

**Key Lessons from the  
33<sup>rd</sup> PURC/World Bank International Training Program on  
Utility Regulation and Strategy  
January 14-25, 2013**

**Annotated by Sanford V. Berg, University of Florida**

Teachers learn from their students, and students learn from each other. As in the past, the 63 participants from 29 nations in this training course identified the key lessons learned over the two-week period. During the concluding session of the program, they shared their reactions to formal presentations and informal networking. The PURC team appreciated the dedication and energy exhibited by participants: attendees brought insight and understanding to the sessions and shared their ideas with all of us.

Note that while most of the key lessons refer to regulatory agencies and to those developing infrastructure reforms, the principles apply to operators as well. Organizations face the same challenges: creating a sustainable infrastructure system where all stakeholders have confidence in the integrity of the process and have a shared vision of improved infrastructure performance.

As PURC's Director, Mark Jamison, observed: "Many of the lessons tend to be strategic rather than technical in nature – suggesting that many of the important ideas involve how regulators, representatives from government ministries, infrastructure managers, and consumer advocates need to 'get on the balcony'." Intentionally stepping back from the "give and take" of regulation allows leaders to see how various stakeholders limit or promote reform. We hope that the annotated list of lessons stimulates further discussion among those involved in these important sectors. I take full responsibility for errors of interpretation in this summary of key lessons.

*Sandy*

- 1. Infrastructure policies affect future generations:** Water and sanitation, in particular, have many problems, as many citizens in developing countries lack the ability to pay for services. To some extent, regulation is an evolutionary process whereby the principles of natural selection apply. Institutional survival requires that appropriate niches be found for activities. Those procedures and incentives that improve performance should be maintained, winnowing out less effective approaches. Thus, regulation is dynamic in nature, evolving over time.
- 2. TINSTAAFL (There is no such thing as a free lunch):** Every decision involves giving something up to obtain something else: nothing is free. On the other hand, TBTILAN (The best things in life are non-monetary): personal integrity, a committed relationship, a walk in the forest—all involving giving up opportunistic behavior or "time for other activities".
- 3. Regulatory commissions are present in most nations:** The universality of such institutions suggests that their functions are important for promoting strong infrastructure performance. Also, there are many lessons to be learned from others. While it is good to learn from our own mistakes, it is even better to learn from the mistakes (and successes) of neighboring nations.

- 4. Capacity building is an important activity for any organization.** Regulation is difficult, but capacity building helps the agency address emerging problems. Training equips professionals with the tools they need to analyze complicated issues and implement public policy. An agency that values professional development encourages staff to take advantage of training opportunities and obtain advanced degrees. However, expertise is necessary but not sufficient for sound decisions. While technical skills related to finance, accounting, and engineering are necessary to document the reasons for a decision, “soft” skills (like negotiation, communication, and political sensitivity) are also essential. “Soft” does not mean “easy” or “unimportant.”
- 5. Data collection is important: many sources are available.** Other agencies or groups also have databases that can be useful for analysis, so avoid duplication of data requests. Decisions that are delayed are costly since the plans of others are affected when deadlines are not met. This means that the data for decisions need to be available in a timely manner. Without knowledge of recent trends, current relative performance, and reasonable targets, regulators are not in a position to make informed decisions.
- 6. The Regulator is at the “center” of the Regulatory System, balancing the interests of many stakeholders.** The job of the regulator can be viewed as balancing the interests of consumers, operators, and government. Stakeholders have legitimate concerns: some citizens may not be receiving service, the financial sustainability of operators may be problematic, and elected political leaders have concerns regarding regional development or may seek low prices for current customers. It has been said that “the role of the regulator is to disappoint all stakeholders equally.”
- 7. Communication matters: Regulators “filter” the messages consumers receive.** Regulators need to work with stakeholders to educate those affected by price, quality, and network coverage. The press represents one vehicle for communicating with those groups interested in infrastructure performance. Infrastructure decision-makers should be clear about their objectives and the processes used to meet those goals.
- 8. Regulation is about politics (but not only about politics).** Another way of saying this is that regulatory agencies are not divorced from politics, but they should not be married to politics either. One lesson emphasized in PURC Training Courses is that “regulators need to think politically without being political”. Given the social importance of access to infrastructure, those involved in making the regulatory system work cannot ignore politics.
- 9. Consistent regulatory consultation with the operator valuable.** Regulators and operators are not necessarily adversaries. In fact, the two parties can have complementary roles: one meeting the needs of citizens (for a fair and affordable price) and the other monitoring performance and educating political leaders and citizens about the rationale behind existing incentives. Technical workshops and public hearings are both forums for gathering different types of information and educating different stakeholders about what is feasible given limited resources.
- 10. Total regulatory “independence” is both impossible and inappropriate.** The agency is embedded in a political system and accountability is essential. Daniel Carpenter, in *The Forging of*

*Bureaucratic Autonomy* (2001, Princeton Univ. Press) stated: “Bureaucratic autonomy . . . emerges not from fiat but from legitimacy. It occurs when political authorities see it in their interest to defer to agency action, or when they find it too problematic to restrict it. They defer to the agency because (1) failure to do so would forfeit the publicly recognized benefits of agency capacity, and/or (2) the agency can build coalitions around its innovations that make it costly for politicians to resist them. These coalitions are part of the agency’s reputation; reputations are not ethereal but are embedded in network-based coalitions.”

**11. Negotiation is part of the tool kit required for effective actions within the regulatory system.**

Negotiation strategies and interpersonal skills are important for identifying and addressing issues. Thus, both operators and regulators need the “soft” skills of generalists who can manage teams and bring people together. As Albert Einstein wrote: “Imagination is more important than knowledge.”

**12. Regulation is complex, involving legal, economic, political, social, and technical/engineering elements.**

There is no single recipe for improving infrastructure performance. Regulation is not cut and dry; it requires broad perspectives that draw upon many disciplines, including accounting, engineering, public administration, finance, economics, and law. Individuals tend to wear blinders, but teams can bring multiple perspectives to challenging issues. There is no single approach to regulation that works everywhere: “One size does not fit all.” The enabling legislation, the judicial system, national income, and investment climate all affect opportunities facing operators.

**13. Infrastructure problems are “similar” across nations, although the institutions and contexts differ.**

Infrastructure concepts and regulatory strategies have to “fit” the local situation. Concepts and principles can apply across nations, but the unique national settings (traditions, legal mandates, and public perceptions) require tailoring principles of autonomy participation, and transparency to the national context. Nevertheless, there is much to learn from others.

**14. Knowledge is essential.**

Quantitative techniques represent tools for understanding trends in infrastructure performance, making comparisons across current operators (in one nation or within a geographic region), and identifying best practices. However, without data “. . . regulators may as well be writing pretty poetry,” as a regulator from India once said. Executives manage what they measure; if they cannot provide data, an external evaluator can conclude that management is weak and/or is severely under-resourced to address the challenges faced by the firm.

**15. Keep up with new technologies, especially in telecommunications.**

Innovation is disruptive, so all participants in the regulatory system need to be aware of changes that alter the industry and regulatory processes. Regulators should be viewed as implementing policy, since developing and articulating policy is the responsibility of the key political leaders in the executive branch and the legislature. However, regulators often have technical expertise lacking in other branches of government. Thus, regulatory reports and public meetings provide platforms for identifying issues and the implications of alternative approaches to resolving those issues.

- 16. Look outside the box for tools to deal with problems.** Complex infrastructure problems tend to be *managed* not *solved* because of the unintended consequences of many decisions. Karen Johnson, former Director of Gainesville Regional Utilities, noted that “within the most dysfunctional system, someone is benefitting from the status quo.” Thus, changing current institutional arrangements requires a number of groups to take on those benefitting from low levels of infrastructure performance
- 17. Continuing education maintains organizational effectiveness.** Given the importance of sound, defensible decisions, agency professionals must utilize appropriate tools related to finance, operations, and incentives. Networking with other regulatory commissions is one way to strengthen the analytical foundations of an agency. If decisions can create win-win outcomes, then it is easier to get buy-in from stakeholders for reform initiatives. Greater efficiency in the sector means that more resources can be devoted to poverty alleviation and other objectives, without creating new fiscal burdens. While more politicians have run on platforms of fairness rather than efficiency, the latter deserves to be highlighted when evaluating regulatory performance.
- 18. Leadership matters.** Mark Jamison, PURC director, and Araceli Castaneda, PURC assistant director, wrote a recent PURC Working Paper entitled *Reset for Regulation: Leadership for a Time of Constant Change*. The paper reminds us to develop three perspectives: “The first is to focus on next practices, not best practices. Best practice is about following in someone else’s footsteps, whereas next practice is about going into areas where no one has gone before. The second is focusing on why rather than focus on what. Asking “What should we do next?” emphasizes practice, whereas asking “Why have certain practices been successful?” searches for underlying needs and context. The third juxtaposition is between leading and leadership. A leader provides direction, which is proper when the right direction is known. In contrast, leadership mobilizes people to tackle difficult and often ambiguous problems and circumstances.”
- 19. Communication is essential if decisions are to be accepted by stakeholders.** Water, energy, telecommunications, and transportation impact the everyday lives of all citizens. Poor performance by suppliers damages the social and economic fabric of a nation. That means regulations seek credibility in the eyes of other groups (investors, government ministries, development banks), legitimacy in the eyes of citizens (acceptance of decisions), and efficiency (reducing waste, expanding access, and improving service quality). If key issues are not appropriately identified and communicated, each party will try to gain public attention through unrealistic promises and the strategic presentation of information. Such activity creates a lot of noise in the system: As someone said, “Weak regulation is like a swimming pool: all the splashing goes on in the shallow end.”
- 20. Economic principles represent a key element in the regulatory tool-kit.** Being a regulator is one of the most difficult jobs in the world. Regulators play a number of roles in the process, including investigator, educator, negotiator, facilitator, and communicator. These roles require a mix of skills and agility (in resisting political pressure to make decisions that are popular in the short run). The regulatory system in place today will leave a legacy for future generations, so leaders must have a long-term vision of how infrastructure promotes social and economic objectives.

*A few quotations that seem appropriate for those participating in the regulatory process:*

If your actions inspire others to dream more, learn more, do more, and become more, you are a leader.  
(John Quincy Adams)

It is difficult to remove by logic an idea not placed there by logic in the first place. (Anon)

The most secure prisons are those we construct for ourselves. (Anon)

“If you haven’t got all the things you want, be grateful for all the things you don’t have that you don’t want.” (Anon)

“Give us the grace to accept with serenity the things that cannot be changed, Courage to change the things that should be changed, and the wisdom to know the difference.” (Reinhold Niebuhr)

“I’ve learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel.” (Maya Angelou)

“A man travels the world over in search of what he needs and returns home to find it.” (George Moore)