

## Performance Improvement Planning

# Upgrading and Improving Urban Water Services

Performance improvement planning helps service providers in bringing about incremental improvements in services by applying the principles of commercial orientation and financial viability. This overview paper discusses the context for performance improvement plans in India, and the key elements and objectives that such strategies should constitute.



Performance improvement plans must be based on cost recovery, operational efficiency, and improved demand management. They should be supported by a robust financial model and a strong performance monitoring system.

## Executive Summary

**The water supply and sanitation sector in India continues to be plagued with severe deficiencies in the availability, quality, and equity of services. Though access to infrastructure may be increasing in some cases, access to reliable, sustainable, and affordable water supply and sanitation services remains poor in general. Services remain deficient, with water available for only few hours a day; many remain unconnected to the network, and wastewater is disposed of without adequate treatment. Consumers often spend large sums of money on expensive and unsafe alternatives to cope with poor services.**

**While there are short-term procedural and technical solutions that providers can undertake for demonstrating immediate improvements in performance, these must be supported by institutional reform and adequate incentives for better management, operational autonomy, and improved accountability. Service providers can, through performance improvement plans, target the delivery of improved services by (a) applying the principles of customer orientation and financial viability; and (b) by stressing on operational efficiency and sustainable revenue strategies for improved and accountable services. Such plans focus on both the demand side in terms of maximizing water revenues, and on the supply side in terms of cost efficiency and cost recovery. This overview paper explores how such improvements can be undertaken so that they remain sustainable in the long run as well.**



## Context

Urban water supply and sanitation (WSS) utilities and service providers across India continue to be plagued by severe deficiencies in the delivery of services, with access to reliable, sustainable, and affordable WSS services remaining poor in general.<sup>1</sup> Indian cities are today providing, on average, less than five hours of water supply in a day. Not even one city in the country has a continuous water supply system. Many cities have 40–50 percent nonrevenue water (these being very unreliable estimates since metering levels are extremely low) and poor collection practices, with cost recovery rates as low as 20–30 percent of operation and maintenance (O&M) costs. This results in limited funds for routine maintenance and eventually in poor infrastructure coverage, access, and quality of services. Despite increased investments to improve performance (as seen in Figure 1), results have been poor and have not necessarily produced better outcomes. The impact of such poor services is felt by all consumers who are forced to cope with intermittent and unreliable supplies through expensive and unsafe coping strategies, with the degree of the impact being most severe for the low income consumers.

So what is hindering the delivery of efficient water services? Poor cost recovery does impact the financial health and overall performance of service providers as those with

<sup>1</sup> In the Indian context it is difficult to draw a parallel to the common definition for a 'utility' as used in the international context. For the purpose of discussion in this paper, 'utility' is defined as an organization that is majority owned and controlled by the government and could consist of different forms, some of which may be undistinguished from the government unit that they may be part of. It could also mean a specially carved out unit in the municipal body involved with the delivery of municipal services, water being one of them.

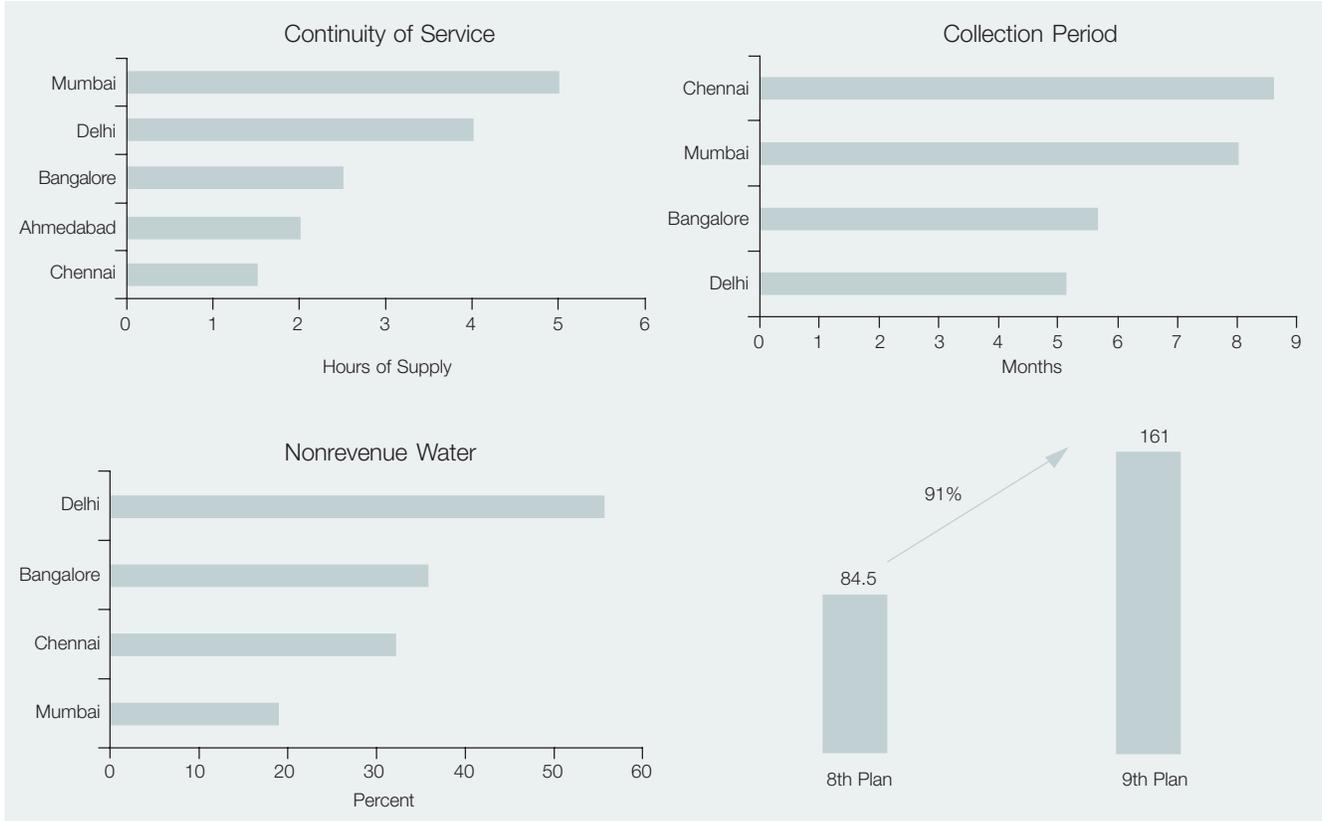
### Box 1: Why is Performance Improvement Necessary?

The basic aim of the performance improvement series is to help water utilities and service providers understand and adopt mechanisms that promote compliance with adequate service standards, cost recovery, and sustainable revenue strategies, as well as help achieve financially viable and sustainable improved services. The objective is to be able to focus not only on specific performance improvement areas by advancing technical, commercial, and operational efficiency—such as leak reduction, billing and collection, customer service, and tariff setting, among others—but also ensure that such improvements remain sustainable and viable in the long term through arrangements such as performance agreements, monitoring and evaluation, and so on.

Performance improvement planning helps service providers in bringing about incremental improvements in services by applying the principles of commercial orientation and financial viability. They must be supported by institutional reform with appropriate incentives and broader financial accounting reforms if they are to remain sustainable in the long run.

Issue No. 1 is an overview paper that discusses the context for performance improvement plans in India, and the key elements and objectives that such strategies should constitute. Subsequent field notes will focus on the identified and important elements of such plans.

Figure 1: Poor Services Despite Increased Investments



Note: The figures for the last bar chart indicate central sector investment only and are reported in dollar millions. (US\$1 = INR 40, as of September 2007.)  
Source: WSP-SA Benchmarking Study, Phase I, 2005; Planning Commission of India (Assessment 2002).

The sector's worrying performance goes beyond financial and capacity constraints and stems more from institutional deficiencies and lack of systemic incentives to deliver improved services.



poor finances continue to have recurring problems with operations and hence compromise on the quality of services delivered. However, this is not the only reason. It is increasingly being recognized that the sector's worrying performance goes beyond only financial and capacity constraints and stems more from institutional deficiencies and the lack of systemic incentives to deliver ongoing quality services. Control from governments (central or state) has resulted in little eagerness for service providers to undertake WSS functions and responsibilities completely. Service providers still lack the true functional autonomy and authority to undertake many key decisions, be it operating arrangements for WSS assets, expenditure decisions for assigned functions, or even determining their staff needs for basic service delivery functions.

There is also a lack of clarity in roles and limited separation of policymaking, regulatory, and service delivery functions. The enabling incentives for encouraging the delivery of good services are severely lacking, as the survival of providers does not depend on objectives of cost recovery and efficiency. Instead, providers survive on the back of virtually unconditional financial support from government and, in the absence of ring-fenced arrangements, on numerous opaque cross-subsidies within municipal accounts. Increased capital spending is also being undertaken for improving services, with asset creation in isolation of demand or financial viability, or without an assessment of current operational performance and needs and hence little focus on O&M.

## How Do We Bring about Better Services?

Urban water service providers will need to significantly enhance performance in order to improve services and to match international best standards. This will involve operations and maintenance, quality of service, financial health, governance issues, management systems, and community relationships. While service providers will need to focus at their individual level on specific measures to ensure improvements in these areas of performance, such efforts will remain short-lived and unsustainable unless they are coupled with institutional reform for management and operational autonomy and accountability. Table 1 demonstrates how such improvements have been brought about in the

international context using the principles of performance improvement.

### Role Separation and Clarity

The institutional framework will need to clearly define the way in which the sector is governed, regulated, managed, incentivized, and financed, so that it creates the foundation for sustainable and more accountable service delivery. Institutional arrangements will need to clearly define the functions and responsibilities of all stakeholders, de-link service provision from policy and regulation functions, and create appropriate regulatory and enforcement mechanisms that make providers more accountable. By clearly allocating responsibilities it will also be possible to control and monitor service delivery performance more effectively, structure adequate sources of funding and, at the same time, hold the appropriate stakeholder responsible for its respective and designated function.

### Incentives for Enhancing Accountability

Institutional arrangements will need to bring in more control over operations and address issues of weak financial incentives. It is absolutely essential to create separate WSS financial accounts, so that WSS managers can control, measure, and compare financial health on a regular basis as well as understand the financial impact that performance improvement initiatives have on services.<sup>2</sup> Providers will need to eventually move to activity-based costing that helps capture the nuances required for decisionmaking on specific performance improvements. They must also be made to operate under conditions of a hard budget constraint,

<sup>2</sup>In some cases service providers perform water supply functions as one of their many tasks, especially if such functions are endowed with municipalities or town divisions. In such cases they have one overall budget covering all service delivery functions and maintain no separate accounts for WSS services. Hence tracking the impact of performance improvements in such cases becomes futile.

**Table 1: International Experiences in Delivering Performance Improvements**

Utility Name	Country	Initiatives for Performance Improvement
Haiphong Provincial Water Supply Company	Vietnam	Used the Phoung model, which focused on performance improvements at the ward level, one at a time.
Johannesburg Water	South Africa	Used public-private partnerships for performance improvements where roles and responsibilities within the utility and the external environment have been clarified and clearly separated.
National Water and Sewerage Corporation	Uganda	Using incentive-based performance contracts extensively and adopting a wide range of change management tools to improve performance.
Public Utilities Board	Singapore	Superior performing utility conducting continuous performance improvement in all aspects of service delivery by involving the private sector through service contracts when deemed more efficient.
Societe Nationale des Eaux du Senegal	Senegal	Broad package of reform measures, including role clarity and separation, a legal structure, and a public-private partnership in the form of a hybrid lease (affermage) contract.

Performance improvement plans target the delivery of improved services by applying the principles of efficiency and financial viability to service delivery.



and in case they do receive any government grants and transfers, these could be made more transparent, part of a rational budgeting process and contingent on operational efficiencies. As the case may be, improvements in services may also require access to additional finances from capital markets, in which case providers would need to demonstrate financial viability and conditions of creditworthiness through presentation of financial statements and projections based on evidence of effective and efficient operations and expansion plans. Not only financial incentives, utilities and service providers can also be motivated otherwise to improve their performance. For instance, enhanced independence from external government interference, independence in undertaking important decisions that significantly impact their performance such as autonomy in setting tariff decisions, in allocating resources, in procurement decisions, in deciding their own workforce, and so on, can encourage utility staff to improve their performance.

### **Provider-Level Interventions for Immediate Improvements**

Notwithstanding the need for institutional reform, broader financial accounting reforms and incentive structures that remain out of the control of the service provider and could take a few years to implement, there are incremental interventions at the provider level that can be undertaken in the short run for demonstrating immediate improvements in performance by applying the principles of customer orientation and financial viability.

## **Performance Improvement Plans**

Performance improvement plans target the delivery of improved services by applying the principles of efficiency and financial viability to service delivery. Such plans use the same parameters that businesses use for measuring performance and for targeting financial efficiency. These plans stress on

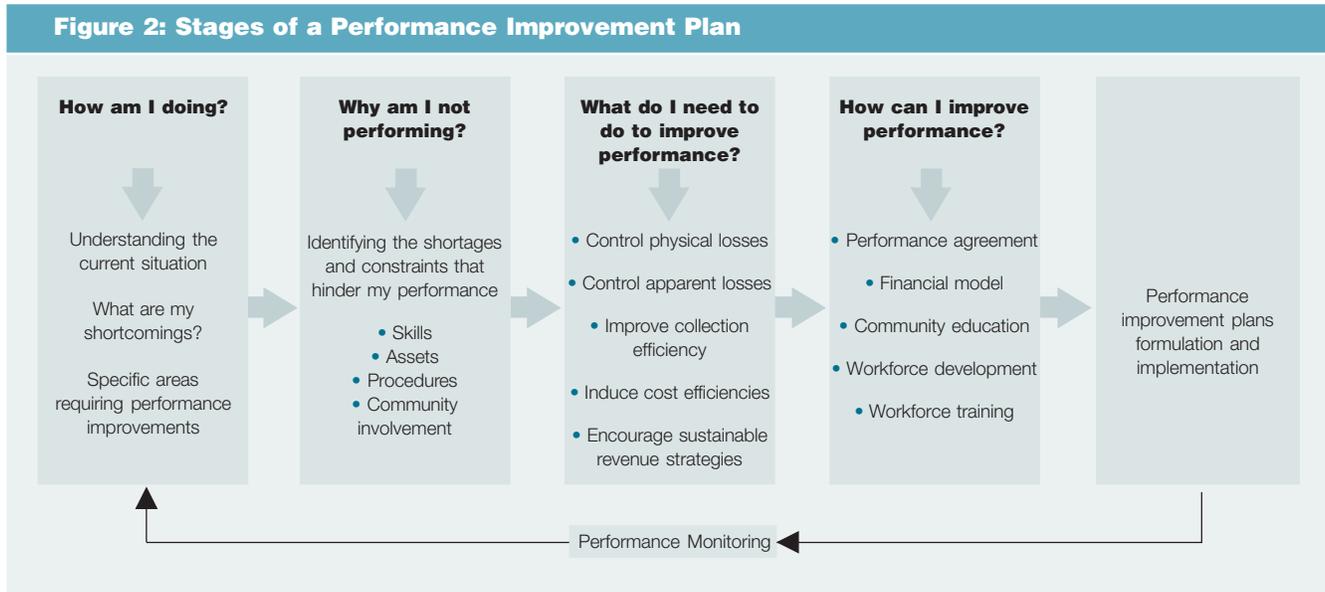
operational efficiency and sustainable revenue strategies that provide improved and accountable services by focusing on both the demand side in terms of optimizing water revenues, and the supply side in terms of cost recovery and cost efficiency. A commercial orientation to services would require that every WSS service provider undertakes its functions and responsibilities as a business entity, realizing that such a business has income and costs, needs cash flows to survive, and capital to invest. Such plans would hence undertake a tighter control over existing revenues and costs through financial planning and management and by linking performance measures to operations. This is, however, not in conflict with an orientation to provide affordable services to everybody, with special consideration to poor people.

### **Strategic Business Planning Exercise**

Performance improvement plans are derived by undertaking a strategic business planning exercise.<sup>3</sup> A strategic planning exercise helps the service provider understand the shortcomings in service delivery and the specific areas requiring performance improvements, and thus plan for systematic improvements in services. Such planning exercises would need to move away from the standard and typical annual reviews to longer term

<sup>3</sup> A strategic business plan is different from a city development plan, in the sense that (a) the latter is a broader planning exercise that helps cities gain a perspective and a vision for future development; (b) it helps indicate where the city is now, where it wants to go (vision, goals), what are its priorities, how can it reach there, and what interventions are required for it to become economically productive, efficient, equitable, and responsive to the needs of a growing population; and (c) it helps provide the basis for cities to undertake reform and help direct investment into city infrastructure. A strategic plan focuses on a specific service and helps the service provider understand shortcomings in service delivery and undertake strategies that address the specific areas requiring improvement and future needs.

**Figure 2: Stages of a Performance Improvement Plan**



and focused planning horizons that have short- (two to five years), medium- (five to 10 years), and long-term (20 to 30 years) goals and targets, along with specific timelines required to meet them. Under such a planning exercise the provider is required to undertake an integrated and analytical approach to achieving improvements in services, by understanding all components of cost, demand, investment, and revenue streams. A strategic planning exercise defines the scope and nature of performance improvements by assisting the provider in two specific ways:

- It helps decide who does what, what to do in-house, what to outsource, what training is needed, and so on.
- It helps understand targets and objectives of contracts or performance agreements of both individuals and management involved, as well as of the operational unit as a whole, in case the means to achieving service delivery improvements are being outsourced.

The strategic plan must, however, have the scope to be reviewed and updated every five years to keep up with achievements and performance improvements.

### **Performance Agreements to Implement Performance Improvement Plans**

Performance agreements are a means for implementing performance improvements within a conducive institutional framework that helps foster, incentivize, and sustain service delivery improvements on a long-term basis. These agreements form the basis for a market-orientation approach to the delivery of public services, by exploring means for lowering costs by outsourcing certain functions, by gradually introducing incentives within the organization for incentivizing performance improvements, and so on. In undertaking such agreements, water utilities can use performance agreements in clearly defining roles and responsibilities of all stakeholders so that there are no ambiguities or overlap

in functions. Under performance agreements, the public sector or higher tiers of government or the state-level water board (henceforth referred to as the Board) contracts the lower tiers of government, the operating arm of the public service provider or even the private sector (henceforth referred to as the service operator). While the responsibility of the Board remains to define what is wanted, what the performance standards are, award the contract, and monitor performance, the service operator to whom services are being contracted to remains responsible for the actual delivery of services against some set performance standards. The role of the Board then shifts from the existing role of an operator or service provider to that of a facilitator and regulator for approving and monitoring business plans, and regulating the operations and obligations of the contracted operator against set standards. While the Board sets the guidelines and defines overall objectives for a plan for performance improvements, the service operator

Water supply and sanitation managers should be able to control, measure, and compare financial health as well as understand the financial impact that performance improvement initiatives have on services.



defines what is needed so that the performance plan can comply with overall objectives, and the two together review and revise it to reach a final action plan.

Performance agreements are operationalized by breaking down overall strategic goals into specific and detailed operational processes and output-oriented targets in exchange for increased operational autonomy and

performance-related remuneration or incentives to achieve them. The operator is granted reasonable autonomy in day-to-day management and operational decisions and is ensured adequate resources to bring about performance improvements. The operator is monitored against performance targets as defined in a performance standards chart and is encouraged to supersede these targets through financial incentives set out in

an incentive compensation chart. These defined performance targets also help in bringing about increased external and internal accountability to the various stakeholders: externally to central, state, and local governments, customers, donors, and financial institutions as well as internally, within their own organization, since they are held accountable for effectively and efficiently reaching these performance goals. These targets also help push the utility forward towards improved performance in a transparent manner. In the longer term, many of the incentives captured in performance and incentive compensation charts can be superseded by allowing the operator a share of operating cash flows or (less effectively) of profits. However, such an arrangement is likely to be acceptable only after the relationship between the Board and the service operator has developed a sufficient degree of trust and the information base has matured.

### **A Financial Model to Monitor Financial Progress**

Given that performance improvements require access to funds, utilities, and service providers will need to use financial models that can help in planning and tracking the transition to performance improvements and also in determining and monitoring the key components that are required for a financially viable and sound system of service delivery on a continuing and systematic basis. In a nutshell, such a model will help assess the utility's financial situation, formulate financial strategies for achieving its objectives, capture and project future trends, simulate future milestones, and track progress towards them. It is a process wherein long-term financial goals are set through cash flow planning, investments,

asset allocation, and risk management. Further, when such a financial model is combined with an appropriate monitoring approach, it can be extended to cover broader issues such as consumer impact (or service quality) and internal innovation and learning (or reform milestones). At the same time that a strategic business plan is put in place and a performance agreement is developed to determine the ways and means for bringing about performance improvements, a financial model can help diagnose the financial, commercial, and operational aspects of service delivery and thus facilitate the implementation and tracking of respective performance improvement measures. Such models also help in setting fiscal incentives and allow for continuously and systematically monitoring the provider's financial health by testing the impact of performance improvement plans, to see if such plans are truly delivering financially viable and sustainable services.

## Principles of Performance Improvement Plans

Performance improvement plans target performance improvements through the principles of revenue enhancement and cost recovery. Transformation to improved services requires that service providers execute governance and management reforms through specific technical, operational, and commercial strategies, and are held internally accountable for the effectiveness and efficiency of these strategies. However, the impact of these is likely to be short-lived in the absence of the right institutional incentives at the state and local level that can encourage more accountable services and help providers move from poor financial, technical, and managerial performance to conditions of

continuous operational efficiencies resulting in improved services. For the purpose of discussion, this paper categorizes performance improvement plans as strategies that (a) enhance operational efficiency by targeting improved productivity of all areas of service delivery; and (b) enable the adoption of sustainable revenue strategies.

### Improving Operational Efficiency

Performance improvement plans target operational efficiency by bringing about improvements across various service delivery aspects through better demand management and by running the system as a commercial practice.

To ensure that operational efficiency is reached, such practices would need to maximize revenue water and hence control nonrevenue water (indicated in Table 2) and the costs of service delivery.

**Table 2: Water Balance—Components of Revenue and Nonrevenue Water**

Authorized Consumption	Billed authorized consumption	Billed metered consumption	Revenue Water
		Billed unmetered consumption	
Water Losses	Unbilled authorized consumption	Unbilled metered consumption	Nonrevenue Water
		Unbilled unmetered consumption	
	Apparent losses	Unauthorized consumption	
		Customer metering inaccuracies	
	Real losses	Transmission and/or distribution mains leakage	
		Leakage and overflows at utility's storage tanks	
		Leakage on service connections up to point of consumer metering	

## Operational efficiency could be achieved by controlling technical losses, tapping commercial losses, improving collection efficiency, and implementing cost controlling techniques.

Such efficiency could be achieved by:

- Controlling technical losses by implementing proactive leakage management.
- Tapping commercial losses from free and unbilled water.
- Improving collection efficiency.
- Implementing cost controlling techniques.

### *Controlling Technical Losses*

In a number of cities across India, more than 40 percent of water produced is lost before reaching the consumer. Reducing lost water and hence lost revenues is an important task for any water service provider. Designing an effective leakage reduction and maintenance strategy helps in tapping physical losses and in improving manageability of the network, enhancing organizational accountability down the line of service provision, and increasing revenues. The approach to reducing water losses includes a set of programs and activities aimed at the optimization of water supply by controlling leakages in pipelines, distribution mains, and networks and controlling overflows in the storage tanks as well as improved operation and maintenance of water networks and sound management practices that enable maintaining water loss at low levels. Such losses are tackled through continuous leak detection and consequent repair works through technical improvements and refurbishments of the network, among other techniques.

### *Managing Commercial Losses*

Commercial losses are a result of unbilled authorized consumption, unauthorized consumption, and metering inaccuracies. They can be

managed by focusing on controlling losses from overestimation of water production, underestimation of consumption, theft of water through illegal connections, free water, wasteful water use, and water lost from metering inaccuracies. The key to managing commercial losses is the implementation of a proactive and robust metering practice. Besides keeping track of system water flows, such a metering policy helps in improving operational accountability within the utility down to all levels, if every WSS staff involved in network management is held accountable for their share of water produced and sold. Effective metering is also required if the service provider is aspiring to provide continuous water supply. This means that service providers need to not only check their own bulk meters to keep track of how much water is being supplied to the water network but also need to check all consumption meters through regular tests and repairs. Although it is hard to implement, water providers also need to penalize customers who have fraudulent practices regarding their consumption meters. A subsequent field note on billing and collection practices will demonstrate how operators have implemented such measures.

Commercial losses could also be controlled by reducing the levels of free water. This means tapping illegal connections by implementing credible penalties and disconnection policies. Free water also results from authorized consumption—for instance, for operational use, fire fighting, among others—which needs to be controlled. Some amount of free water is also available through public standposts. While there is huge political pressure to

provide free services for the poor, such attempts have not really resulted in reliable services for them, since any subsidies targeting them are mostly delivered through subsidized water tariffs and are lost as the poor remain unconnected to the network. They are also sometimes forced to cope with, and rely on, unsafe and expensive alternative options. Water utilities are increasingly realizing that poor people are ready customers for piped water and connecting them will serve as an added revenue base.

### *Improving Collection Efficiency*

The other element to commercial losses comes from poor billing practices and hence low collection efficiencies. Water service providers need to explore all factors that affect payment patterns of customers. They can speed up collection of their receivables and avoid late payments by developing an effective billing plan and ensuring that bills are collected within a reasonable time span. For this to happen, water utilities must ensure that they have robust accounting, recordkeeping, and billing procedures in place that include a complete listing of all customers they are serving. Service providers could also introduce efficiencies in billing practices by outsourcing billing activities to organizations that are more competent in handling such practices or by using improved technology for generating bills on the spot and on time. An important element to an effective billing and collection strategy is also to have efficient and incentivized staff. Such incentives could be created by linking remunerations of WSS staff to actual collection efficiencies as achieved by them. Consumers also need to be encouraged to pay bills on time, through bill payment conveniences such as



customer care centers that are open on weekends and for longer hours, online payment facilities, raffles, and so on. A subsequent field note will explore how such initiatives have had an impact on improving collection efficiencies both in India and internationally.

#### *Inducing Cost Efficiencies in Service Delivery*

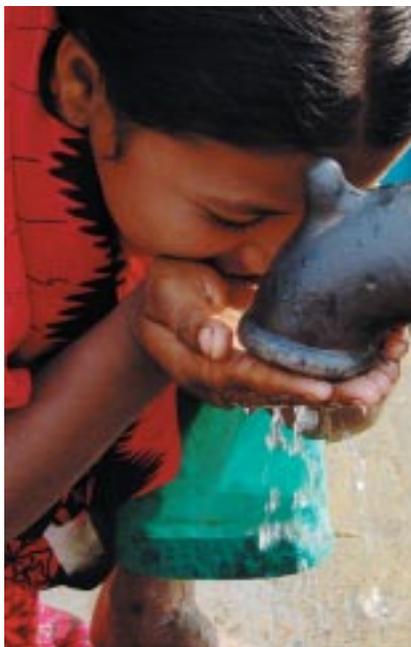
The issue of cost-effective design points to the need for creating the right incentives and accountability. Current practices usually tend to favor larger investments that are made in isolation of demand assessments and financial viability. However, options need to be devised that include modular designs and sequential upgrades to provide for today's population, but with plans for

expansion based on improved revenue flows and future borrowing once the utility is on sounder financial footing.

There are other areas that need immediate focus for controlling costs of service delivery. Cost inefficiencies could be on account of many factors including inadequate processes, outdated technology, high energy costs, or too many staff, all of which impose a strain on finances. Indian water providers spend as much as 80 percent of their operating costs on meeting energy costs and staff costs. This leaves very little to be spent on appropriate maintenance of water infrastructure, thus taking the focus away from preventive maintenance to reactive maintenance. Poor maintenance has resulted in decaying

infrastructure that has eventually failed to deliver quality services, with adverse economic and health impacts on all consumers, especially on poor people. Water service providers will need to ensure that services are delivered in a cost-efficient manner so that they meet specific service standards and obligations without wasting resources. For instance, providers could bring in energy cost efficiencies by using capacitors to improve the energy factor, conducting regular energy audits, negotiating better energy tariff rates, and reducing nonrevenue water levels. Staff cost rationalization also needs to be looked at by moving towards newer technologies, smarter procurement practices, and training of staff that encourages or makes

Continuous and regular monitoring of performance is critical for sustainability. Such monitoring could be done either at the provider level or at the consumer level where consumers rate providers on services delivered.



them more efficient, or by implementing some of the more hard-hitting options of staff retrenchments and hiring freezes.

### Sustainable Revenue Strategies

The second element to performance improvements is to ensure that water service providers adopt coherent and sustainable revenue strategies through the use of appropriate tariff structures that are simple, equitable, affordable, financially sustainable, and transparent for all, taking into account poor and marginalized consumers.

Tariffs are a powerful management tool and, if properly designed, create

efficiencies for the delivery of services for both the service provider and the customer. An optimal tariff needs to satisfy, and strike a balance between, some general principles and some operational objectives (as detailed in Table 3).

It must be borne in mind that adopting performance improvements for better services does not necessarily imply that tariffs will become unaffordable for poor people and low income communities. Appropriate subsidy mechanisms could be designed to ensure that affordability considerations for poor people are maintained. The goal should be financial viability while not excluding the poorer section of society.

**Table 3: Principles of an Optimal Tariff**

Principle	Description
Cost efficiency and cost recovery	Revenue stream generated from tariffs should be relatively stable and not cause cash flow or financing difficulties for the utility.
Economic efficiency	Signal to consumers the financial and other costs that their decision to use water impose on the rest of the system.
Resource conservation	Discourage excessive or wasteful uses of water, thus promoting the conservation of depleting sources or the sustainable use of renewable water sources.
Affordability	Affordable for poor people and low income communities.
Equity and fairness	Treats similar customers equally and customers in different situations differently, and may mean some policy measures to subsidize poor people and low income communities.
Acceptability	Free from public criticism and not objectionable to political leaders.
Simplicity	Easy to understand.
Feasibility	Administratively, the tariff should be such that its implementation can be undertaken at minimum cost.
Transparency	Implementation, including the structure of the tariff, should be transparent.

Source: Literature Review on Water Pricing, WSP-SA Study, 2003.

## Institutionalizing for Long-Term Results through Performance-Level Monitoring

It is evident that while adopting performance improvement plans, continuous and regular monitoring of performance is critical, especially if such improvements are to be sustainable in the long run. Monitoring is important because it helps understand performance, which is critical for bringing about improvements in services. Key questions that need to be addressed are:

- How does my performance compare to my past, and how do I fare over time?
- How does my performance compare to my peers and to others nationally?
- How can I improve my performance to match that achieved by superior performers?

Monitoring of performance could be done in two ways:

- Provider-level where providers monitor themselves and compare their performance with better performers.
- Consumer-level monitoring where consumers rate providers on services delivered.

### Benchmarking

Provider-level monitoring is typically done through performance benchmarking. Service providers can use performance indicators to help

define the efficiency and effectiveness of the delivery of services. These performance indicators measure a particular aspect of the utility's performance such as water coverage, sewerage coverage, unaccounted for water and nonrevenue water, staff per 1,000 connections, water availability, working ratio, and so on. Utilities and service providers can then use such data to benchmark performance and subsequently bring about improvements in services.

Given increasing inefficiencies in service delivery, there is a growing need today to monitor and evaluate performance progress to see if increased investments for improving services are truly delivering results.

Performance monitoring is undertaken by measuring, comparing, and analyzing key performance data on a regular basis and using such data to share good operating practices across service providers so as to build capacity where there are performance gaps. Such an exercise on a continuous basis can help service providers scrutinize outcomes, measure performance, and identify such performance gaps.

However, for ensuring that such performance benchmarking actually translates to performance improvement on the ground, it must be pursued in a sustainable and effective manner. It must be made a part of an overall performance improvement framework, be undertaken on a regular basis through a sustainable institutional framework, and be underpinned by appropriate incentives that encourage service providers to undertake such activities.

Given that such exercises are data-intensive and aim at bringing different

units together, they will be effective and successful only if they encourage the collection of reliable and meaningful data. This means that the benchmarking exercise should be supported with good systems and practices such as financial management systems, customer care and grievance redressal mechanisms, effective metering practices (bulk, zonal, and customer), water quality monitoring systems, human resource development, and management systems, among others.

### Balanced Scorecards

Provider-level performance monitoring can also be undertaken through the use of balanced scorecards.

This technique is a performance management approach that focuses on various overall performance indicators such as financial performance, customer perspectives, internal business processes, operational performance, learning and growth potential that helps monitor progress towards some strategic goals as set by the provider.

Service providers can obtain a comprehensive overview of their performance by focusing not only on financial outcomes but also on human issues that drive these outcomes. Besides the financial perspective these include the importance of learning and growth, customer satisfaction, and business processes, all of which have an impact on the long-term performance of the service provider.<sup>4</sup>

<sup>4</sup> The learning and growth perspective focuses on employee training and provider attitudes through continuous learning for keeping up with rapid technological change. The customer perspective focuses on the importance of customer satisfaction with the service to ensure their compliance with service rules and payments. The business process perspective focuses on internal processes that enable managers to know how well their business is running, and whether services delivered conform to customer requirements.

Consumer-level monitoring enables the collection of systematic user feedback on services so that the service provider can provide services that are closer to customer expectations.



Box 2 indicates how a private utility in India is monitoring its performance using balanced scorecards.

### Monitoring by the Consumer

Consumer-level monitoring is usually undertaken through consumer grievance mechanisms. These mechanisms force service providers to be more accountable, responsive, and proactive by meeting specific standards of service as well as constantly improving the quality of services. Such monitoring activities help determine to what extent utilities and services providers are customer-oriented, whether they 'listen' to their clients, and whether they proactively work to meet customer needs regarding standards, levels of services, and complaints.

Mechanisms such as 24-hour customer care grievance phonelines, citizen

charters defining service standards, e-governance mechanisms or consumer complaints, and consumer courts are some means through which customers complain about poor and deficient services. Most complaint systems that are robust and receptive in addressing consumer grievances also facilitate the collection of systematic user feedback on services so that service providers can continuously upgrade and better serve customers, by providing services that are closer to customer expectations. By being more responsive to consumer needs, they also achieve higher customer satisfaction—thus encouraging consumers to pay more willingly for services being delivered.

Of course, how effective such monitoring mechanisms are depends finally on how incentivized the service provider is to improve upon its own performance and to constantly drive itself to provide quality services for its customers.

Typically such monitoring tools would require support from higher tiers of government to ensure that such monitoring is undertaken on a systematic basis. For instance, a benchmarking exercise could also be used by the central and state governments to put in place mandatory disclosure norms for water service providers to report on performance, which could then be used as indicators for delivering intergovernmental transfers and centrally sponsored schemes. Ideally, financial and performance indicators as reported on by utilities can be cross-checked through consumer consultation processes, such as citizen report cards, where citizens rate services received from the service provider.

### Box 2: Balanced Scorecards to Monitor Performance

Jamshedpur Utilities and Services Company Limited was established in August 2003 for providing—under one roof—comprehensive utility services including water, power, sewerage, drainage, and solid waste management to approximately 500,000 people in the city of Jamshedpur.

As part of many performance improvement initiatives, the company has been undertaking a monthly benchmarking exercise of its own operational performance for the water services that it provides. The company monitors its own performance through the balanced scorecard approach on four aspects: financial aspects, service delivery aspects for the customer, internal business processes, and community concerns.

Each aspect has a set of objectives that are to be achieved on a yearly basis. A set of indicators are measured for each objective. For instance, for monitoring financial aspects, the company has set itself a target of maximizing revenue generation from water supply within the Jamshedpur service area.

To ensure that this objective is met, the company is continuously monitoring revenue generation from five sources: revenue from potable water in command area; revenue from other businesses; revenue from potable water in *bagan* areas; revenue from clarified water; and revenue from raw water.

Each indicator or benchmark is monitored against the previous year's data and also against target levels that are set by the company on a yearly basis. The data are published and are common knowledge to the consumer as well.

Source: Adapted from *Jamshedpur Utilities and Services Company Limited: Improving WSS Services through Private Sector Partnerships*. WSP-SA. June 2006.

## Workforce Development and Training

Training and development of the workforce and operating staff is a key element that helps staff implement new work practices and procedures as identified in the strategic planning exercise and is critical while undertaking the actual implementation of performance improvement plans.

Given that such plans would be targeting improvements within service delivery, and there may be new ways to undertake these improvements, it is important to develop a comprehensive, ongoing, and consistent training program that keeps staff motivated during the period when performance improvement plans are being undertaken as well as help staff learn new concepts so that they are able to implement new work practices and procedures for improving performance. In addition, workforce training and development will not go too far unless it is supported by proper incentives that can persuade staff to undertake such activities. Operating staff will need to be constantly encouraged and given suitable incentives to undertake such training and development activities so that they realize and feel the importance of such activities on the way they work. Besides training in new procedures and practices, such programs could also involve exposure visits for senior officers, visiting other organizations with better practices. It also helps keep staff members informed about current policies, procedures, and technology as well as how such systems could be improved to impact performance.



## Consultation and Communication with the Communities

An issue to be addressed early on while designing improvement plans is interactive communication programs for the communities, especially the poorer consumers, to apprise them of the benefits of, and need for, substantial changes in water service levels. An extensive outreach program for communities, right from the conception to implementation of such plans, will be required so that they are made aware

of the potential benefits of such plans. These programs should commence very early on in the change process so that there are no surprises for the community during the implementation of the provider's vision. Communities should be on board and accept the changes willingly and have a sense of ownership. This must also be a receptive process, seeking involvement and feedback from the community to help guide the change process. In the end communities must be empowered such that they start demanding consistent and sustainable improvements on a regular basis. This will also ensure that service providers are forced to become more accountable.

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**ABOUT THE SERIES**

WSP Field Notes describe and analyze projects and activities in water and sanitation that provide lessons for sector leaders, administrators, and individuals tackling the water and sanitation challenges in urban and rural areas. The criteria for selection of stories included in this series are large-scale impact, demonstrable sustainability, good cost recovery, replicable conditions, and leadership.



internal performance improvements under the control of service providers that can be undertaken for effecting immediate improvements in services. Performance improvement plans help implement these service delivery improvements and need to be designed as part of a strategic business planning exercise that help the provider identify service delivery gaps and set short, medium, and long-term goals for achieving service improvements. These plans must be based on the basic principles of cost recovery, operational efficiency, and improved demand management. They need to be supported by a robust financial model and a strong performance monitoring system that helps review progress towards milestones and track financial implications of performance improvement.

**Conclusions**

Successful service providers are realizing that commercialization of service provision is fundamental for ensuring financially sustainable services in the medium and long term. While institutional reform, broader financial accounting reforms, and incentive structures are required for sustainable service improvements, there are

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