

2. Regulation



WORLD BANK GROUP
Water



GWSP
GLOBAL WATER
SECURITY & SANITATION
PARTNERSHIP



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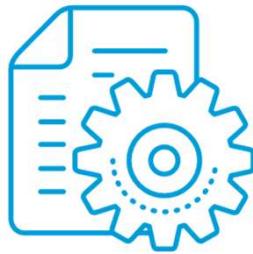
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Learning Objectives

- ✓ Understand the basics of regulation
- ✓ Explain considerations in designing regulations
- ✓ Describe the link between regulation and utility creditworthiness



What is Regulation?



(1) Rules, checks, & balances



(2) Government monitoring
of operator performance
(also entry & exit)



(3) Regulation of public
& private bodies



(4) Administered by agencies
powered by government

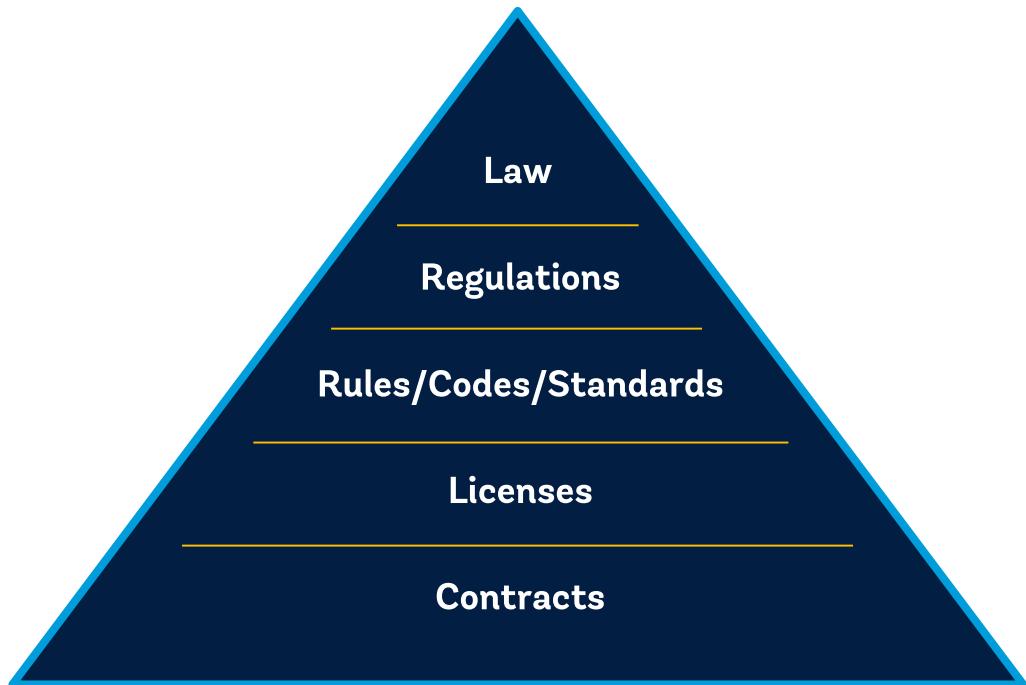
Basics of Regulation

1. WHY?

2. HOW?

3. WHAT?

4. WHO?



Regulates What?



(1) **Economic
Regulation**



(2) **Public health
Regulation**



(3) **Environmental
Regulation**

(4)

Click to Read

Regulation

Economic Regulation	Public Health Regulation	Environmental Regulation
<ul style="list-style-type: none">• Price (price cap or cost of service) & tariff structure• Entry (scope of exclusivity, treatment of informal providers)• Performance monitoring, including pro-poor aspects• Financing framework	<ul style="list-style-type: none">• Drinking water quality standards	<ul style="list-style-type: none">• Abstraction of water• Water resources protection

For any of these, the regulating body, might decide, enforce, monitor, penalize, or merely advise and recommend.

Who Regulates?

(1)

Separate regulatory agency with licensing regime

(2)

Regulation by contract

(3)

Regulation by contract with a separate regulator (Hybrid)

(4)

Self regulation

(5)

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Knowledge Check

Which of the following statements are correct?

- (1) A. ⁽²⁾ A regulatory framework is an important feature of the enabling environment.
- B. Regulation by contract and regulation by an independent entity, are in fact the same.
- (3) C. ⁽⁴⁾ Regulation is important to protect consumers.
- D. All regulatory functions are most often placed in one central entity.

Regulatory Design



(1) **Regulatory System**

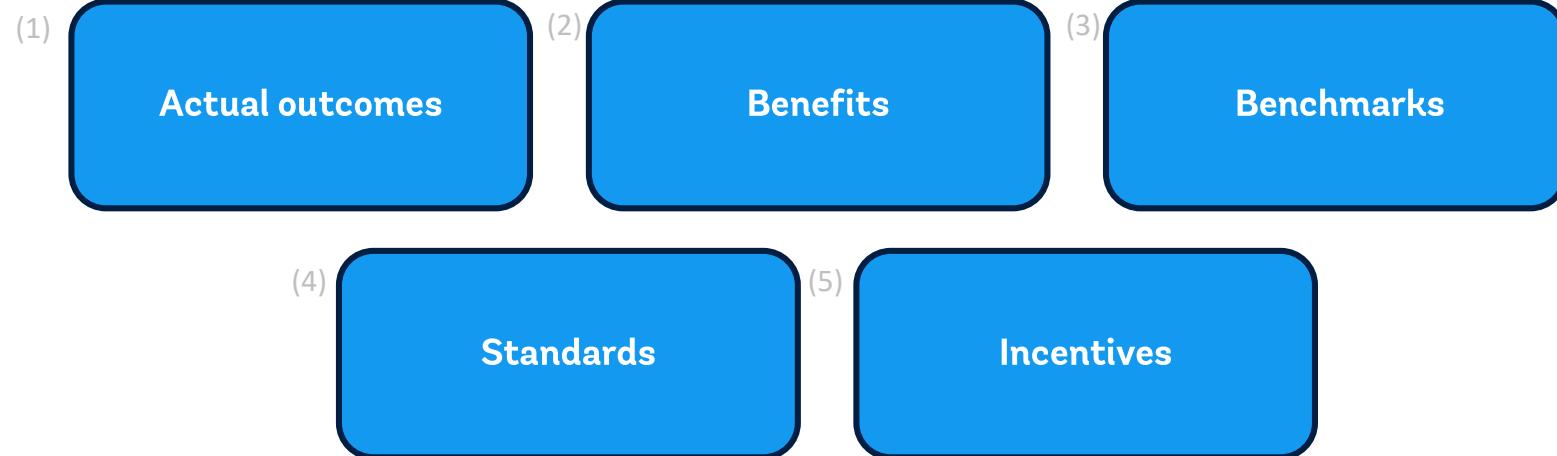


(2) **Countries**

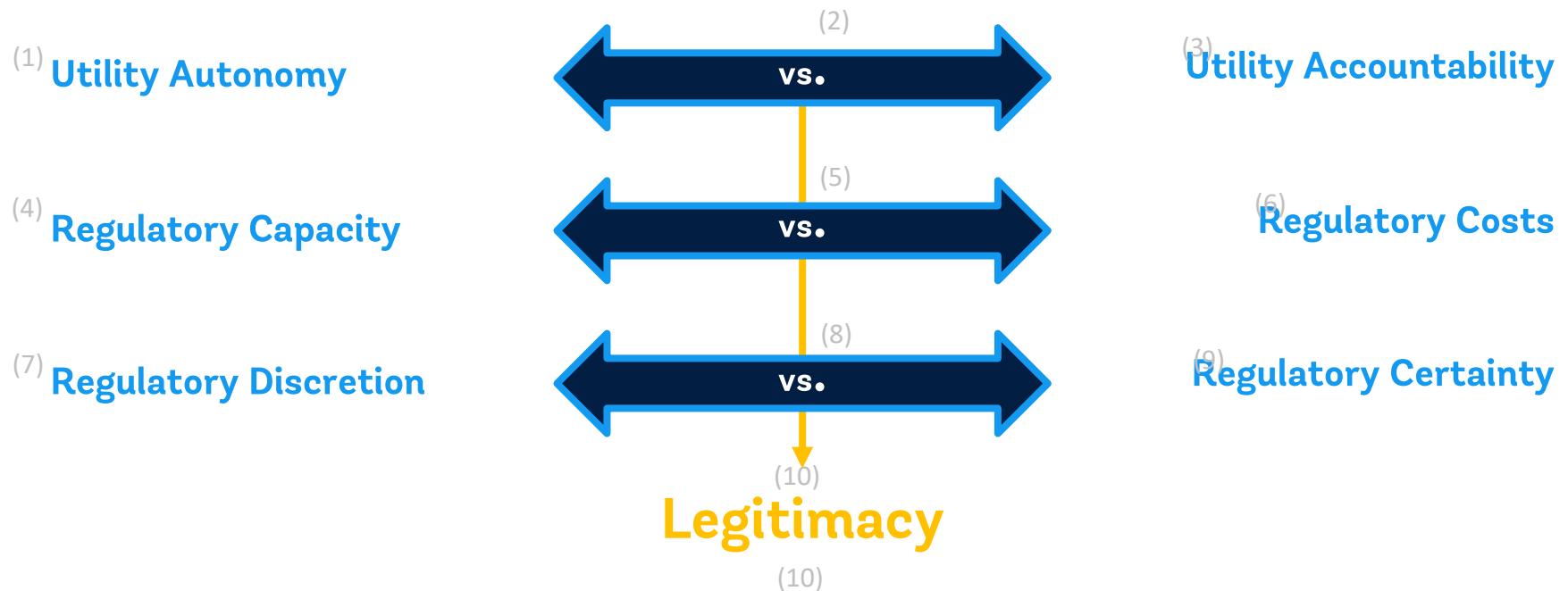


(3) **Valued Insights**

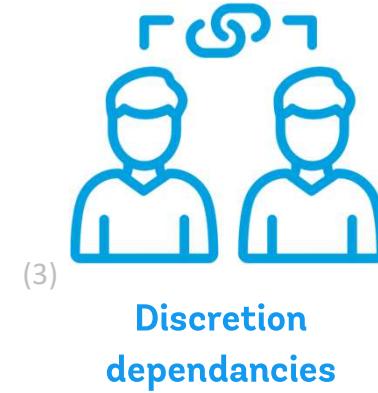
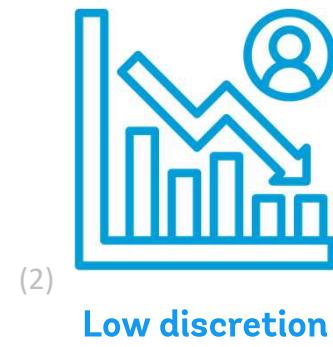
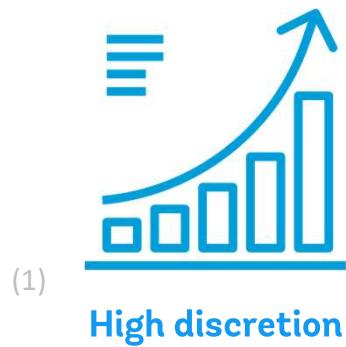
Guiding Principles of Regulation



Regulatory Design: Balancing Different Institutional Features



Regulation: How Much Discretion?



Knowledge Check

Which of the following statements are correct?

(1)  (2) A. It is essential that all stakeholders recognize the legitimacy and independence of the regulatory framework.

B. Utility autonomy and regulatory discretion are two concepts that need to be balanced.

C. Benchmarks are not a useful tool to monitor costs since no two utilities will be exactly the same.

D. The regulator should always be given a high degree of discretion to interpret rules and standards since it is not possible to predict the future.

Regulation & Utility Creditworthiness

Sensible regulation helps water utilities become creditworthy through:

(1)

Overall Impact

(2)

Impact on Tariffs

(3)

Impact on financial
strategy

The regulatory framework is an important element of the enabling environment.



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