



Org. sponsored by
giz
GIZ GmbH
for the Ministry of
Water and Irrigation



Supporting the Utility Performance Monitoring Unit (UPMU) in expanding its mandate to become an independent regulatory authority.

Regulator Incentives and Penalties Catalogue

February 2024



Contents

Introduction:.....	2
Scheme Guidelines:	4

The Incentives Scheme:	4
Why are efficiency incentives important?	5
Jordan Policy Support for an Incentives Scheme:.....	Error! Bookmark not defined.
Incentives and penalties Scheme Coverage: who should be incentivized?.....	6
Types of Incentives	6
Moral/Non-financial Incentives.....	7
Incentives and penalties Scheme Evaluation Committee:.....	7
Scheme Financing:.....	7
Incentives/Penalties Evaluation Criteria:.....	8
Technical Criteria:	8
Service Quality criteria:	8
Administration criteria:.....	9
Environmental criteria:.....	9
Community Participation/engagement:.....	9
Financial Sustainability:	9
Adherence to governance Principles:.....	9
Penalties:	10
Types of Penalties:.....	11

Introduction:

Jordan is one of the world's most water-scarce countries. The available water resources – especially groundwater – have been heavily over-used for years. Meanwhile, the pressure on water resources continues to increase due to an above-average rate of population growth, influx of refugees from crisis regions, the impacts of climate change and economic development. Despite

these challenges, the government of Jordan, and through the water companies provides almost universal access to drinking water and improved sanitation.

However, the economic performance of some water utilities is extremely weak. This can be traced back to internal issues, such as high technical and administrative water losses and external circumstances, such as increasing energy tariffs.

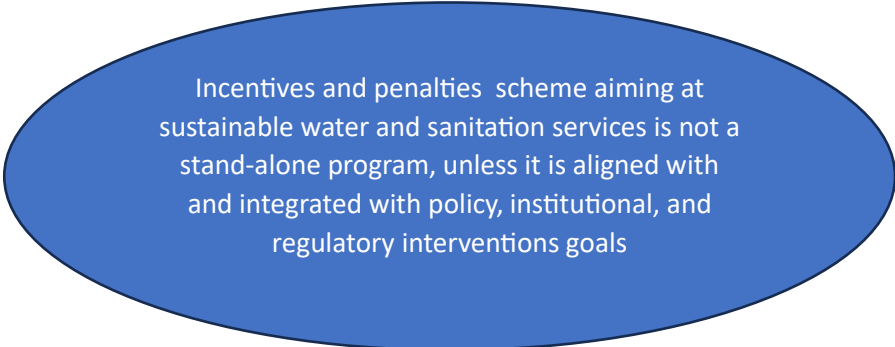
The government of Jordan and through the German support working on the program “Supporting the Utility Performance Monitoring Unit (UPMU) in expanding its mandate to become an independent regulatory authority” and in addition to the main goal of the program is also providing a number of approaches to improve water utilities efficiency ; one of the planned approaches is the design and implementation of an incentives and penalties catalogue . An efficient economic incentives and penalties program can have a number of added values; however, it might not be enough without the overall development of an enabling environment based on a comprehensive sector reform program.

This scheme is supposed to serve as the foundation for an incentives and penalties manual/catalogue, therefore it has covered a number of topics and is presented in different sections including the background, incentives and penalties coverage, types and evaluation criteria.

Although the criteria is listed, however the ranking system will be presented in the manual itself.

Goal: The Incentives scheme goal is to offer reputational or financial rewards to utilities that are “ambitious and innovative ... with high quality business plans that set new standards for the sector” compared to those that just make improvements that keep them in line with the rest of the sector.

Ultimately, the objective of a water regulator incentives and penalties scheme is motivating people (whether as individuals or as part of an organization/utilities) in the sector to reach national access and to provide sustainable high quality water supply and sanitation services.



Incentives and penalties scheme aiming at sustainable water and sanitation services is not a stand-alone program, unless it is aligned with and integrated with policy, institutional, and regulatory interventions goals

Scheme Guidelines:

- 1- The mechanism is designed to encourage utilities to deliver major improvements in performance by rewarding them for such outcomes.
- 2- Enhanced payments should be on a per unit basis of outperformance.
- 3- There should be a lower threshold of performance with penalties. Without balanced incentives, utilities may take excessive risks in order to benefit from enhanced payments but may not actually achieve the step change in performance
- 4- Incentives and penalties should be the exception rather than the rule;
- 5- Incentives should not be regarded as permanent being subject to periodic review; and the regulator is under no obligation to provide incentives , except where these have been financed.

The Incentives Scheme:

Water services incentives scheme is designed for motivating influences people, and thereby inciting water utilities and other water and wastewater service providers, including institutions, firms, and other actors involved in the WSS sector in Jordan to pursue certain objectives or to behave in a certain way.

This incentives and penalties scheme arise from Jordan water strategy, water policies, and the Green Growth national Plan.

The scheme incentives/rewards are fundamental to guaranteeing that water utilities adopt policies and action plans that allow the implementation of annual goals within the dynamics of the sector. Incentives allow utilities to commit to contracts and agreements for formulating and implementing effective results. In addition, stronger incentives increase stakeholder accountability, by strengthening voluntary compliance through the successful execution of commitments, which, in turn, help build societal trust and improve the quality of the services.

A number of questions were raised during the preparation of this scheme, some were answered and some were left to be legalized within a legal provision. These questions were as follows:

- Is the introduction of the scheme justified in any particular instance, policy/strategic document?
- Which services should be incentivized: water or sewerage, reuse or irrigation?
- Who should benefit from the scheme and how will eligibility be determined?
- How large should the incentive/penalty be and for how long should it be granted?
- What additional legal, institutional and administrative measures are required to support implementation?

Within this scheme, Incentives and penalties are looked at in three forms:

- 1) Reputational – as progress with outcome delivery will be reported publicly.
- 2) Financial penalties where utilities pay a ‘fine’ for the failure to deliver an outcome requirement.
- 3) Financial rewards where a utility receives a payment for outperforming an outcome delivery target.

Why are efficiency incentives important?

Jordan water resources are coming under increasing pressure from population growth, economic development and climate change. Society expects that water will be available for users while also sustain the services for the next generation and protecting and improving the environment we live in.

Incentives scheme may have a number of added values to the water sector in general and the water companies in particular and their customers including:

- 1- Protect water resources and promote sustainability: Water Conservation
- 2- Lower operational and administrative costs and hence customers’ bills
- 3- It promote and enhance companies staff behavioral changes.
- 4- Can be reflected on utilities/companies overall efficiency improvements.
- 5- It might enhance community engagement for better participation in planning, operations and service efficiency feedback.
- 6- It improves the company public image.
- 7- Better emergency planning and preparedness, and can become a climate change resilience.
- 8- Improved services attracts entrepreneurs, stimulates innovations and research.
- 9- Competitions, achievements and rewards Incentives may attract and retain talent staff.
- 10- Rewards can encourage the service provider to improve performance to achieve annual goals.
- 11- Incentives promote the values of good governance in the performance of water and sanitation services.
- 12- Improved satisfaction among citizens due to concrete and visible actions on the ground.

At the same time, penalties can be imposed on a water utility for one or more of the following reasons:

- 1- Negligence and ecological damage; including discharge of sewage into the environment, an adoption of polluter pay principle.**
- 2- Poor customer service.**
- 3- Failure to maintain safe working conditions for employees.**
- 4- Violations of national or regulators approved and published regulations.**

- 5- **Drilling groundwater wells or substitute wells, or extracting water without obtaining a license.**
- 6- **Violation of the Tariff Regulation.**
- 7- **The conduct, without a license, any of the works that require obtaining a license.**
- 8- **A violation of any of the terms or conditions of the license or permit issued by the regulator**

Incentives and penalties Scheme Coverage: who should be incentivized?

As already mentioned above, the goal is to incentivize the stakeholders and influential actors in the sector—either as individuals or as representatives of their organization/institution/water utilities to behave in a way that contributes to delivering sustainable WSS services. Sector stakeholders may range from the national government (ministries) and local governments (LGs), and WSS utilities and may also include (international) donor agencies and nongovernmental organizations (NGOs). Consumers, as the beneficiaries of the services, have a key role as well, not only regarding the financing of received services, but to ensure accountability among sector actors.

However, at this stage, the incentives and penalties scheme or rewards is designed for water utilities; still, other water and wastewater service providers can be nominated for incentives and penalties including:

- Water utilities, service providers
- Private sector investors and industries
- Individuals, CBOs, NGOs
- Farmers
- Experts
- Entrepreneurs
- Companies employees incentive program is already implemented and is not part of this scheme.

Types of Incentives

The incentives offered to the service provider are classified into two types:

1- **Financial incentives**, including:

Financing specific projects.

Financial grants provided directly to the service provider/utilities.

Facilitating debt rescheduling in coordination with the Ministry of Finance

Tax exemption

Loan guarantee

Moral/Non-financial Incentives

Submitting a recommendation to the relevant authorities to provide financial support or to facilitate,

Twinning of the winning service provider with another provider from other countries.

Praise for performance in periodic reports.

Granting certificates of appreciation during private or public ceremonies.

Giving priority to participating in conferences, meetings or workshops in which the number of participants is limited.

Incentives and penalties Scheme Evaluation Committee:

As the incentives and penalties scheme implementation depends on the outcome performance reports, there is no need to establish a special unit or a department within the regulator structure; however, the Regulator shall form a special committee to evaluate the performance of the service provider.

Although the committee members are from the different regulatory department, still membership, for more transparency in decision making, may include representatives from the Water Authority, the Ministry of Local Government, and the Ministry of Finance, and the Regulator.

Scheme Financing:

An account for financial incentives will be created with a financial ceiling estimated by the committee annually.

The sources of coverage for the Fund are through the general budget account, the Regulator as a percentage of the licensing fees, and donor agencies.

Additional steps are still required before implementation including a clarity on the following legal and regulatory issues:

- Finalization of the institutional responsibility for scheme
- Source of finance,
- Additional description of eligible groups,
- Rules to avoid creation of perverse incentives,
- Regulations detailed specification of budgeting procedures,
- Detailed specification of selection procedures,

- Detailed specification of payment procedures,
- Process for regular evaluation and review of the system,
- Mechanisms to ensure coordination with other policy and strategic provisions including licensing and tariff decisions.
-

Incentives/Penalties Evaluation Criteria:



	Criteria	Total score
1	Technical criteria	20
2	service quality criteria	10
3	Admin criteria	10
4	Environmental criteria	10
5	Level Community engagement and satisfaction	20
6	Financial sustainability	20
7	Adherence to governance principles	10
	Total Score	100

Technical Criteria:

- a. Meeting annual targets
- b. Water quality
- c. Percentage of water loss
- d. Continuous service availability
- e. Provide appropriate pressure at distribution points
- f. Investing in research and development
- g. Introducing new technology into the service delivery system
- h. Provides a proven record of regular maintenance of various parts of the network
- i. Register and evaluate fixed assets and update it annually
- j. Preventive maintenance plans in place

Service Quality criteria:

- k. An effective complaints system
- l. Percentage of complaints that were responded to
- m. Quick response to complaints
- n. Number of emergency cases that were successfully dealt with Speedy repair of faults
- o. Percentage of completion of licensing procedures with consumers
- p. Average amount of water available per person

- q. Average amounts of treated water annually
- r. Having an action plan and emergency response
- s. Achieving annual goals

Administration criteria:

- t. Percentage of completion of licensing procedures with consumers
- u. Average amount of water available per person
- v. Average amounts of treated water annually
- w. Having an action plan and emergency response
- x. Achieving annual goals
- y. Emergency response planning

Environmental criteria:

- z. The service provider's commitment to environmental practices while providing its services
- aa. Preserving environmental resources by exploiting solar energy
- bb. Having a plan in place to protect available water sources
- cc. Water resources safety plan
- dd. Wastewater safety plan.
- ee. Pollution prevention plans in place

Community Participation/engagement:

- ff. The number of awareness and educational activities in which the service provider participated
- gg. Providing the necessary information to the local community regarding water and sanitation services in a transparent and clear manner
- hh. Publish performance reports
- ii. Availability of a communication plan

Financial Sustainability:

- jj. Approved tariff structure
- kk. Collection rate
- ll. Operating cost coverage ratio
- mm. Comprehensive coverage rate
- nn. The ratio of surplus or deficit between revenues and expenditures
- oo. Plans and willingness to PPP
- pp. Plans for circular economy approaches including clean energy sources
- qq. Financial sustainability plan in place
- rr. Increased water tariff for certain users.

Adherence to governance Principles:

- ss. Transparency
- tt. Accountability

- uu. Justice and equality
- vv. Public trust
- ww. Openness

Penalties:

UPMU/the regulator believes that It is in the water utilities' interests to put customers at the heart of their business and provide levels of service that increase customer expectations and satisfaction. Failing to do so, utilities can be penalized/fined.

The water law has listed in article 30 a number of penalties that utilities can be subject to, these are not specific for service providers, however, and without detracting from more severe penalties stipulated under other laws, the penalties stipulated hereunder shall be applied.

1. **infringement on a Water Resource:** if the utility intentional, or due to limited supervision, caused pollution of any water resource or supply system or causing such pollution through his actions without remedying it within the period set for him by the Water Authority.
2. Drilling groundwater wells or substitute wells, or extracting water without obtaining a license.
3. Supplied water, or permitted the supply of water, to oneself or to others without a permit to do so.
4. Disposed or authorized the disposal/discharge of raw or partially treated waste water to the environment without obtaining a license.

2. Unlawful Conduct in Water Resources: if a utility carries out any activities or works which are only permitted for the Jordan Water Authority under the prevailing laws, without the prior written approval of the Water Authority.

3. Violation of License Terms: Violation of the Tariff Regulation issued pursuant to law or any of the directives and instructions issued pursuant to the regulation;

If no actions were taken to improve high NRW

Violation of any of the terms or conditions of the license or permit issued by the regulator.

5. Other violations:

1. Quality Standards: If the water supplied by the /utility does not meet the required quality standards set by the regulator, such as the presence of contaminants exceeding permissible limits.
2. Safety Violations: If the company violates safety regulations related to the handling, treatment, or distribution of water, which could endanger public health.

3. **Environmental Compliance:** If the utility fails to comply with environmental regulations regarding water extraction, treatment, or discharge, leading to pollution or harm to natural resources.
4. **Service Obligations:** If intentionally, the utility fails to provide fair service to its customers, including issues such as frequent water shortages, disruptions, or inadequate pressure.
5. **Reporting and Transparency:** If the utility fails to submit required reports or provide necessary information to the regulator in a timely and accurate manner, violating transparency and accountability requirements.
6. **Financial Mismanagement:** If the utility mismanages its finances, leading to inefficiencies, excessive costs, or inability to invest in necessary infrastructure upgrades or maintenance.
7. **Non-compliance with Regulations:** If the utility violates any other regulations or obligations imposed by the water regulator, such as tariff regulations, metering requirements, or customer service standards.
8. **Reported continuous and intentional limited responses to customers complaints.**

Types of Penalties:

The regulator can impose the following penalties for any of the above listed violations:

Fines: Regulators can impose monetary fines on water utilities for violations of regulations or standards. The amount of the fine may vary depending on the severity of the violation and the regulations in place.

License Revocation or Suspension: In cases of serious or repeated violations, regulators may revoke or suspend the operating license of a water company, preventing it from supplying water until it demonstrates compliance.

Corrective Action Orders: Regulators can issue orders requiring the water utilities to take specific corrective actions to address violations or deficiencies. This may include upgrading infrastructure, improving water treatment processes, or implementing new operational procedures.

Injunctions: Regulators may seek injunctions through the courts to compel a water utility to cease activities that are in violation of regulations or pose a risk to public health or the environment.

Administrative Penalties: Regulators may have the authority to impose administrative penalties directly without resorting to court proceedings. These penalties can include fines or other sanctions determined by the regulator.

Public Notices or Warnings: Regulators may issue public notices or warnings to inform consumers about violations or deficiencies in water quality or service provided by a utility.

Enforcement Actions: Regulators can undertake enforcement actions such as inspections, audits, or investigations to monitor compliance and ensure that utilities adhere to regulations.

This can be through a number of steps including:

The Regulator first identify potential violations through various means, such as complaints from the public, routine inspections, data analysis, or tips from whistleblowers.

Investigation: Once potential violations are identified, the regulator conduct investigations to gather evidence, which may include reviewing documents, interviewing witnesses, conducting site visits, or using surveillance techniques.

Assessment of Violation Severity to determine the appropriate response. Factors such as the extent of harm caused, intent, history of non-compliance, and mitigating factors may be considered.

Notification and Warning In cases of minor violations or first-time offenders, advising the violator to rectify the situation within a specified timeframe.

Formal Notice detailing the specific regulatory requirements that have been violated, the evidence supporting the violation, and any penalties or corrective actions required.

Opportunity for violators to Response to the allegations, present evidence, and contest the findings through informal meetings, hearings, or written submissions.

Enforcement Actions that may include fines, penalties, sanctions, license revocation or suspension, injunctions, or other administrative remedies.

Appeals the decision through an administrative appeals process or through the court system.

Regulatory Compliance Monitoring and Follow-Up to ensure that the violator complies with any corrective actions or penalties imposed. This may involve follow-up inspections, reporting requirements, or periodic reviews.

Finally Escalated Enforcement if the violator fails to comply with regulatory requirements or repeats the violation.

License Conditions: Regulators may impose additional conditions on the operating license of a water utility to ensure ongoing compliance with regulations and standards.

Annex 1: Jordan Policy Support for an Incentives and Penalties Scheme:

Incentives schemes related to water services improved efficiency was a key pillar in a number of National policy and strategic documents summarized as follows:

- a. National water strategy 2023-2040: references as well as related areas for incentives include:
 - i. To enhance accountability and improve public trust
 - ii. For more private investments
 - iii. To enhance treated effluent use in industry
 - iv. For reuse enhancement
 - v. To enhance use of renewable energy
 - vi. Plant crops with less water demand
 - vii. To reduce NRW
- b. Green Growth National Action Plan 2021-2025
 - i. Introducing incentives and financing mechanisms to reduce the overall cost burden of water resource management on public resources;
 - ii. Establish incentives for pollution prevention with industry in the Zarka River Basin
 - iii. Reshaping traditional processes of natural resource consumption and realigning incentives is critical
 - iv. One reason for this is low political will for undertaking major reforms or introduce incentives that might increase the cost of water for certain users
 - v. Improving the quality of surface and ground water by enforcing laws to prevent dumping/pollution, and/or offering incentives for clean-ups/restoration
 - vi. develop appropriate incentives for the industries to limit pollution.
 - vii. Appropriate incentives need to be developed to ensure participation in risk mitigation measures, and to help the businesses continue to make profits
 - viii. Incentives required to make water efficiency and conservation investments for business and industry more attractive.
 - ix. This would provide incentives to water utilities to address NRW, while potentially providing gains to its customers in the form of reduced costs and improved service

Annex 2: framework for the incentives and Penalties ranking system:

	Criteria	Benchmark	Observations	Deviations	Score*
1	Meeting annual targets				
1.1	Water quality				
1.2	Percentage of water loss				
1.3	Continuous service availability				
1.4	Provide appropriate pressure at distribution points				
1.5	Investing in research and development				
1.6	Introducing new technology into the service delivery system				
1.7	Provides a proven record of regular maintenance of various parts of the network				
1.8	Register and evaluate fixed assets and update it annually				
2	Service Quality Criteria				
2.1	An effective complaints system				
2.2	Percentage of complaints that were responded to				
2.3	Number of emergency cases that were successfully dealt with Speedy repair of faults				
2.4	Average amount of water available per person				
2.5	Average amounts of treated water annually				
2.6	Having an action plan and emergency response				
3	Admin. Criteria				
3.1	The existence of job descriptions for departments and individuals with clear responsibilities				
3.2	Provides standard work procedures				

3.3	The presence of an internal control system				
3.4	Provides a database of consumer				
3.5	Availability of safety and security measures to protect workers from any health risks				
4	Environmental criteria				
4.1	The utility is committed to safe and sustainable environmental practices while providing its services				
4.2	Preserving environmental resources by exploiting solar energy				
4.3	Having a plan in place to protect available water sources				
4.4	Water resources safety plan				
4.5	Wastewater safety plan				
5	Community Participation/Engagement				
5.1	The number of awareness and educational activities in which the service provider participated				
5.2	Publish performance reports				
6	Financial Sustainability				
6.1	Utility use an approved tariff structure				
6.2	Collection rate				
6.3	Operating cost coverage ratio				
6.4	Comprehensive coverage rate				
6.5	The ratio of surplus or deficit between revenues and expenditures				
7	Adherence to Governance Principles				

7.1	Adherence to transparency				
7.2	accountability				
7.3	equity				
TOTAL SCORE					

Score will be within a scale between -5 to +5 based on the utility performance