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Can Regulation Improve the Performance of Government-Controlled Water Utilities?

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Author(s)

Ehrhardt, David Janson, Nils

Description / Abstract

This chapter of the book "**Infrastructure Regulation: What Works, Why and How Do We Know?**" provides evidence for whether or not regulation can improve the performance of government-owned water utilities. While other studies have examined whether private participation combined with regulation can improve the performance of government-controlled water utilities, there has been little research on whether regulation alone can improve performance.

This chapter examines five case studies on water utility reform in Latin America and the Caribbean. In each case study, a regulatory regime designed for private companies was applied to a government-controlled utility. Assessing performance across a number of indicators, the evidence shows that performance was as likely to deteriorate as to improve during periods of regulation of government-controlled utilities. This contrasts with the evidence of improvement following reforms that combined regulation with private participation. The findings suggest that conventional regulation may be of little use in government-controlled utilities. Conventional regulation is designed to prevent a profit-maximizing utility from raising tariffs above reasonable cost-recovery levels. Government controlled utilities, however, are not commercially motivated and face systematic incentives for short-termism in tariff-setting. Therefore, limiting monopoly profits is not usually the problem that needs to be addressed.

It concludes that, conventional regulation of a government-controlled utility is not useful in isolation. However, regulatory tools can complement governance reforms. One approach may be to adapt conventional regulatory tools so as to help citizens judge the performance of the utilities. Such an approach would help to increase government accountability for the performance of government-controlled utilities.

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