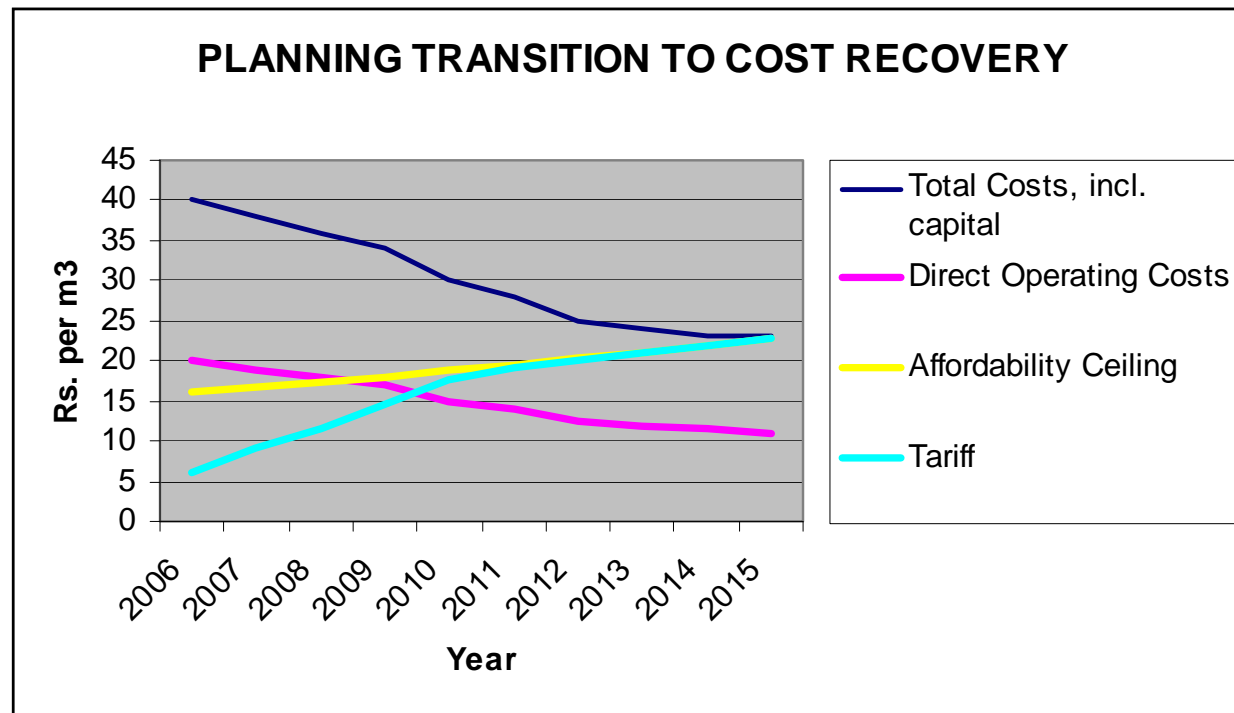




INCENTIVES & TARGETS

KEY FEATURES OF SUCCESSFUL OPERATING CONTRACTS



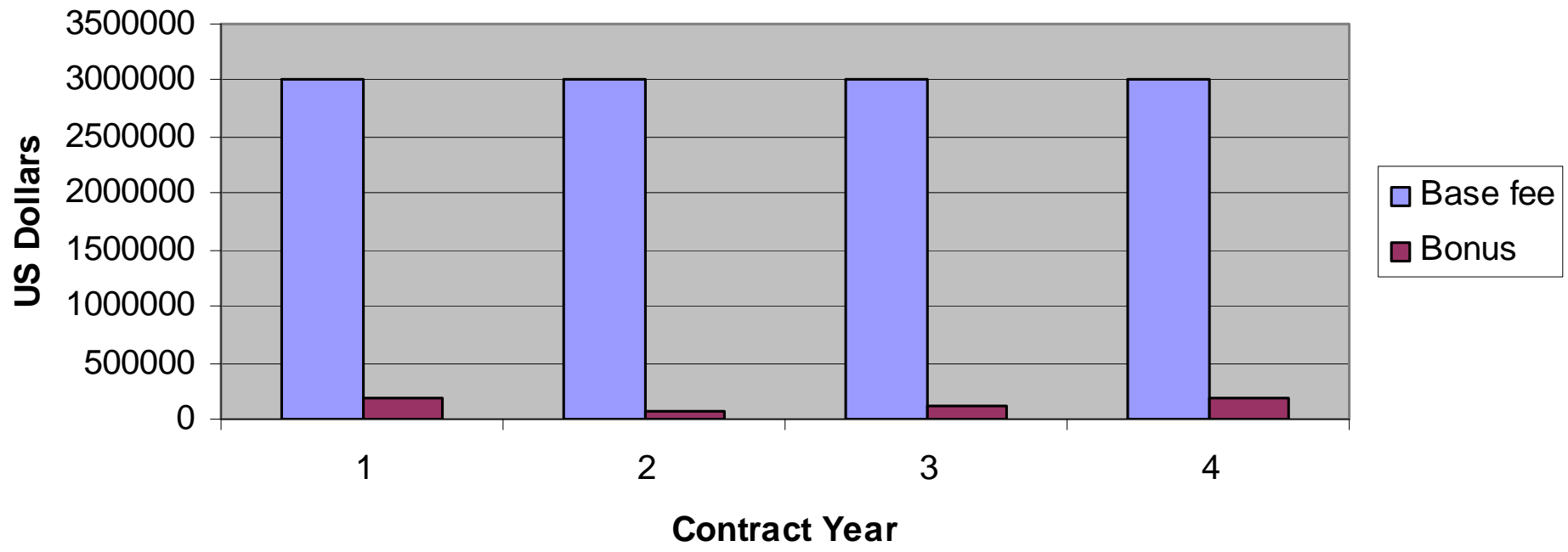
Incentives

- Fixed Fee and bonus – Yerevan, Amman
- Bonus based on cash collected per unit of water produced - Hypothetical
- Bonus based on operating income – Uganda IADMCs
- Fixed bonus per cubic meter of water billed & collected – Cote d'Ivoire, Senegal
- Fixed tariff schedule and fixed lease payment to Government - Lathur

Management Contract with performance fee.

“Traditional” Management Contracts offer little performance incentive. In this case, bonus is only up to 6% of annual base fee. Operators don’t have much interest in major performance gains under this arrangement.

Yerevan Annual Payment



Example of an incentive based on cash realization per m3 target

MODEL OF A CONTRACT INCENTIVE BASED ON A SHARE OF CASH REALIZATION ABOVE AN ANNUAL TARGET

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cash Revenue	\$543,297	\$651,956	\$749,750	\$854,715	\$965,828	\$1,081,727	\$1,200,717	\$1,320,789	\$1,400,036	\$1,484,038	\$1,573,081
Increase in Revenue		20%	15%	14%	13%	12%	11%	10%	6%	6%	6%
Units	20,000,000	20,600,000	21,218,000	21,854,540	22,291,631	22,737,463	23,192,213	23,656,057	24,129,178	24,611,762	25,103,997
Realization per Unit	0.027	0.032	0.035	0.039	0.043	0.048	0.052	0.056	0.058	0.060	0.063
Target		0.029	0.034	0.037	0.041	0.044	0.049	0.053	0.057	0.059	0.062
Targeted Increase		7%	6%	6%	6%	2%	2%	2%	2%	2%	2%
Difference		0.003	0.002	0.002	0.002	0.003	0.003	0.003	0.001	0.001	0.001
Bonus rate		60%	60%	70%	70%	70%	70%	70%	80%	80%	80%
Bonus		\$31,913	\$22,766	\$25,297	\$29,197	\$53,816	\$52,702	\$50,094	\$20,710	\$21,953	\$23,270
Percent of revenue		4.9%	3.0%	3.0%	3.0%	5.0%	4.4%	3.8%	1.5%	1.5%	1.5%
15	Average montly consumption per connection										
180	Average annual consumption per connection										
111,111	Number of connections										
555,556	Total population										

In an affermage, the operator earns a fixed fee per m3 billed and collected. This gives a strong incentive to reduce theft, deliver more water to customers, and optimize billing and collection.

EXAMPLE OF AN AFFERMAGE INCENTIVE MODEL

	2008	2009	2010	2011	2012	2013	2014
Allowed Tariff	0.50	0.52	0.53	0.55	0.56	0.58	0.60
Operator Share	0.48	0.48	0.48	0.48	0.48	0.48	0.48
Public Owner Share	0.02	0.04	0.05	0.07	0.08	0.10	0.12
Billed & Collected m3	1,000,000	1,150,000	1,322,500	1,454,750	1,600,225	1,760,248	1,936,272
Tariff Revenue	\$500,000	\$592,250	\$701,520	\$794,822	\$900,534	\$1,020,305	\$1,156,005
Operator Share	\$480,000	\$552,000	\$634,800	\$698,280	\$768,108	\$844,919	\$929,411
Operator Cost	\$500,000	\$510,000	\$520,200	\$530,604	\$541,216	\$552,040	\$563,081
Operator Profit	-\$20,000	\$42,000	\$114,600	\$167,676	\$226,892	\$292,878	\$366,329
Public Owner Share	\$20,000	\$40,250	\$66,720	\$96,542	\$132,426	\$175,386	\$226,594
Note that this is a "real price model" not a nominal price model.							



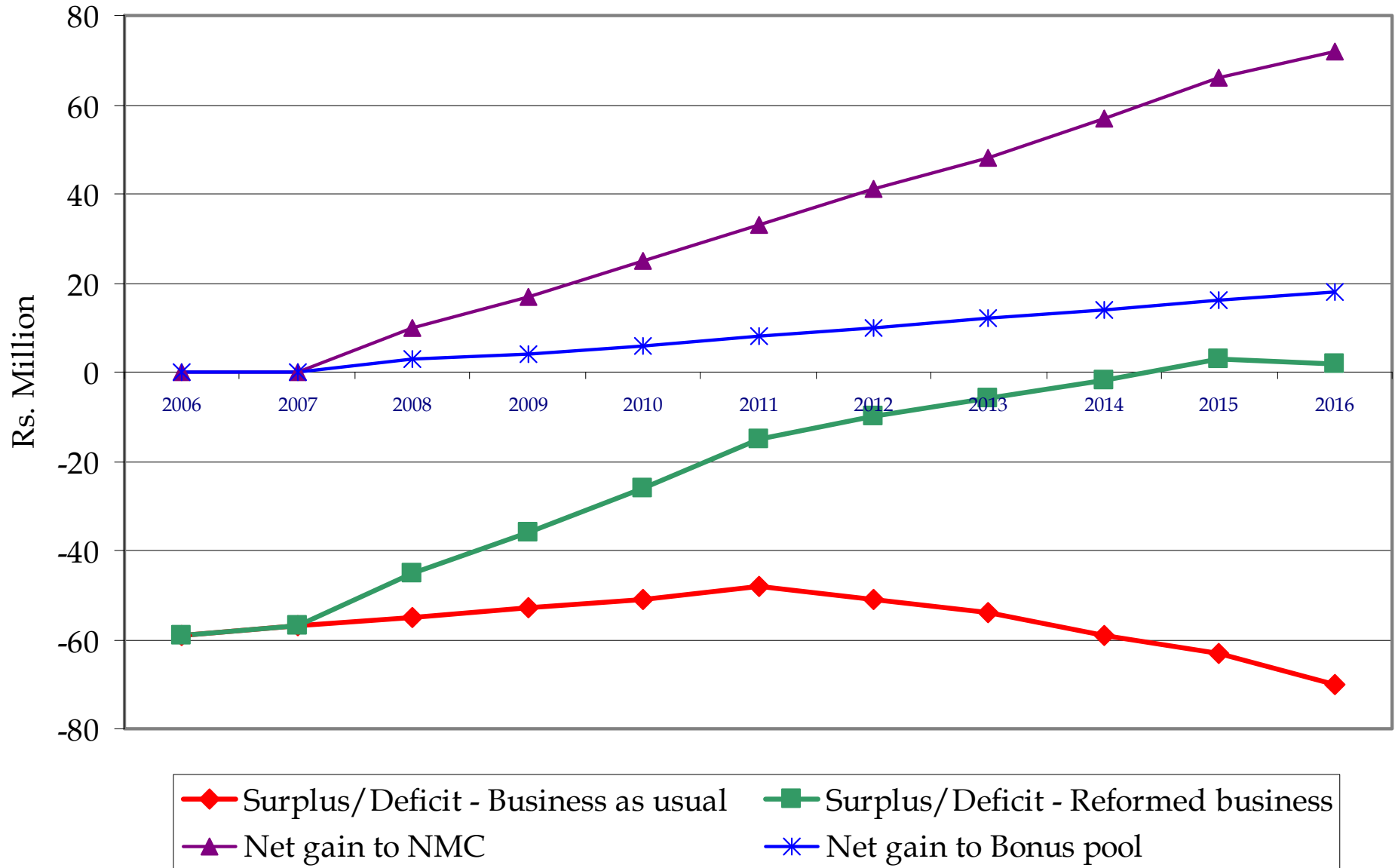
Example of an Employee Bonus Pool tied to Performance

Laxaminagar Model in Nagpur, India was developed to show the Nagpur Municipal Corporation the “Win-Win-Win” nature of incentives for employees.

Assumptions for Business Reform

- 10 year reform plan with corporatisation and employee bonus pool for performance
- O&M Cost including depreciation Rs.650m in 2006 to increase at annual inflation rate 5%
- Debt Service Rs.560m constant upto Year 10
- Revenue Water at 46% current year to 80% in Year 10
- Average Water Tariff Rs. 6/m³ current to Rs.12.50/m³ in Year 10
- 15% of net gain as incentive to Bonus Pool

Laxminagar Reform Scenario



Results of Reform using an Employee Operating Contract

- Financially self sustainable in Year 7
- Cumulative gain of Rs. 423m to Nagpur Municipal Corporation
- Cumulative gain of Rs. 37m in Bonus Pool – 29% of cumulative wage bill
- Monthly customer bill – Rs. 375 per connection for 2 families in Year 10
- Annual revenue surplus over Rs. 100m to be invested into Sewerage Infrastructure from Year 8



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Targets

- Revenue collected
- Operating income
- Cash realization per unit
- Increase in connections
- Increase in services in slums
- Hours of service
- Collection efficiency
- Percentage metered
- Water billed and collected compared to water produced
- Registered customers
- Percentage of water that meets quality standards



Coverage Targets in the Manila West Concession

Manila West Zone Targets		
YEAR	Water Access	Sewage Access
1996	62.0%	13.0%
2001	87.4%	16.0%
2006	97.1%	20.0%
2011	97.4%	21.0%
2016	97.7%	31.0%
2021	98.4%	66.0%