

Utility Benchmarking

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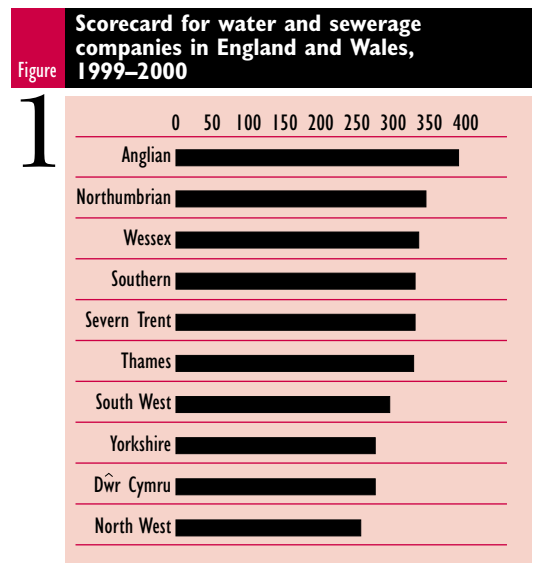
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Public Reporting of Service Performance

In some countries regulators routinely publish indicators of utility service performance through the local media. Exposing the “worst in class” has proven to be a powerful way of pressuring utilities to provide better services to consumers. By focusing political attention on service quality, benchmarking can also help to shield regulators from political interference. This Note reviews the requirements for effective benchmarking: choosing indicators that are unambiguous and verifiable, consistent with long-term incentives for good performance, and easy for the public to understand.

Benchmarking empowers a broad section of civil society to ask why one service provider has achieved demonstrably better performance than another, or why some companies choose to ignore effluent discharge standards. Mobilizing consumers in this way is likely to lead to demands on the regulated utilities—whether private or public—to improve performance.

Performance benchmarking has become standard practice in the regulated utilities of England and Wales—with considerable success. There the water and sewerage companies provide the regulator, Ofwat, with indicators of service performance covering water supply (water pressure, hosepipe bans, and quality of drinking water), sewerage service, customer service (number of complaints), and environmental impact (leakage, pollution incidents). Ofwat publishes the indicators annually in an easy-to-digest



Note: The scorecard is a composite index of performance for water, sewerage, and customer services.
Source: Ofwat (www.ofwat.gov.uk/pdf/files/los2000.pdf).



format accompanied by commentary. Figure 1 illustrates Ofwat's total "score" for water supply, sewerage service, and customer-service performance by U.K. water and sewerage companies. These simple performance scorecards have helped to pressure the "worst in the class" to improve their game and allowed the "best in class" to gain reputation.

Some developing countries have adopted performance benchmarking techniques for similar purposes—and with similar results. For example, in São Paulo, since the introduction of pollution tests and public reporting of results in 1991, 95 percent of the industries that had been pumping untreated effluents into the river have installed waste treatment units to avoid paying fines and seeing their names published. Indonesia's environmental regulatory agency, BAPPEDAL, has developed a simple, color-coded rating system to monitor industry compliance with national environmental standards. Publication of the ratings has brought about spectacular improvements in pollution abatement (World Bank 1999). Procuraduría Federal de Protección al Ambiente, Mexico's environmental enforcement agency, announced last year that it would begin to publish information on the environmental performance of 3,000 industries to provide incentives to reduce contamination. Ratings will include recommendations on how to achieve acceptable environmental performance.

Barriers

The power of public reporting seems obvious. So why is it not more widespread? Many of the reasons stem from the legacy of decades of public sector operation of utilities, or from the presence of vested interests antagonistic to public reporting of performance.

- *Insufficient data.* The performance of public sector service providers is typically not closely monitored by national policymakers and donor agencies in a format that identifies the best in the class or the underachievers. Data are more likely to reflect either broad policy-oriented themes or specific information useful for public investment purposes. Sectoral agencies may be unwilling to report or record information on the extent of underachievement, preferring to focus on actions
- *that enhance specific agency interests—such as new investment programs—rather than those that will benefit consumers.*
- *Low consumer expectations.* In many countries basic services such as water supply, sanitation, and rural electricity have been provided at subsidized prices, and when consumers are not charged economic costs for services, their tolerance for inefficiency and poor service increases—"You get what you pay for!" Only when services are billed at their true economic value do consumers begin responding to differentials in service quality.
- *Powerful vested interests.* In most countries the commercial and industrial elite have strong lobbying powers. Those powers will be used to resist any public reporting system that threatens to expose poor—even illegal—practices and lead to increased costs and adverse public sentiment.
- *Conflicts of interest.* Many monopoly service providers are either public agencies or parts of local government. They not only provide but also regulate services—supposedly in the best interests of the consumer. Publicly reporting the agency's performance therefore directly reflects on the action, or inaction, of the local or national government. So there is a tendency to cover up poor performance.
- *Culture of underachievement.* Ideally, pointing the finger at poor performance should be a wake up call for an institution to do better. In many developing countries, however, poor performance is used by institutions to justify demands for more resources. Rather than promoting improved performance, public reporting can open a floodgate of demands from underachievers.
- *Inconsistencies in policy framework.* The problems of consumer apathy, conflicts of interest, and other organizational issues sometimes arise because the basic rules of a sector are inconsistent with rational economic principles. In such cases utilities may not be able to do much on their own to lift performance. The policy framework within which the sector operates must be reformed so that pricing, investment, financing, and operational rules will combine to induce pro-

ducers to provide services that customers want, are willing to pay for, and are sustainable in the long term.

Developing the scorecard

The basis of an effective performance reporting system is good data, the right indicators, clear presentation, and credible public debate.

Choose the right indicators

Measurable and meaningful indicators of performance should reflect obvious features of the product or service so as to allow customers to understand variations in service performance between different entities and over time. Indicators may focus on quality, efficiency, affordability, or comparative performance. Some may be expressed as indexes adjusted for different operating conditions.

In Victoria, Australia, the Office of the Regulator-General (box 1) publishes annual performance results for the three regulated water distribution companies in Melbourne. The indicators include water quality (for example, tests per 1,000 customers and the percentage of samples meeting guidelines), the number of interruptions in service, amount of water not accounted for by the utility, response times to emergency calls, number of complaints, and need for payment assistance.

Indicators should draw on data that are reliable, relatively easy to collect (or of such importance that they ought to be collected anyway), and not susceptible to multiple interpretations. They should reflect conditions over which the service providers have control. Indicators that offer an indisputable basis for judgment are not easy to find. Even the process of measuring some indicators can lead to disputes. For example, of the various methods of estimating water not accounted for, which should be used?

Performance results must be communicated in a way that will allow the public to make an informed assessment of relative performance and gauge realistically the extent to which improvements should be expected. Long lists of indicators are not necessary; they will be expensive to prepare and may obscure the message.

Results may be publicized in many ways. The Web is a convenient place to post performance

Box

Annual performance measures for three water utilities in Melbourne, Australia

1

Water Quality

- Coliform sampling and testing.
- Water quality complaints.
- Sewage treatment compliance.
- Reuse of effluent and biosolids.

Reliability of Service

- Interruptions to, and restoration of, supply.
- Unaccounted-for water.
- Sewer blockages and spills.
- Response times to emergency phone calls.

Affordability

- Use of grant relief scheme.
- Restrictions for nonpayment.
- Use of installment payment plans.
- Legal actions.

Customer Service

- Complaints.

Source: Melbourne Retail Water and Sewerage Companies Performance Report, January 2000, Office of the Regulator-General Victoria, Australia.

results, but in most countries newspapers, television, and radio are likely to be more effective in bringing the messages to the attention of the public.

The service provider is not the only entity that will be scrutinized when performance reports are issued. The body that prepares the report must also be prepared for media attention. It must be sure that its commentary is fair and objective, and that it can publicly defend its analysis if required.

The publication of data also may tempt some participating organizations to cheat on their performance reports. Routine or random independent audits of the processes of compiling and reporting data may be required to solve the cheating problem.

Who should compile and report results?

If a formal regulatory agency already exists, it should take the lead. Where the regulator is also the service provider, however, as in the case of locally provided services, responsibility might fall to a specialized municipal performance

monitoring unit or to citizen groups. The organization responsible for data collection and reporting may change over time. A private organization might start an initiative that is later adopted by government. Bangalore's non-governmental Public Affairs Centre, for example, produces a scorecard for performance of the city's public services. The group's presentations are discussed in well-attended town hall meetings and followed up by the local media to pressure providers to improve services. The Public Affairs Centre has now taken the initiative to extend its activities and benchmark the quality of basic services across 22 major states in India.

Consumer advocates and pressure groups can play a powerful role in mobilizing public opinion in response to published information. Independent analysis lends punch to the data. The international donor community can also help by compiling and presenting comparative performance information. In the water sector the Asian Development Bank has published a comprehensive assessment of utility performance in its *Second Water Utilities Data Book* (McIntosh and Yniguez 1997). The World Bank, working with many partners, recently launched an international benchmarking network for water and sanitation utilities on the Web.¹

Create the right incentives

The penalties and incentives of performance reporting are clear enough in the case of private providers: Bad press can affect stock prices and public perceptions, and good press can boost market share and sometimes ease regulatory burdens. But because of the institutional problems discussed earlier the picture is not so clear for the public sector. Certainly, doing well can earn good publicity. Doing badly, on the other hand, can have several outcomes, including requests for more resources.

In the end the public sector must shoulder the burden of addressing how incentives and penalties can best be arranged to enhance performance using the results of public performance reports. How? "Bottom of the class" agencies seeking concessional financing from national government or international financial institutions could be required to prove that

their poor performance was due to factors beyond their control. At the other end of the spectrum "top of class" agencies should be rewarded for their superior performance.

Conclusion

By exposing poor performance public reporting makes service providers more accountable to the public and thus increases their motivation for improvement—to the benefit of the end user. Government and donor agencies can do more to encourage public performance reporting and to help guide the effective use of scarce resources. "Worst in the class" performance must not be seen as a route to additional resources but rather as a clear challenge to do better.

Note

1. The Benchmarking Water and Sanitation Utilities Project facilitates the sharing of cost and performance information between utilities and between countries by creating a network of linked Web sites, through global partnership efforts. Each Web site presents values for a set of core cost and performance indicators for a utility, or utilities, in that particular region or country. [http://www.worldbank.org/html/fpd/water/topics/bench_network.html]

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