



Regulation: Catalyst for better governance and enhanced integrity in water utilities?

Experiences from GIZ Water Programme

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Outline

1. Water services regulation – from efficiency to governance
2. Entry points for regulators to promote integrity
3. Regulatory tools for better utility governance
4. Key considerations



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1. Water services regulation – from efficiency to governance



- Even under effective economic regulation, corruption risks and poor governance practices in utilities can be persistent
- Accountability, equality and participation are part of the cross-cutting criteria of the Human Right to Water and Sanitation
- Regulatory authorities may move beyond their traditional role of promoting efficiency and protecting consumers to actively fostering sector and utility governance



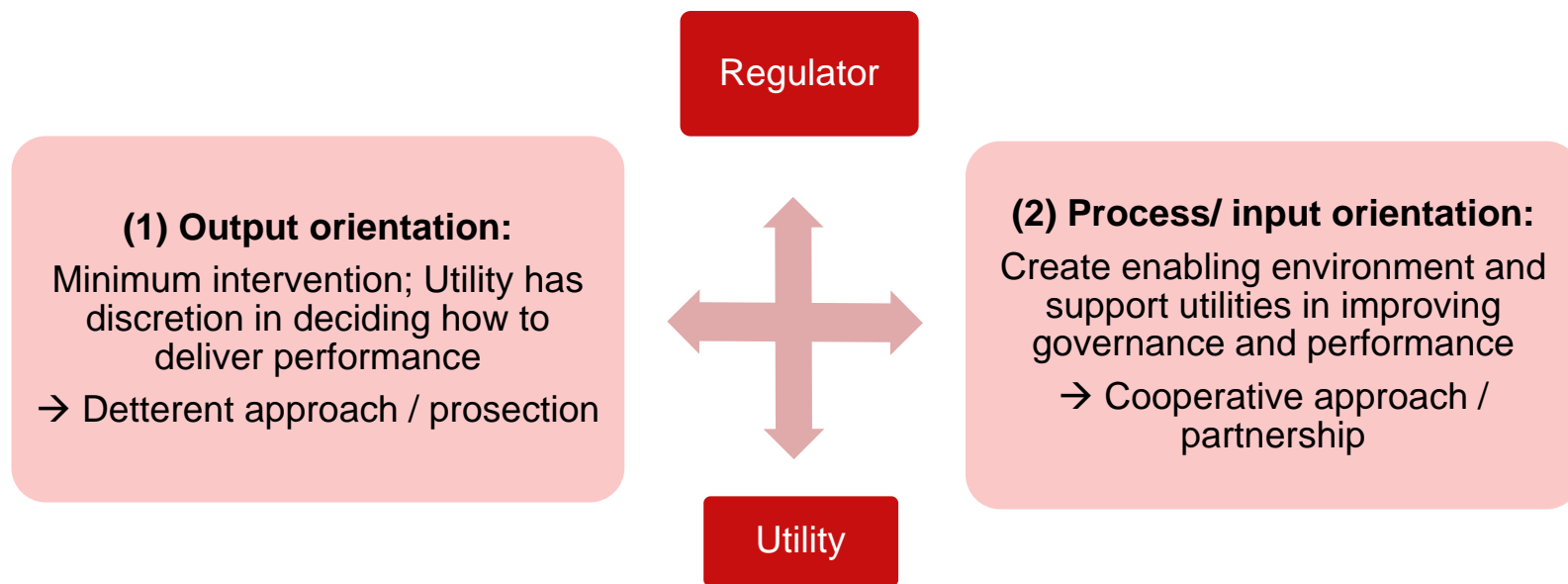
2. Entry points for regulators to promote integrity

- Regulation sets incentives for responsible behaviour → compliance & corporate culture of integrity
- Public reporting and ranking factoring in governance performance (comparative competition)
- Reporting requirements and inspections force utilities to refine internal information and control systems
- Transparent and accountable decision making make regulators a “lighthouse“ for a sector wide culture of integrity
- Dialogue and information exchange with anti-corruption authorities



2. Entry points for regulators to promote integrity

- Two approaches to reach compliance with benchmarks/standards:
(1) Cooperating with utilities and (2) deterring non-compliance





3. Regulatory tools for better utility governance

Governance Principle	Regulatory Tool (Examples)
Transparency	<ul style="list-style-type: none"> → Public reporting on technical/commercial performance and traceable governance indicators (e.g. ratio board exp./turnover) → Standards related to the provision of information
Accountability	<ul style="list-style-type: none"> → Benchmarking of utilities against performance targets/ GG-standards → Binding procedures for handling customer complaints → Corporate governance guidelines (board composition etc.)
Participation	<ul style="list-style-type: none"> → Consumer representative bodies (e.g. Water Watch Groups, Water Action Groups, Consumer Councils) → Institutionalised consultation of consumers (tariff adjustment)
Integrity	<ul style="list-style-type: none"> → Promote use of integrity management systems through standards → Annual “integrity awards” (?)





4. Key considerations

- Water services regulation is not introduced per se to combat corruption, but it represents an effective approach to mitigate corruption risks
- Sequencing: Conducive legal framework & functioning performance monitoring system must be in place
- Legitimacy of regulator: Mechanisms for responsible conduct in regulatory decision making must be established (e.g. Albania)
- Monitoring must be combined with effective enforcement mechanisms
- Regulators may promote the development of an “integrity infrastructure“ at utility-level (IM-Toolbox Kenya)



More Information

- WIN/GIZ (2013): Regulation: Catalyst for better governance and enhanced integrity in water utilities?, Water Integrity Brief, March 2013.
- GIZ (2012): Good governance in the Kenyan water sector. Eschborn/Nairobi.

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March 2013

Water Integrity Brief
Providing a concise overview of specific themes related to water integrity

Regulation

Regulation: Catalyst for Better Governance and Enhanced Integrity in Water Utilities?
by Daniel Nordmann

BACKGROUND
Most urban water supply and sewerage services are provided by public entities – usually public utilities – which are subject to varying forms of control and regulation. However, poor governance and, especially corruption compromise the performance of many water utilities, especially in the developing countries, resulting in low coverage and poor-quality services. In many countries, regulatory authorities or units have been created in order to increase the efficiency and quality of services, and to promote transparency, accountability and participation in water service provision. In situations where unethical behaviour and malpractices in utility management are persistent challenges, regulators may also become catalysts for increased integrity in water utilities. In order to deepen the anti-corruption agenda in regulation, incentive-based tools such as corporate governance guidelines and benchmarking are recommended. These should be combined with a cooperative approach, in which regulators involve consumers, build partnerships with public oversight institutions, and support utilities in building an integrity infrastructure. As regulators themselves face risks such as capture by stakeholders or erosion of service providers, transparency in the regulatory process also needs to be safeguarded. This paper focuses on economic regulation.

GOOD WATER UTILITY GOVERNANCE – A KEY CHALLENGE
As the human right to safe drinking water and sanitation became widely recognized, the obligation of governments to work towards universal access to water services began to receive new attention. Globally, approximately 90 per cent of urban water services are delivered by public water utilities (BWA 2012). These

Water Integrity Brief March 2013

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Good governance in the Kenyan water sector
Policies, pipes and the participation of the people – water governance practices on the ground

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De brief of **BMZ** Federal Ministry for Economic Cooperation and Development

Word cloud terms: efficiency, non-discrimination, participation, power, impact, regulation, equity, human right, accountability, performance, good governance, vision 2030, access, human right, efficiency, representation, water, ac, vision 2030, transparency, empowerment, regulation, part, integrity power, human right, non-discrimination, information.



Thank you for your attention!



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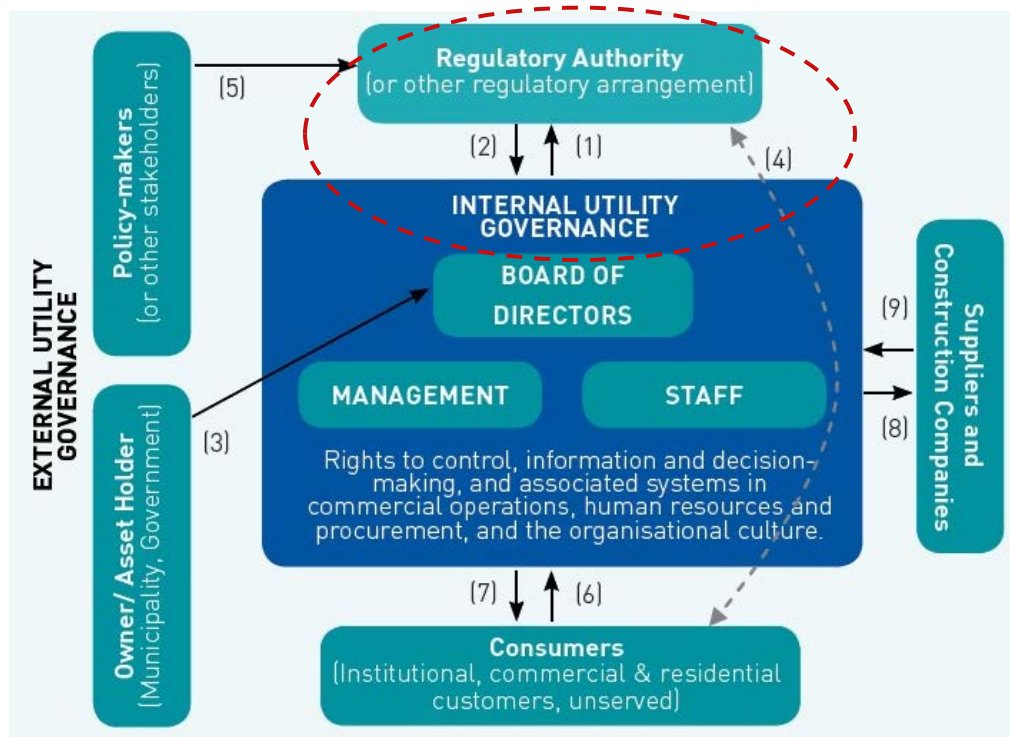


Extra Slides



1. Introduction

→ Regulators play a key role for utility governance

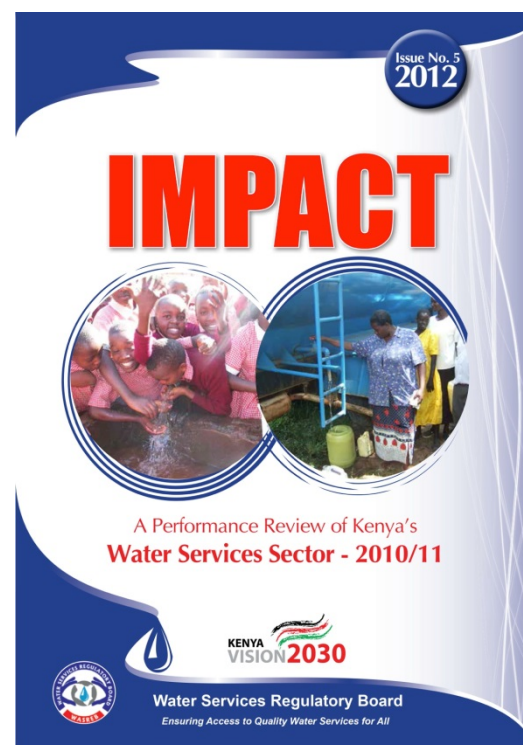


WIN/GIZ (2013)



3. Case Study: Water Services Regulatory Board (Kenya)

- Established in 2002 through the „Water Act“ as part of sector reforms
- Mandate for economic and water quality regulation, licensing and monitoring of water service providers
- *„Poor Governance has proved to be one of the main constraints to sector development“* (Sector Performance Report No. 5, 2012)





3. Case Study: Water Services Regulatory Board

How effective is WASREB in improving utility governance?

- IMPACT Report is key source of information for the sector
- > 50% of utilities comply with Governance Guideline (rising trend)
- Up-scaling of Water Action Groups to 10 towns ongoing
- Challenge: Capacity to enforce regulations/ Inspections on the ground/
Development of comprehensive governance indicators