Photo Credit
Construction
Image not found or type unknown

Role of Independent Regulators

Download Chatbot

PPPs and sector regulation

PPPs often supply essential services in monopoly (or near-monopoly) conditions, for example, in the water, electricity, gas, telecommunications, airports or highways sectors. Private providers of such public services are typically overseen by government to control tariffs and service standards—often by assigning responsibilities to an independent regulatory agency—to protect customers from possible abuse of market power. Sector regulation may also govern the terms under which providers in a sector deal with each other; entry to the sector through licensing; and control over sector investment decisions. Governments looking at options to improve performance of existing public assets and services in natural monopoly sectors may consider a PPP as an **alternative sector reform option** to privatizing and establishing a regulatory regime. While there are similarities in the processes of establishing a PPP and privatizing, and some of the guidance in this book may be applicable in both cases, the nature of the resulting relationship is distinct:

- **Regulation by contract *through* a PPP.** The PPP contract itself can define tariffs, tariff adjustments, and service standards to protect customers' interests as an alternative to establishing a regulatory regime. Some of the implications for PPP contract design are described further in Structuring PPP Projects.
- **PPP *alongside* sector regulation**. Some countries establish sector regulatory regimes when introducing a PPP for service provision in a sector; including, in some cases, acting as government party to the contract. In other cases, sector regulation may already be in place. In either case, the PPP agreement and sector law and regulations need to be carefully harmonized to ensure there is no conflict between the PPP contract and regulatory requirements, and to establish clear roles and responsibilities. Institutional Responsibilities: Implementation provides more examples of the roles of sector regulators in developing, implementing, and managing PPPs**.**

The ***Body of Knowledge on Infrastructure Regulation*** (PURC 2012) is an online resource that provides detailed guidance and further reading on a wide range of regulation topics. The following references also discuss regulation, including how it relates to PPPs:

- **Yong** discusses regulatory frameworks for PPPs—box 4.4 in section 4.1.3 provides an overview of the different approaches to regulation of infrastructure (Yong 2010).
- The **note on regulation of water and sanitation** (Groom et al. 2006) cover a wide range of topics in water sector regulation, including guidance on assigning regulatory functions, and the options of regulation by contract or by an independent agency.
- **Eberhard's paper on hybrid and transitional models of regulation in developing countries** (Eberhard 2007) provides an overview of different regulatory models and the advantages and potential pitfalls of each model. The paper also provides recommendations on how to improve the performance of regulatory models.

Regulation is not limited to sectors involving the provision of essential services in monopoly or near-monopoly conditions. Regulatory frameworks can also be used to overcome other market failures, such as ensuring responsible management of limited natural resources. In some cases, the processes and structures can resemble a PPP—for example, a concession for mining or petroleum exploration or exploitation, or for

management of a tourism site. There can also be some muddy ground between these types of regulation, where some aspect of provision of essential services through a competitive market requires access to limited resources—such as allocation of radio spectrums for mobile telecommunications, or access to hydropower or other resources for electricity generation in the context of a competitive market.

While there are some similarities between such concessions or licensing procedures and PPPs, for the most part the contractual structures involved in such cases are distinct. The material in this *Reference Guide* is of limited relevance in such cases.

Related Content

- **INTRODUCTION**
- **PPP BASICS: WHAT AND WHY**
- **ESTABLISHING THE PPP FRAMEWORK**
- **PPP Policy**
- **PPP Legal Framework**
- **PPP Processes and Institutional Responsibilities**
- **Public Financial Management Frameworks for PPPs**
- **Broader PPP Program Governance**
- **Municipal and other subnational PPPs**
- **Key References - PPP Framework**
- **PPP CYCLE**

Additional Resources

- TORs for Advisors

Find in pdf at PPP Reference Guide - PPP Framework or visit the PPP Online Reference Guide section to find out more.

Disclaimer: *The resources on this site is usually managed by third party websites. The World Bank does not take responsibility for the accuracy, completeness, or quality of the information provided, or for any broken links or moved resources. Any changes in the underlying website or link may result in changes to the analysis and recommendations set forth on the* Public-Private Partnership Resource Center. *The inclusion of documents on this website should not be construed as either a commitment to provide financing or an endorsement by the World Bank of the quality of the document or project. If you have any comments on any of the links provided on the* Public-Private Partnership Resource Center, *please get in touch here*