

AquaRating¹: A Rating System for Water and Sanitation Utilities

The IDB in cooperation with the IWA is developing a rating system that assesses the performance of water and sanitation (WS) utilities in a comprehensive way. Apart from an overall rating of the utility, the system will offer detailed assessments of the various rating areas (access to services, quality of services, operational efficiency, planning & investment efficiency, management efficiency, financial sustainability, environmental sustainability, and corporate governance & accountability), an assessment of the reliability of the information provided by the utility, as well as recommendations to improve management practices. A pilot version of the system in Spanish is expected to be ready by the first quarter of 2012.

Motivation and Benefits

WS utilities in Latin America and the Caribbean, and around the world, struggle to meet the increasing demand for services and to improve their performance in a context of urbanization, increasing pressure on water resources, and scarce financial capacity. Well managed utilities are essential for the quality of life of households, for attracting businesses, and for safeguarding the environment. Although most experts would probably agree that there are huge differences in the performance between utilities - even in one single country -, and that many utilities fall short of what is a desirable and feasible standard, there is not much reliable information available on actual utility performance. One part of the problem is that there is no common standard for assessing WS utility performance over the variety of relevant evaluation criteria like accessibility, quality, efficiency, sustainability, and transparency.

The rating system for WS utilities (AquaRating) contributes to solving this problem by setting a comprehensive and objective standard for assessing utilities' performance. Apart from providing an overall rating of the utility, the system will offer detailed assessment for each rating area, assessment of the reliability of the information provided, and recommendations to improve management practices. The expected benefits of the system are manifold:

- Utilities
 - Obtain an external and credible performance rating - which contributes to foster the overall reputation and the acceptance by key stakeholders, gain access to new markets and finance, attract qualified staff, etc.
 - Identify areas of improvement and receive recommendations.
 - Get access to a knowledge and assessment framework that fosters continuous learning.
- Governments, regulators and development agencies
 - Can use the system to stimulate utilities to maintain or improve their performance and to target technical assistance, incentives and finance according to performance.
- Consumers
 - Obtain better services in terms of quality, efficiency, sustainability and transparency.

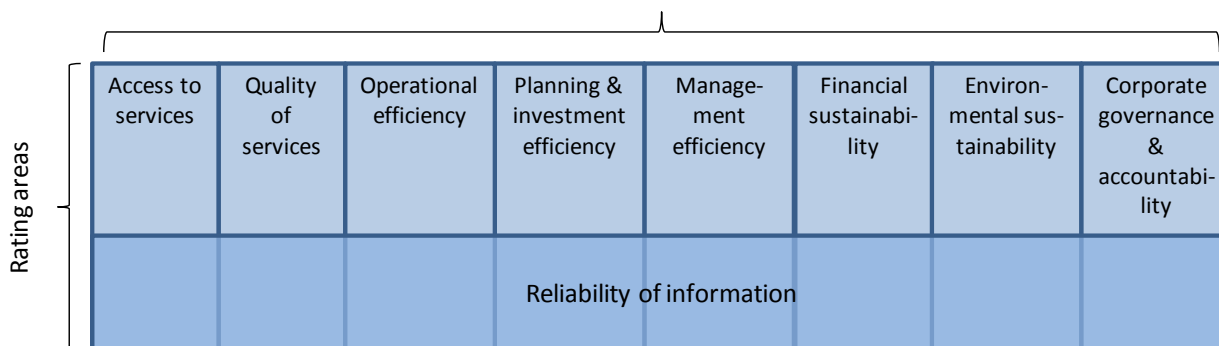
Rating Areas and Assessment Methodology

AquaRating will rate utility performance by assessing eight areas: access to services, quality of services, operational efficiency, planning & investment efficiency, management efficiency, financial sustainability, environmental sustainability, and corporate governance & accountability. To measure the performance in these areas the system will rely both on (quantitative) performance indicators – e.g. discontinuity of the water service measured in hours of service interruption per connection per year –and on

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(qualitative) measures that assess whether good management practices are applied or not – e.g. the availability of a call center that receives customer complaints and queries 24 hours a day. After that, the values of the indicators and measures will be converted to a rating scale from 1 to 100, the former corresponding to a very poor and the latter to an excellent performance. The rating will be corrected downwards if the reliability of the information provided is low.

Evaluation criteria: Accessibility, quality, efficiency, sustainability, transparency



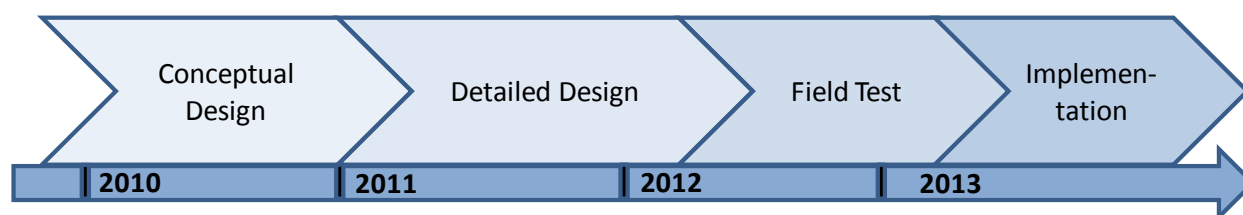
Business and Institutional Model

It is envisaged that the WS utilities will demand on a voluntary basis a rating from the independent entity (IE) that administers the rating system. The rating shall be renewable on a regular basis. The IE will charge a fee for the rating services provided. After a start-up phase, that will require some seed capital or subsidies from the sponsor(s) of the system, the IE shall become financially self-sufficient. The IE shall work on a non-for-profit basis.

A significant portion of the information necessary for the rating will be provided by the utilities themselves through an online-system – including the documental proofs of the information (e.g. audited financial statement). This process will be facilitated through a user-friendly interface and a detailed user manual. Then, an auditor affiliated to the IE will review and validate the information, based on the documental proofs provided and on the evidence gained in a field visit. After the information is validated, the ratings will be computed, and the aforementioned rating products will be prepared.

Project Stage

The project team is currently working on the detailed design of the system. It is foreseen to have the pilot system in Spanish ready by the first quarter of 2012. After the field test of the pilot system and the corresponding adjustments, the system shall be ready for implementation – starting in Latin America – by the first quarter of 2013.



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