

# SQ3A: Establish systems of incentives and rewards for operators' performance by regulators

REGULATORY FUNCTION: SERVICE QUALITY REGULATION		SQ3A
<b>OBJECTIVE SQ3</b> Facilitate adherence to service requirements, and continuous improvement in service provision	<b>ACTION CARD SQ3A</b> <h2 style="margin: 0;">ESTABLISH SYSTEMS OF INCENTIVES AND REWARDS FOR OPERATORS' PERFORMANCE BY REGULATORS</h2>	
<b>COST:</b> Low <b>FREQUENCY:</b> Regular <b>TARGET GROUPS:</b> Regulators, service operators, consumer associations, media agencies, civil society		
<b>DESCRIPTION</b> As much as the verification and sanctioning of non-compliant operators to service quality norms and standards could be efficient in protecting consumers interest, it only works as an action when poor performance has already occurred and consumer interests have already been damaged. It is therefore advised to apply, alongside sanctions, a range of regulatory incentives and rewards to motivate operators' compliance to existing standards. In accordance, regulators should establish systems of incentives or rewards for the improvement of services over time. Such mechanisms, commonly shared through media, allow regulators to identify annual sectoral champions.		
<b>EXPECTED OUTCOMES</b> <ul style="list-style-type: none"> <li>• Service operators are motivated to comply with the policy.</li> <li>• A regulator service quality function is facilitated.</li> <li>• Consumer associations are more engaged in the process.</li> </ul>		
<b>EXAMPLE 1: BRAZIL</b> In <b>Brazil</b> , the water sector does not have a compulsory federal quality of service assessment, except on the water quality. The National Water and Wastewater Information System (Sistema Nacional de Informações sobre Saneamento, SNIS), has played a significant role in this area. The activities of SNIS are developed by means of gathering information provided on a voluntary basis by operators that are given incentives to join this programme. If operators intend to be funded by public capital, they are compelled to supply data to SNIS. In accordance with the fundamental principles for the provision of public services, Law N. 11445 seeks to ensure the transparency of actions, based on information systems and institutionalized decision-making processes.		
<b>EXAMPLE 2: PORTUGAL</b> In <b>Portugal</b> , until 2014, the regulator ERSAR, in partnership with the newspaper Água&Ambiente, annually rewarded the most distinguished Portuguese operators with the Water and Waste Service Quality Awards. The goal of this initiative was to identify, reward, and publicly disclose the operators that excelled in the service provision. See the regulator's communication video below.		
<b>EXAMPLE 3: COLOMBIA</b> The Regulatory Committee on Drinking Water and Basic Sanitation (CRA) establishes a tariff framework that offers incentives to larger companies (over 5000 users or subscribers) for complying with service and efficiency standards in relation to coverage, continuity, quality, commercial complaints and water losses, among other aspects. The incentive is associated with the value of the investment projects carried out over a five-year tariff period, considering that the tariff value is calculated on the basis of the projected value of these investments, but that final values differ from those initially projected. The CRA has therefore determined that in the cases in which the final value of investment plan projects is higher than the initially planned value, the higher value shall be recognized in the tariff as long as the provider has achieved the established goals in terms of service and efficiency standards. This regulatory opportunity aims to incentivize compliance, not only with the investment plan but especially with the service indicators.		

#### **EXAMPLE 4: MEXICO**

The National Water Commission of Mexico (Conagua) is an administrative, regulatory, technical and consulting body that aims to preserve national water bodies and their inherent public assets for their administration, and to guarantee water security in Mexico. To carry out this mission, the agency works with federal, state and municipal governments, as well as with user associations, companies and institutions in the private and public sectors.

Conagua is in charge of the Drinking Water, Drainage and Treatment Program (PROAGUA), which finances actions for the provision of drinking water, sanitary drainage, rainwater drainage and sanitation services, as well as the comprehensive strengthening of operators. The percentage of financing for projects presented for Conagua's assessment may vary according to whether operators achieve certain performance criteria. Some of the performance criteria used as incentives for obtaining a higher level of financing include the following conditions:

- That at least 5% of staff has taken training courses over the last year on matters of water service administration and management, gender equality and non-discrimination criteria, transparency and monitoring for corruption.
- That the company has reviewed and updated its tariff structures in the past two years.
- That the company submit a letter of intent in which it commits to improving commercial efficiency when it drops below 80%, during the period from January to June of the same year, or that it express its commitment to maintaining or surpassing a percentage above 80%.

In the case of wastewater treatment plants, financing percentages could increase when at least 30% of the wastewater is treated for direct reuse.

#### **LINKS**

Brazil: Brazil SNIS web page: <http://app4.mdr.gov.br/serieHistorica/>

Portugal : ERSAR video clip: [https://www.youtube.com/watch?time\\_continue=8&v=S93ZOfrIQfw](https://www.youtube.com/watch?time_continue=8&v=S93ZOfrIQfw)

Colombia: CRA Resolution 938 of 2020.

<https://www.cra.gov.co/transparencia/normatividad/normatividad-entidad-autoridad/resolucion-cra-938-2020>

Mexico: Rules of procedure for the Drinking Water, Drainage and Treatment Program managed by the National Water Committee, applicable as of 2022: [https://www.gob.mx/cms/uploads/attachment/file/690380/Reglas de Operacion PROAGUA 2022.pdf](https://www.gob.mx/cms/uploads/attachment/file/690380/Reglas_de_Operacion_PROAGUA_2022.pdf)

#### **INTERNAL CAPACITIES NEEDED AND THE ROLE OF PARTNERS**

Creating a competitive environment through rewards and incentives requires certain regulatory capacities such as creating incentives within the available regulations, communication, and public relations. Commonly, different regulators perform these on their own with support from marketing and media agencies, consumer associations, and civil society, to make the exercise publicly available and its content more attractive to a broader audience. External partners could further support the structuring and dissemination of awards and incentives.