The Zimbabwe Water Forum provides a platform for Government and Development Partners to share international best practices in the water sector between Zimbabwe and other countries. The forum was formed through a partnership between the Ministry of Environment, Water and Climate, the Multi-Donor Trust Fund and the World Bank and is hosted by the World Bank’s Zimbabwe Country Office and the Urban WSS Thematic Group.

Enhancing Water and Sanitation Services through Performance Contracts: Lessons from Africa

Despite significant investment and technical assistance in water-supply infrastructure, the service delivery, operational efficiency, and financial sustainability of most water utilities in Africa remain poor. The public sector has failed to provide adequate water services in many developing countries, leading governments and their development partners to seek ways to reform and restructure their urban water and sanitation sectors in pursuit of sustainable improved performance. This Policy Note focuses on performance-based contracts as a reform approach that has created performance improvements for some water utilities in Africa. Key lessons and critical success factors from utilities in Africa where this approach has been used such as Uganda, Sierra Leone, and Ghana are outlined. The Policy Note is based on the Zimbabwe Water Forum held on January 23, 2014 which was chaired by Mr. Prince Mupazviriho, Permanent Secretary, Ministry of Environment, Water and Climate, Government of Zimbabwe and moderated by Michael Webster, World Bank. The main speaker was Dr. William Muhairwe and the discussants were Martin Gambrill, Word Bank, and Mr. Shangwa Mavesera, Town Clerk, Bindura Municipality. The Policy Note was written by Rolfe Eberhard and edited by Hilary Gopnik.

Weak utility performance

More than 340 million people in Africa do not have access to safe water (40 percent of the global total) and about 550 million do not have safe sanitation (20 percent of the global total). In the context of this challenge and rapid urbanisation, the typical performance of African water utilities is weak, with low service coverage, few hours of supply, unproductive staff, high non-revenue water, poor customer care, low collection efficiency, high levels of debt, poor cash flows, and weak governance and incentive structures.

Causes and remedies

Of the many contributing factors to the crisis in water and sanitation, poor governance and low accountability have been identified as the leading causes of poor performance in surveys of water sector stakeholders.

Performance contracts offer a solution to the governance problem. A performance contract establishes a practical relationship between two parties (principle and agent) with a view to reaching an agreed set of goals starting from a commonly understood set of conditions. Performance contracts are negotiated written agreements (typically between governments and the managers of state-owned enterprises) that set targets for management to achieve in a given time frame, define how performance will be measured at the end of the specified period, and specify how this performance will be rewarded and/or penalised. Successful performance contracts have the following key attributes:

1. a clear and common vision;
2. mutual obligations with clearly delineated roles and responsibilities for each party, little or no overlap or conflict between roles and responsibilities, and agents reporting to a single principal;
3. SMART (specific, measurable, ambitious, realistic, and time-bound) targets that are output-focused in order to encourage innovation and creativity from the service provider;
4. incentives that provide sufficient motivation to achieve the required changes in behaviour and outcomes including rewards and penalties and the
use of stretch targets with strong incentives; and

5. a clearly defined monitoring and evaluation framework and pre-agreed practical and effective mechanisms for dispute resolution.

It is important that the agreements between the government and the utility are expressed as personal commitments on the part of individuals acting for the parties (for example, the Minister as the Principal and the Chief Executive Officer as the agent). Contracts are typically cascaded through the utility to the management team and staff. It is critical for agreements to be underpinned by mutual respect.

When are performance contracts appropriate?

Performance contracts are a form of partnership. They are most suitable for unpredictable operating environments where both parties are in a learning phase. Water supply and sanitation utilities in developing countries are good candidates for this type of agreement because their operating systems and procedures are still in the process of being developed.

A performance contract is not a single contract but a progression of contracts, starting with a memorandum of understanding between the minister, board, and utility CEO, then moving to team-based performance contracts, and later to a combination of team and individual performance contracts.

Turning around a water supply and sanitation utility in Uganda using performance contracts

The National Water and Sewerage Corporation (NWSC) was established in 1972 as a public corporation wholly owned by the Government of Uganda. NWSC is currently responsible for water supply and sewerage services in 33 towns with a combined population of 4.3 million people, about 300,000 customers, a network length of over 5,000 kilometers, and staff of 1,800. Piped water is available to 77% of the population served by the utility.

Prior to 1998, the performance of the NWSC was grossly inefficient with low coverage, a cash deficit of $300,000 per month, low collection rates, low staff productivity, and high operating expenses.

Two international private operator contracts for Kampala had been tried unsuccessfully. With little appetite for further private sector contracts, the government decided to explore the creation of stronger incentives for managers to improve their performance.

Reforms were implemented gradually beginning with a 100-Day Programme (February to May 1999) focused on reversing the monthly operating deficit. This was followed with two short-term performance-improvement programmes aimed at restoring customer confidence and enhancing service (August 1999 to August 2000). Area Performance Contracts, introduced in 2000, were internal performance contracts aimed at achieving break-even for geographically distinct operational areas by increasing the autonomy of the area managers. At the same time, support services contracts were introduced to improve the performance of water-quality monitoring and other support services. These contracts evolved over time to promote improved teamwork and to provide greater motivation to improve performance.

In 2004, internally delegated area management contracts were introduced to shift operating risk to area managers and to strengthen incentive systems and the monitoring and evaluation framework. The introduction of these contracts included a process of bidding for the team leader positions. This was intended to enhance the principles of competition and bring out the best in the prospective bidders, while at the same time reducing the complacency of the sitting managers who had to compete for the positions they held.

The results were achieved through the establishment of a clear baseline, adopting a combination of SMART and stretch targets (with varying degrees of incentive attached to each type of target) and introducing penalties for failure to achieve minimum targets. The introduction of penalties created a strong incentive to improve performance.

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<th>NWSC Uganda results from performance contracts</th>
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Recent experience in Sierra Leone is promising

Guma Valley Water Company (GVWC) was established in 1961 as an autonomous public utility to supply water in Freetown. It is owned by the national government (99%) and the Freetown City Council (1%).

The utility was performing very poorly for a variety of reasons including political instability, weak governance, and poor management. By 2013, the Ministry of Energy and Water Resources had lost confidence in the utility and the government's privatization unit began to explore privatization options. However, as a last resort before proceeding with privatization, the government decided to implement a 100-Day Programme with the goal of turning around the performance of GVWC.

A set of memoranda of understanding (MOUs) between relevant personnel were developed for the 100-Day Programme including between: the general manager and area managers, the general manager and the production and distribution engineers, the general manager and heads of department, the general manager and the board of directors, and the Minister of Water and the board of directors. The Workers Union witnessed these MOUs.

The 100-Day Programme was conceived as a rescue plan aimed at short-term improvements, while at the same time establishing the foundation for further performance improvements over time. The programme therefore also sought to address the overall performance culture of the organization.

Four key elements were incorporated into the MOUs:

1. the delegation of service delivery to operating business units through competitive bidding and greater autonomy in the management of these business units;
2. the development of better monitoring and evaluation systems within the company;
3. performance-based incentives linked to baseline (with 15% salary penalty for failure to achieve), SMART (15% bonus) and stretch (20% bonus) targets, and with all staff sharing 7% of the total revenue collected each month; and
4. the introduction of mentoring and coaching for the managers.

A key initial focus of the performance improvement was on revenues; in the first months of the program's operation billing and collections increased significantly and non-revenue water went down dramatically.

Performance contracts are not always successful

Ghana’s experience with performance contracts has been less successful. The first performance contract in Ghana’s water sector was agreed to by the Ministry of Finance and the Ghana Water and Sewerage Company in 1989. A lease contract was proposed in the mid-1990s but did not materialize. A five-year management contract was awarded to Aqua Vitens Rand Ltd. in 2005 with moderate success. Despite these initiatives, performance improvements have been modest, and the performance contracts and private sector initiatives have not delivered the expected results.

A number of factors may have contributed to this poor performance: governance and accountability frameworks appear to be weak with a lack of clear allocation of responsibilities and realistic targets between the government, utility, and staff; incentives were insufficient to motivate management and staff; there was no clear strategy or operational plan for achieving the performance targets; and there was inadequate enforcement and an absence of penalties.
Performance contracts rely on good governance, transparency, and accountability

Performance contracting is an internal reform that utility managers and other stakeholders often prefer to more radical options such as management contracts. An advantage of performance contracts is that they can be flexible, phased, and designed to suit specific circumstances. If performance contracts are well designed with clearly specified roles, responsibilities, targets, and incentives, they can be successful. Success also depends on the full support of the authorising ministry, and requires leaders on both sides to fulfil their responsibilities. Performance contracts will not achieve results if governance, transparency, and accountability are not firmly and positively addressed.

The Zimbabwe Water Forum Policy Notes Series

Between 2011 and 2014, at the request of the Government of Zimbabwe, through the Ministry of Environment, Water and Climate, and with support from the Zimbabwe Analytical Multi-Donor Trust Fund, the World Bank has undertaken a series of analytical studies and technical assistance in the water and sanitation sector. These studies are captured in the Zimbabwe Water Forum Policy Note Series. The task team leader for the studies is Michael Webster, Sr. Water and Sanitation Specialist in Harare (mwebster@worldbank.org) with support from Priscilla Mutikani (pmutikani@worldbank.org). All notes have been edited by Rolfe Eberhard and Hilary Gopnik.

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