

Discussion

Participants stressed PI&BM as an essential communication instrument for water utilities with various stakeholder groups, as well as its potential role in supporting the development of policy and in guiding investors. The question whether performance data currently collected in a bottom-up approach by the EAP Task Force and its partners, could alternatively be obtained from national statistics (ie Russian and Ukraine) was raised. Several participants expressed their doubts about whether data from these sources would be sufficiently detailed and reliable. The representative of IB-Net a World Bank sponsored benchmarking network for the water sector, informed participants about recent changes that had been operated to improve the World Bank’s Benchmarking Start-up toolkit that has been used in the framework of the EAP Task Forces work.

Potential follow-up research needs were perceived to lie in the areas of indicators to measure user satisfaction as well as indicators to measure the impact of water and sewerage systems rehabilitation on health.

Session2: Practical applications of PI & BM

Ms. Nicole Kranz, Ecologic, Germany, presented an analytical review of several case studies from Australia, Brazil, England and Wales, France and the Netherlands. The review illustrated the great variety of actors (regulators, utilities, local authorities) objectives (price regulation, cost reduction, service quality improvement, etc.), as well as other distinctive features (voluntary/mandatory, confidentiality,...). Ms. Kranz highlighted the dominance of the collective approach over the single-utility approach. She introduced, as a matter for discussion during the workshop, a classification of benchmarking schemes and their prospective application in the EECCA region.

³ WaterBench is supported by the 6th EU Research and Technological Development Framework Programme as a Specific Support Action (ref : WATERBENCH-1, contract n° INCO-CT-2004-003664)

⁴ End of the current Tacis Regulation period (2000-2006)

Mr. Sivaev, IUE, Russia presented PI & BM applicability in performance-based contracts (PBC). He discussed the current situation in Russia, Moldova and Ukraine and mentioned that PBC in those countries are not a common practice. Then Mr. Sivaev elaborated on major trends and presented two case studies where PBC were used and regarded as critical component of the cooperation between the municipality and the operator. Mr. Sivaev stated that Russia just started developing contractual relationships in the WSSS; the private sector is extremely interested in formalizing relationships with authorities. He confirmed that PI could be an effective ingredient to achieve this goal.

Mr. Grebennicov, Apacanal, Moldova pointed out that PI & BM is a critically important instrument in delivering improvements to the WSSS and informed participants that “Apacanal” supports a proactive approach in collecting and disseminating PI (recently the data and the data analysis report for 2003 was completed). He mentioned that very precise definitions are needed to ensure consistent results. He also discussed major trends and developments in the Moldovan WSSS. He indicated that the WB used the entire set of indicators in its project appraisal and monitoring procedures. The main purpose of these procedures is to assess the ability of the utilities to pay-back their loans and to monitor the impact of these loans on the recipients’ operational and financial performance.

Discussion Participants discussed the critical role of Performance Indicators in performance-based contracts and what indicators would best address needs of investors. There was agreement that PIs should be used by utilities as a key management tool that would help them improve day-to-day operations.

Mr. Delaey stressed that IFI are primarily interested in PI that reflect the real (as close as possible) situation with respect to tariffs, collection rates, unaccounted for water, water consumption, etc. Environment-related indicators should also be included in order to provide solid ground for accurate project environmental performance reviews. Mr. Delaey added that investors are strongly interested in transparency and objectivity of information, stability of the institutional environment and clarity of the tariff setting methodology. Utility PIs have the advantage of reducing uncertainty and thereby attracting investors. He also pointed-out that while utility PI data was only going to be used in a first phase and IFIs usually carry their own data collection and verification out in the due diligence process, utility PI data was perceived to be of crucial value nevertheless. Participants confirmed the fact that allocated budget resources are scarce and thus credits and loans are needed. WUs do not have authority to set tariffs and the process of tariffs setting is a very political one.

Session3: Sustainable data collection

Mr. Ramsey, IBNET UK introduced the International Benchmarking Network -IBNET and stated that the currently employed system of data collection and analysis was designed to be relatively simple in order to ensure its usefulness and practicality. He presented IBNET’s main objective as to support the development of benchmarking in the water sector in developing and transition countries and facilitate the international exchange of benchmarking data. He also expressed commitment to involve as many new actors of EECCA in the process as possible (for example Belarus, Turkmenistan and Uzbekistan). Mr. Ramsey shared IBNET’s plans for coverage expansion and thoughts for development of a future business model for the network to become financially self sustainable.

Mr. Askerov, IUE-Waterbench, described performance data availability in the region. He identified potential benchmarking applications in three countries (Moldova, Ukraine, Russian Federation) and presented sets of indicators that could be selectively used by different

stakeholder groups. In addition Mr. Askerov suggested that a core group of “universal” indicators should be identified, thus developing a common language among the parties involved in the reform of the water sector.

Mr. Kandelaki presented Georgian experience with PI & BM in water sector and highlighted the significant importance of indicators in order to keep improvements ongoing. He identified major trends in the sector and expressed commitment to remain active in promoting PI & BM in the future.

Mr. Korsak, Sanepidnadzor, Russia presented main results of water chemical and biological quality surveys in the Russian Federation. These evidence a strong connection to health related issues. According to Mr. Korsak, enough reliable and accurate information is recorded on a regular basis in the Russian Federation, in order to monitor the occurrence of water borne diseases. He presented suggestions for further research to be undertaken in order identify appropriate health related performance indicators (e. g. water treatment process efficiency, quality of the network). These could eventually serve as a basis for a health impact assessment of investments.

Discussion Various applications of PI & BM were discussed. Advantages and drawbacks of two main options for data collection were debated: (1) relying on the state statistics registration process, or (2) supporting the creation of “clubs of benchmarking utilities”. Whereas state statistics might prove a powerful instrument to gather data on the status of reforms in the Housing and Communal sector, in the case of voluntary utilities, the fine tuning of PI definitions, which is an iterative process, is much easier. The following points were deemed crucial to establishing data collection on a sustainable basis: a) a clear definition of PIs, adapted to the local context; b) conditions/incentives for water utilities to report accurate and unbiased data voluntarily; c) exploitation of the PIs in the day-to-day operations improvement process. In order to enhance sustainability, WU data collection costs should be minimised. External auditing was also probably too burdensome. Participants agreed that WU Associations are qualified actors, suitable to continue BM & PI collection initiated by the EAP Task Force within their existing financial framework. It was noted that trust between Associations and WU would be a key success factor.

Session4: Potential follow-up projects

The discussions that took place during the workshop showed that there are many needs in EECCA that could be addressed through benchmarking approaches. Participants from all stakeholder groups saw potential benefits from a more wide-spread usage of benchmarking in the water supply and sanitation sector. This includes such diverse areas of application as performance contracts between utilities and municipalities; tariff regulation; to support state infrastructure and financial planning; to guide the allocation of public funds as well as commercial investors; utility benchmarking clubs; international benchmarking; to engage the water sector into a policy dialogue, as well as to improve utility consumer communication.

Several participants reiterated points that had been made previously in relation to the feasibility and sustainability of benchmarking systems. While external auditing to ensure data quality and accuracy appears as an obvious solution, this is also very costly to implement. Benchmarking systems of any kind should therefore rather rely on self-reporting and self-policing, ensuring data quality through an incentive framework that makes it attractive for utilities to report honest data. These are also the preconditions to ensure that a benchmarking system is sustainable in time, generating both the finance that is needed to maintain it and the necessary data inputs from utilities. Starting with a small group of utilities and then extending the system step-wise was

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Important needs to use benchmarking for better consumer information had also been expressed by participants. It was perceived, though, that to address these needs effectively, solid benchmarking systems at the water utility level would be a precondition. Consumer needs could be addressed at a second stage, once benchmarking was firmly established as common utility practice.

The use of performance indicators in performance-based contracts that had been discussed during the workshop, while being a crucial issue for the water sector, was perceived as being a somewhat separate topic extending well beyond the issue of benchmarking. The EAP Task Force is already dealing with this issue and has recently published "Guidelines for Performance-based Contracts between Water Utilities and Municipalities in EECCA".

The EAP Task Force representatives pointed-out that the development of project proposals would be carried-out subject to the resource constraints that the Task Force operates under, as well as taking into account the Task Force's mission and objectives. The European Commission pointed-out how benchmarking approaches could support the convergence of the EECCA water sector towards EU standards and that it could be interested to finance a project proposal that would be submitted by the EAP Task Force.