Bolivian Utility Regulation:
Lessons for a Water Sector Agency

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Social Context Matters

In a polarized political setting, public policy towards the water sector tends to evolve in response to political pressures. The resulting lessons are sometimes vivid because the situation is extreme. The fragility of particular institutions and the lack of social cohesion complicate a society’s willingness and ability to meet broad social objectives. Political leaders are unable to focus on long term investments and citizens become frustrated and/or despondent. When the social brew boils over in a state of crisis, institutions are altered and citizen expectations are raised—perhaps only to be frustrated again. The Bolivian experience provides lessons for other nations.
Six Lessons from Bolivia

- **Lesson 1:** Technical skills are necessary but not sufficient for regulatory sustainability.
- **Lesson 2:** Regulators must think politically without being political.
- **Lesson 3:** The functions of regulation include establishing incentives for good sector performance and communicating developments to all stakeholders.
- **Lesson 4:** Administrators can only manage what they measure; holding managers accountable for weak performance is only possible if data on trends and best practice are widely available for analysis.
- **Lesson 5:** When price is initially far below cost, citizens will perceive private participation as the reason prices go up.
- **Lesson 6:** Benchmarking water utilities is perhaps the only tool regulators have when regulating municipal or state-owned utilities.
Lesson 1: Technical skills are necessary but not sufficient for regulatory sustainability

• Communication with all the relevant stakeholders is crucial.
• An opportunity was missed to develop sustainable strategies for network expansion and gains in service quality.
Lesson 2: Regulators must think politically without being political

• “Independent” regulatory agencies are not fully autonomous: they are accountable to legislative, executive, and judicial authorities.
Who Exercises Regulatory Functions?

• The UK, Chile and Argentina were among the first nations to introduce regulatory commissions as part of sector reform and privatization initiatives.

• Single suppliers who face no competitive pressures are likely to set relatively high prices and/or provide poor service.

• Regulatory functions are mainly targeted to monitor utilities (data collection and analysis) and provide incentives to service providers.
Lesson 3:
The functions of regulation include establishing incentives for good sector performance and communicating developments to all stakeholders

- The separation of policy-making from policy implementation insulates technical staff from undue political pressures—promoting consistency and predictability in regulatory rulings.
The Universal Access Challenge

- The disadvantaged and powerless are generally the last ones to be served by infrastructure.

- The current Bolivian government is attempting to address the legitimate concerns of the poor—expressed through a variety of organizations.

- The social objective is making water services available to all citizens at an affordable price through piped connections or alternative systems in areas where networks are not feasible.
Lesson 4: Administrators can only manage what they measure; holding managers accountable for weak performance is only possible if data on trends and best practice are widely available for analysis

- The volatile political situation in Bolivia has not been conducive to performance-enhancing strategies

- Without benchmarking, neither managers nor citizens have a basis for changing behavior or developing realistic expectations.
Financial Policies for Universal Access

- The funds to cover the operating costs and the huge investment requirements can only come from three sources: government (national, regional, or municipal), current customers, international banks and investors, or donor organizations.

- Despite of the international agreements and the urgent population needs, the total investment in water and sanitation in Bolivia dropped in the last decade, to an average of US$ 80 million per year, with priority given to urban areas.

- It is estimated that Bolivia requires a total investment of US$ 1.165 million to achieve the Millennium Development Goals.
Lesson 5: When price is initially far below cost, citizens will perceive private participation as the reason prices go up

- Prices that are below cost and national budget constraints would have led to slow growth in coverage and continued low quality service.

- Political promises often establish unrealistic citizen expectations: the result is disappointment for all stakeholders, including elected officials.

- Regulators can contribute to universal access by promoting more efficient arrangements for water service delivery and by grounding citizen expectations in reality.
Lesson 6: Benchmarking water utilities is perhaps the only tool regulators have when regulating municipal or state-owned utilities

- Without benchmarking, cost of service regulation would only enshrine high costs in high prices.

- Identifying utilities with weak performance provides citizens with a basis for pressuring local politicians to replace poor managers.
Obtaining Sustainable Sector Outcomes

Five C’s of a Sound Regulatory System

Coherence
Creativity
Communication
Collaboration
Credibility
Coherence and Creativity

- **Coherence**: Establish the tariffs according to the required levels of service, with quality, continuity and accessibility for the low-income consumers.

- **Creativity**: Support new technologies, initiatives and incentives for water sector providers. Social tariffs and subsidies are required to facilitate universal access to low-income consumers.
Communication & Collaboration

**Communication**: Serve as a catalyst for bringing together different water sector stakeholders. Proactive regulators can reduce social conflicts in the water services provision.

**Collaboration**: Promote interactions with related agencies and organizations, including water resource managers, social service organizations, public health agencies, and environmental groups. Collaborations with agencies in other countries yield benefits.
**Credibility**

- *Credibility* needs to be promoted by the water sector agency. The water operators seek transparency and consistency in the regulatory process since cash flow will be driven by future decisions. The new agency’s credibility depends heavily on data collection and analysis.

Bolivia illustrates how lack of attention to particular population groups led to a crisis in infrastructure, and ultimately to dramatic political (and regulatory) changes in the nation.