



THE OECD BEST PRACTICE PRINCIPLES ON THE GOVERNANCE OF REGULATORS

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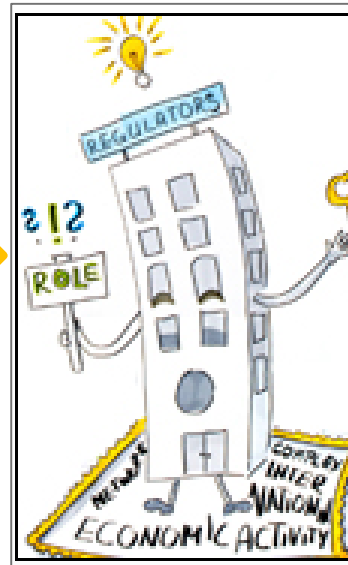
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A challenging policy context

Increasing demands on regulators

- Policy stability
- Risk management
- Competition
- Service quality
-



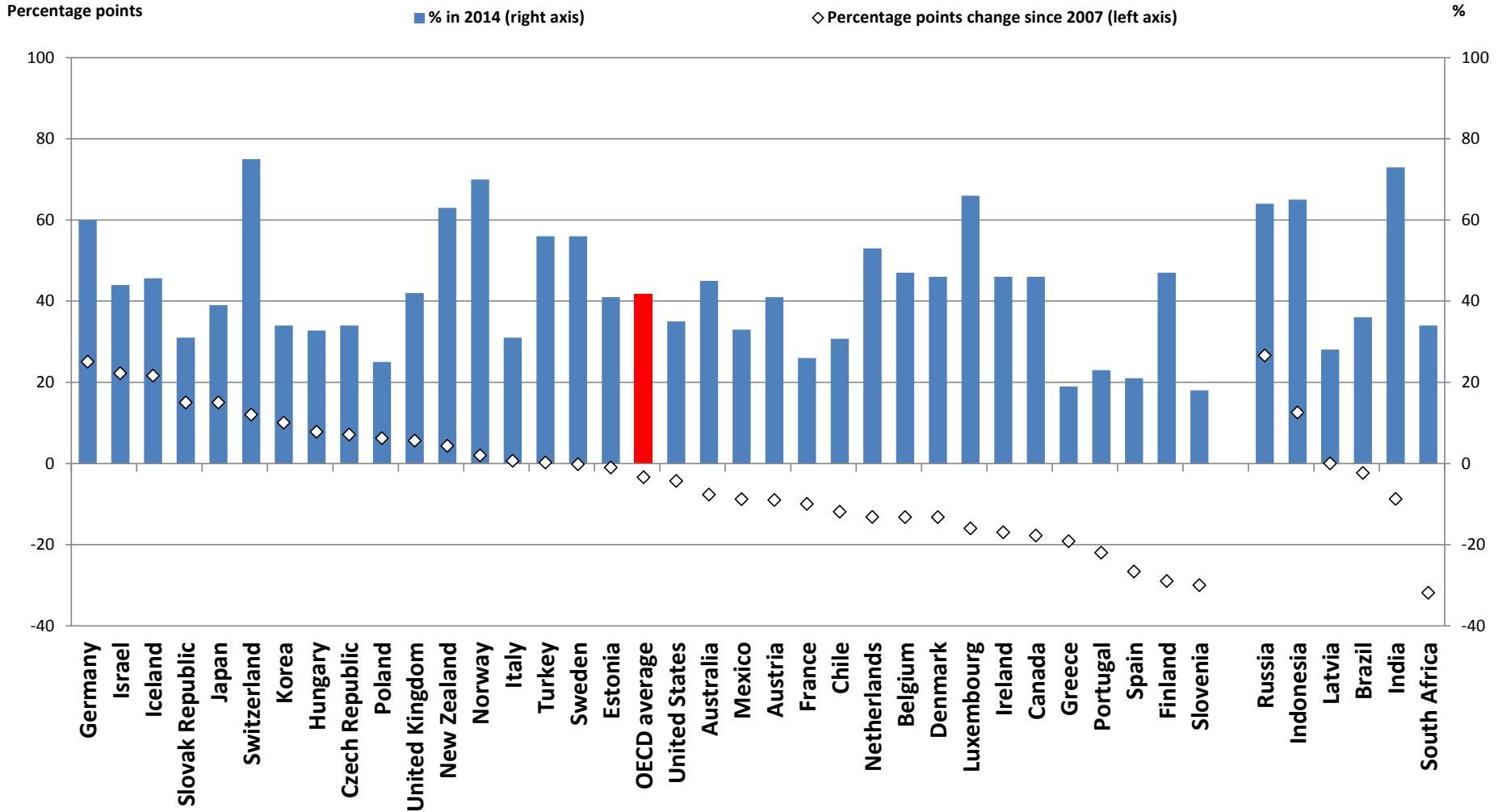
Fewer resources

Greater impact



Declining trust in governments

Confidence in national government in 2014 and its change since 2007





Governance matters for better regulatory outcomes

Well-designed rules and regulations that are efficient and effective

Appropriate institutional frameworks and related governance arrangements

Effective, consistent and fair operational processes and practices

High quality and empowered institutional capacity and resources, especially in leaderships



2012 Recommendation on Regulatory Policy and Governance

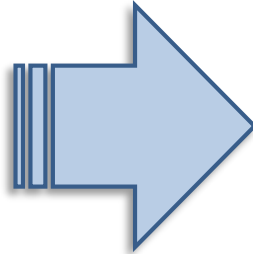


Develop a consistent policy covering the role and functions of regulatory agencies in order to provide greater confidence that regulatory decisions are made on an objective, impartial and consistent basis, without conflict of interest, bias or improper influence

<http://www.oecd.org/gov/regulatory-policy/2012-recommendation.htm>



2014 Best Practice Principles on the Governance of Regulators

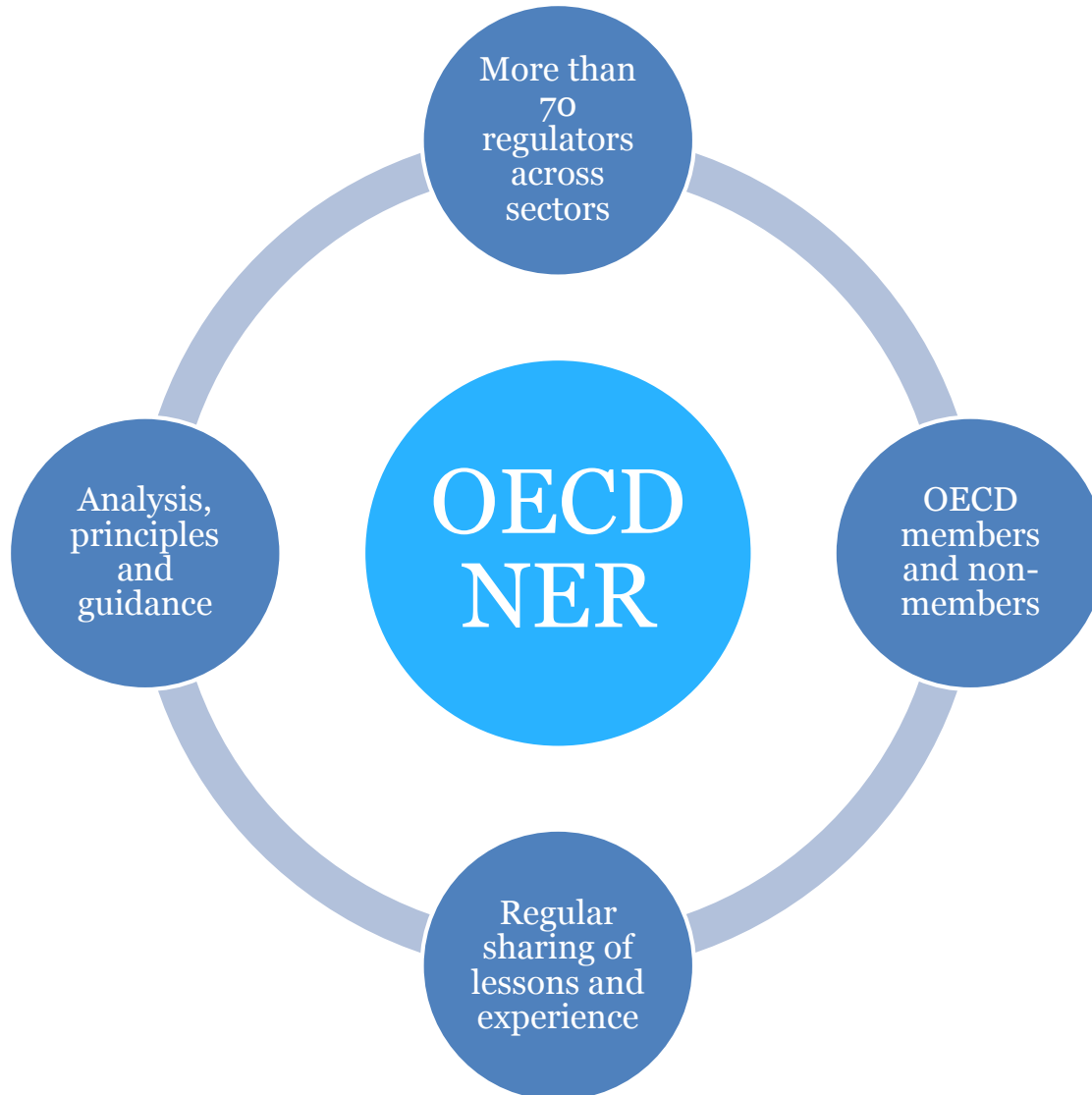


- Support **governments** in improving the institutional arrangements, processes and practices within regulators
- Support **regulators**' efforts to build a high level of professional competence and attract, develop and retain the best people to manage regulatory systems

<http://www.oecd.org/gov/regulatory-policy/governance-of-regulators.htm>



The Network of Economic Regulators





Developing the principles

Extensive
academic
literature

Existing
principles
(Victoria Govt)

Public
consultation
and peer inputs
(RPC and NER)

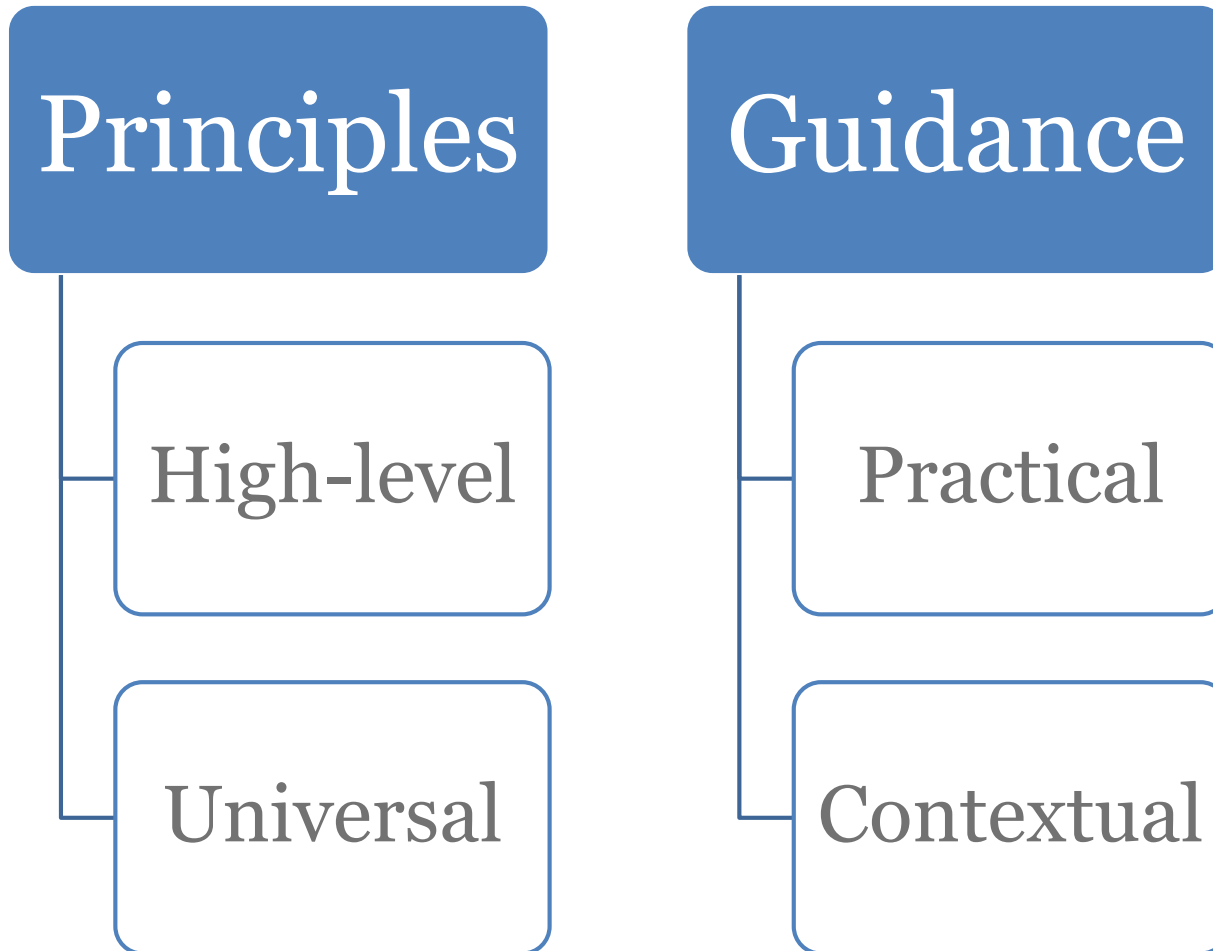


Scope

External Governance (looking out from the regulator)	Internal Governance (looking into the regulator)
<p>The roles, relationships and distribution of powers and responsibilities between the legislature, the Minister, the Ministry, the regulator's governing body and regulated entities.</p>	<p>The regulator's organisational structures, standards of behaviour and roles and responsibilities, compliance and accountability measures, oversight of business processes, financial reporting and performance management.</p>

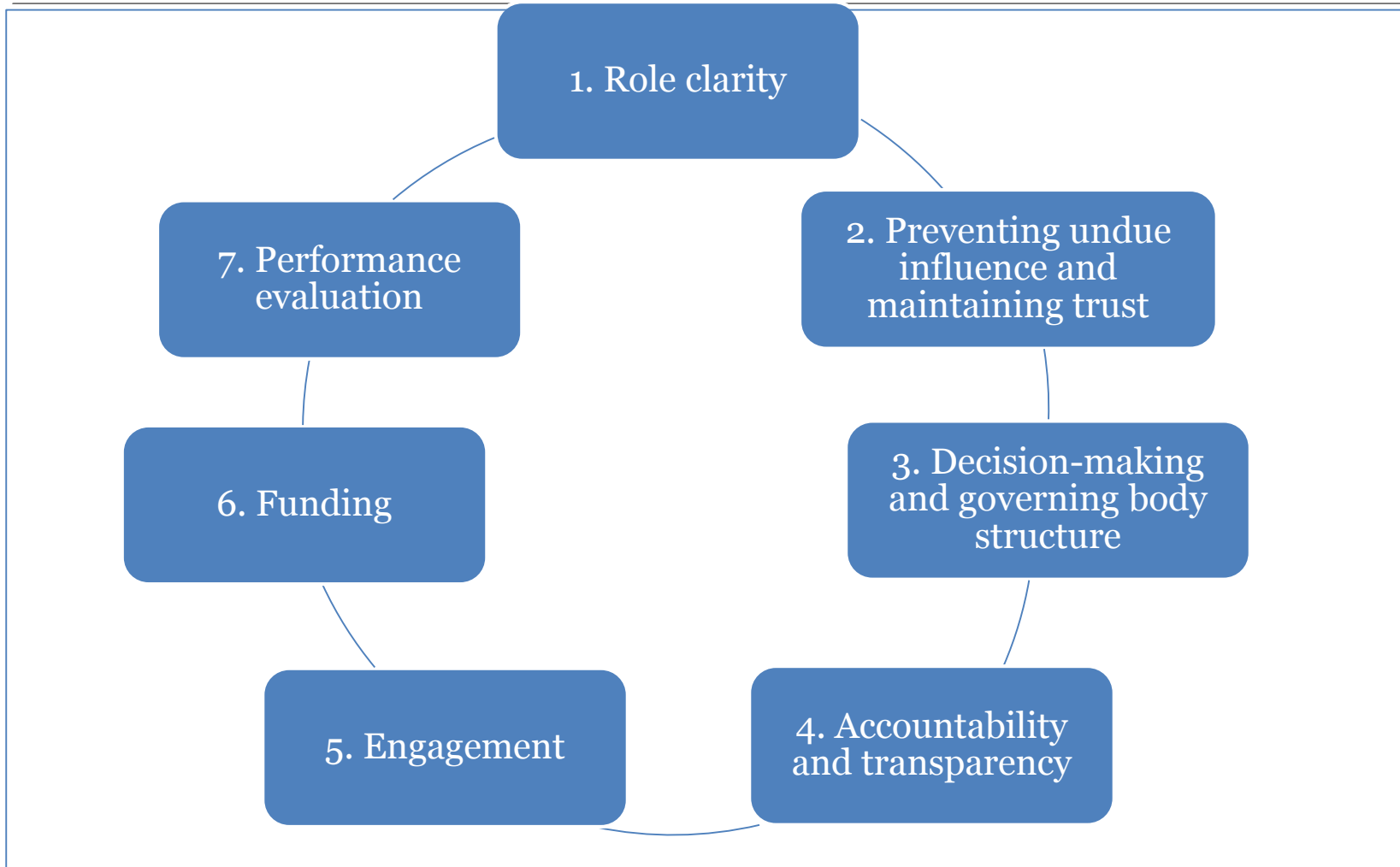


Structure





Coverage





Applying the principles

- OECD members' and non-members' own actions and reforms
 - New Zealand, Australia, Iceland
- Basis for OECD diagnostics
 - Product Market Regulation indicators on regulatory management of sector regulators
 - Governance of Water Regulators
 - Performance Assessment Framework for Economic Regulators



Product Market Regulation (PMR) indicators

Aim

- Enhancing the **knowledge of regulatory practices** in OECD and non-OECD countries
- **Quantifying** a country's regulatory stance and track reform progress over time
- Investigating their **link with economic performance**.

Scope

- Economy-wide regulation (**PMR**)
- Regulation in telecoms, electricity, gas, post, rail, air passenger transport, road transport, retail trade and professional services (**NMR**)

Policy setting

- The indicators capture foremost **de jure** regulatory settings
- The implementation and enforcement of regulations and the associated institutional framework are not covered by the PMR and NMR

Coverage

- **Countries:** 34 OECD countries and 21 non-OECD countries
- **Years:** 1998, 2003, 2008, 2013 (for regulation in network sectors: 1975 to 2013)



PMR indicators on regulatory management of sector regulators

Independence

- This component is meant to capture the insulation of the regulator from influence by the government and representatives of the regulated sectors.
- It draws mostly on the second and third principle.

Accountability

- This component captures the accountability of the regulator vis-à-vis various stakeholders, including the government, the regulated industry and the general public.
- It directly draws on the first, fourth, fifth and seventh principle.

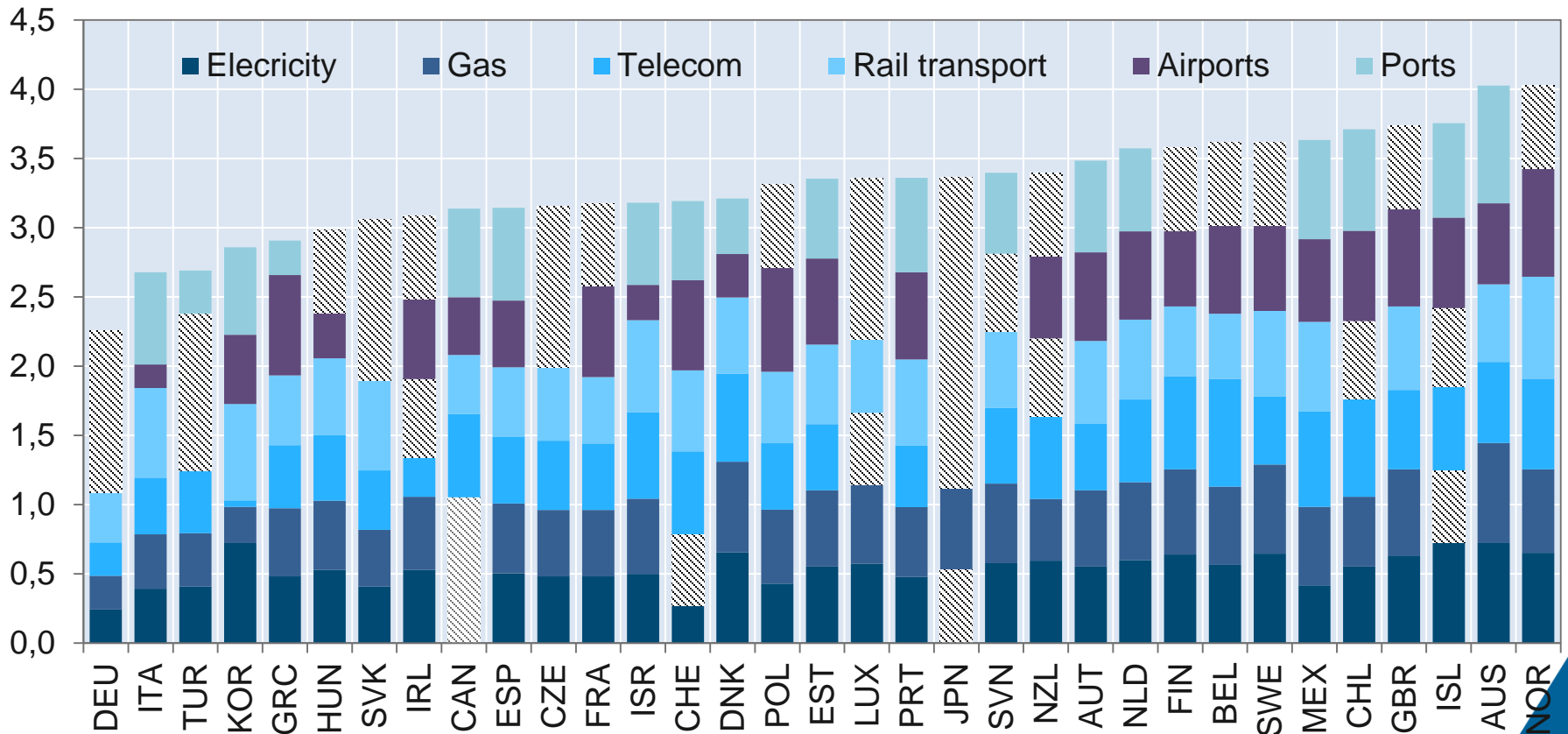
Scope of action

- This component aims to shed light on the range of activities that the regulator performs.
- It is only loosely linked to the governance principles



PMR: independence of economic regulators

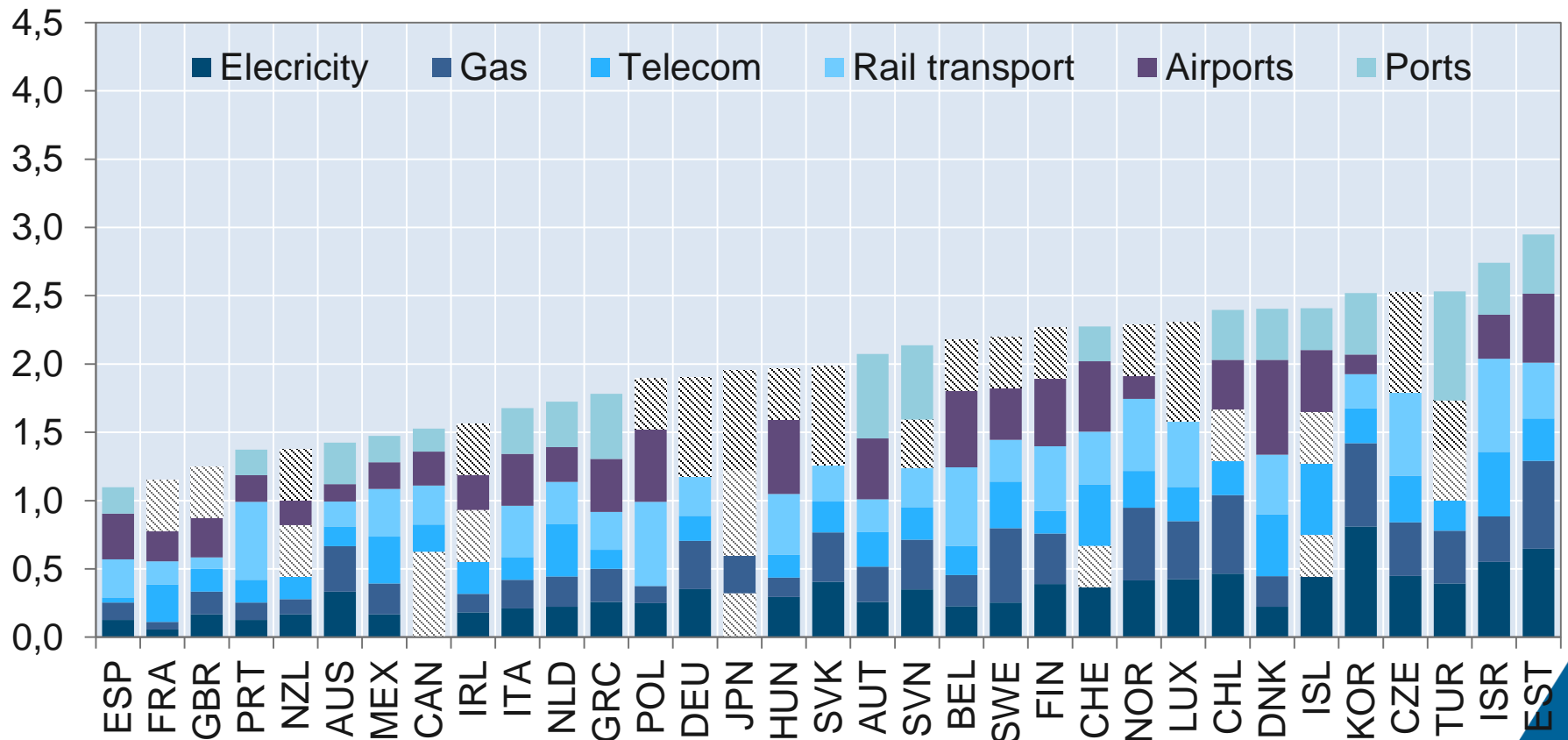
Index scale 0 to 6 from most to least independent





PMR: accountability of economic regulators

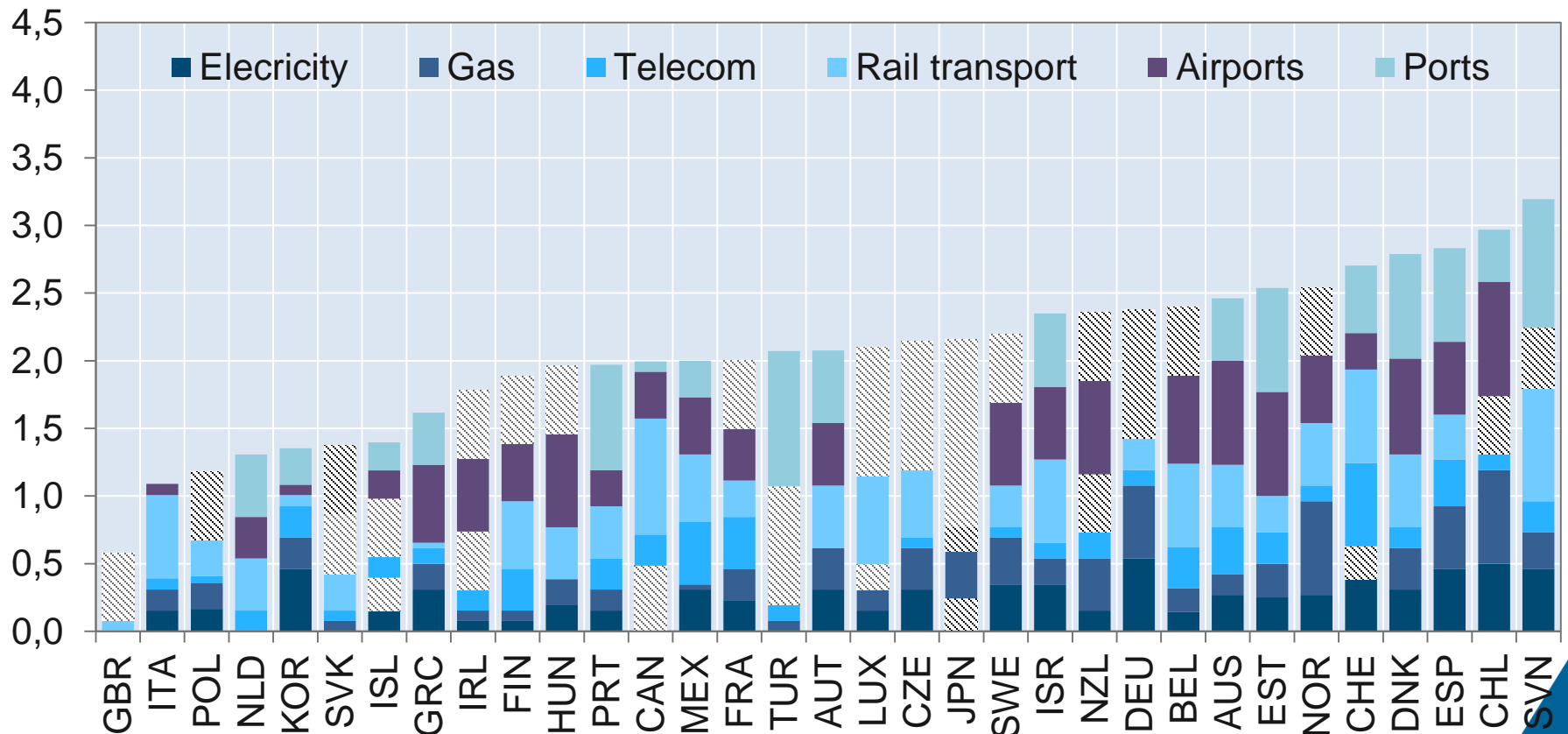
Index scale 0 to 6 from most to least accountable





PMR: scope of action of economic regulators

Index scale 0 to 6 from most to least scope of action





The Governance of Water Regulators

- To document the features of a sample of dedicated regulatory bodies for water
- Based on a detailed survey that relies on the Principles
- Report to be launched at the World Water Forum in April 2015 in Korea



Water Regulator Survey

Water regulator survey

1. Institutional setting

a) Legislative framework

b) Independence

c) Co-ordination with other relevant parts of government

2. Mandates and roles

a) Objectives, perimeter / activities and functions

b) Powers of the regulator

3. Internal organisation

a) Governance models

b) Personnel

c) Financial resources

d) Decision making process

4. Accountability mechanisms

5. Tools and mechanisms to ensure regulatory quality

a) Consultation with operators and consumers

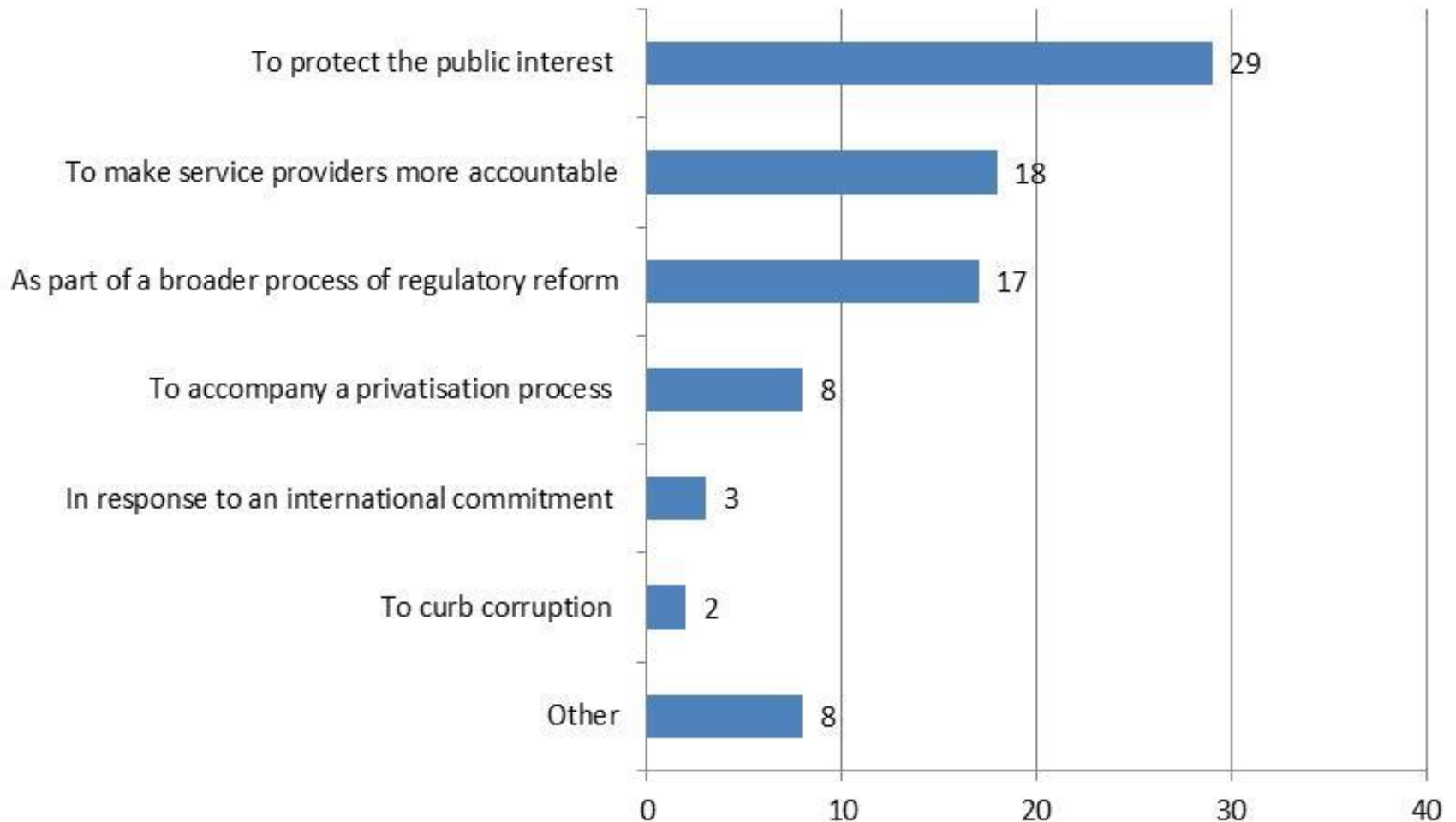
b) Dispute resolution

c) Impact analysis of regulatory decision

d) Measurement and reduction of administrative burdens

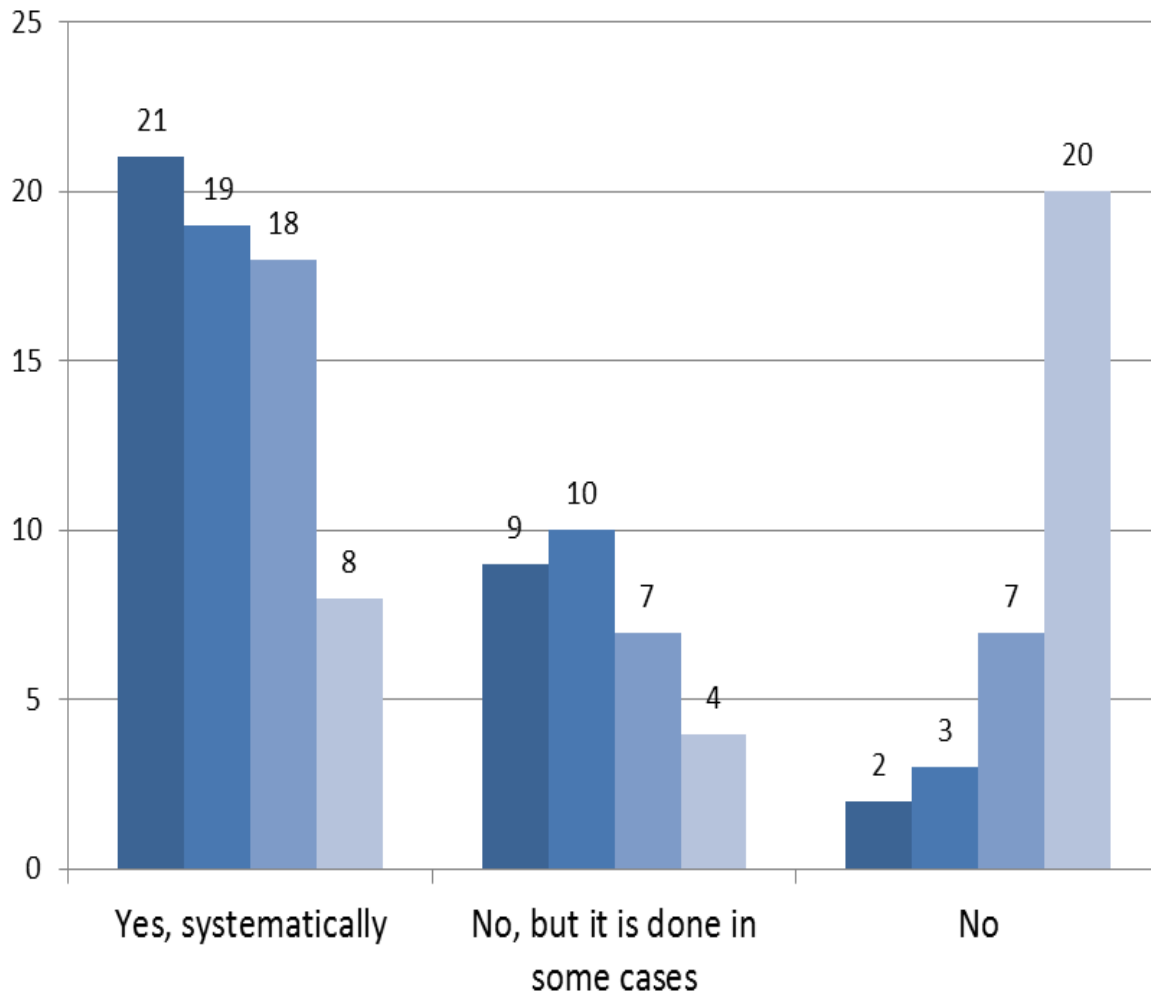


Why are water regulators established?





How do they ensure regulatory quality?

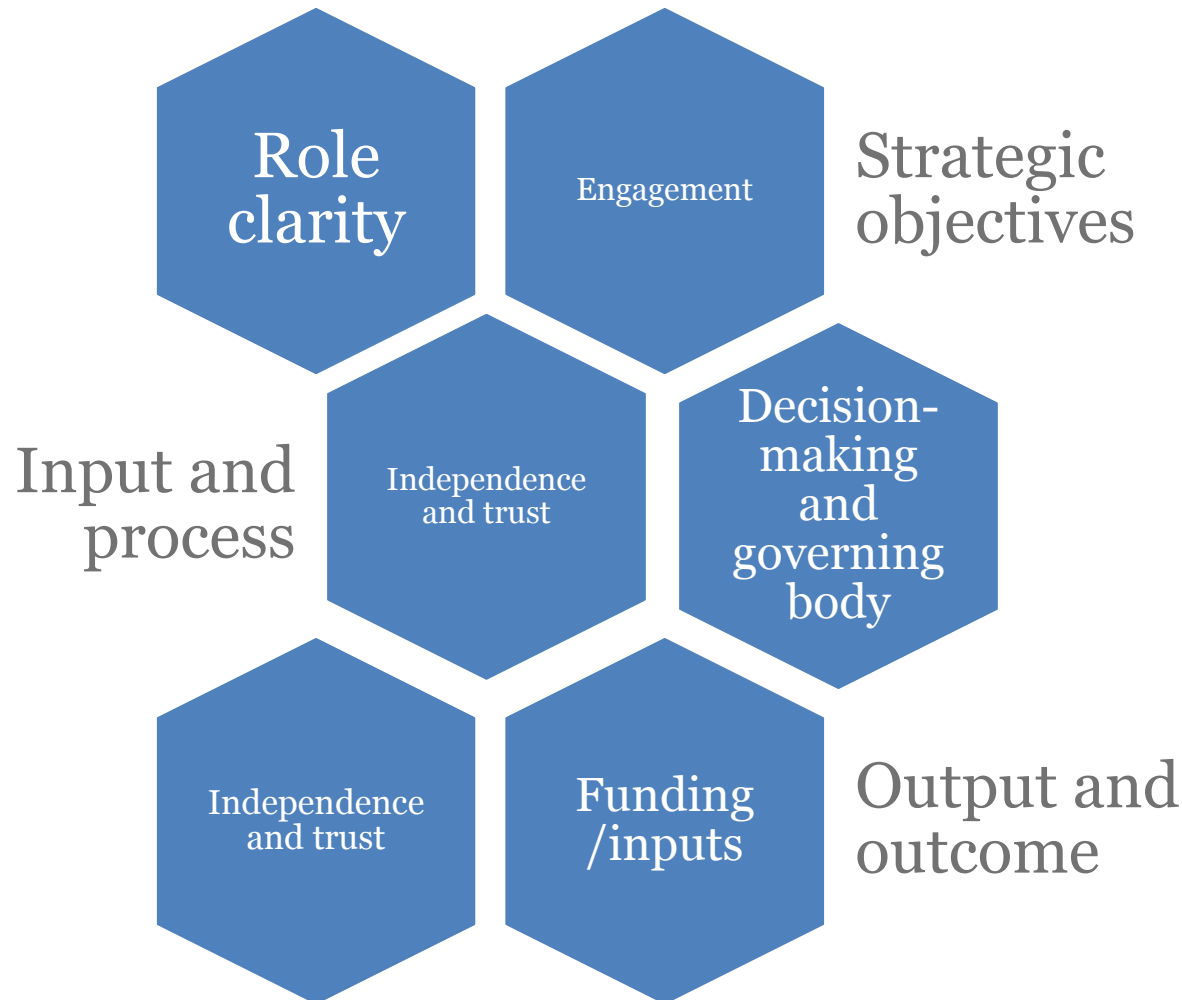


- Is consultation with regulated entities before making a regulatory determination required by the authoring legislation?
- Is there a legislative requirement in place to conduct public consultation in advance of making a regulatory determination?
- Is an economic assessment of the costs and benefits required to be prepared by the regulator to justify a regulatory decision?
- Is periodic ex-post evaluation of existing WWS regulations mandatory?



Performance Assessment Framework for Economic Regulators (PAFER)

Identify the existence of the institutions, processes, approaches and practices that can help the regulator better assess its own performance





Applying the PAFER

Step 1

- **Detailed questionnaire to collect information on**
 - Regulator's strategic objectives and mandate
 - Input, process, output and outcome measurement and indicators
 - Use of performance evaluation

Step 2

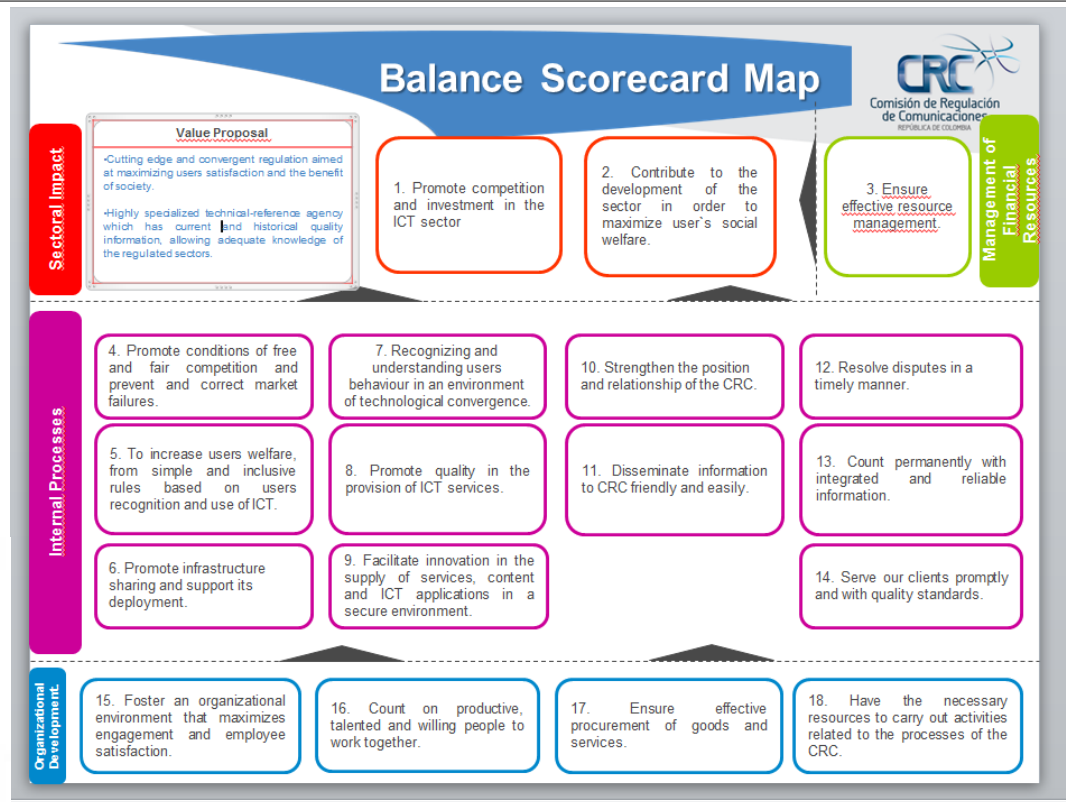
- Peer-reviewed fact-finding mission

Step 3

- Key findings and recommendations discussed by NER members

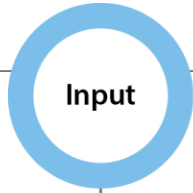


PAFER review of Colombia's communications regulator





PAFER framework for performance indicators



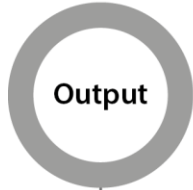
Efficiency and effectiveness of Input

Organisational and financial performance (e.g. planned activities completed on time and on budget).



Quality of processes for regulatory activity

Existence and effective use of regulatory tools and processes (e.g. measurement of accuracy, timeliness, accessibility, participation, risk analysis, use of evidence).



Output from regulatory activity

Effective regulatory decision, actions and interventions (e.g. decisions taken which were upheld).



Direct outcome/impact of outputs (e.g. compliance with regulator's decisions).

Wider outcomes — to note that these indicators are meant to be a “watchtower” to loop back and help identify problem areas, orient decisions and identify priorities; they should be used as learning (rather than accountability) indicators:

Market structure
(e.g. level of concentration);

Service and infrastructure quality
(e.g. frequency and reliability of services to consumers, reliability and deployment of infrastructure);

Consumer welfare
(e.g. ability of consumer to choose the service that best fits their preferences);

Industry performance
(e.g. revenues, profitability, investment).



Next steps

- Continue exploring the practical implications of applying the Principles
 - For example, weak independence can mix policy and regulatory functions and undermine effectiveness and trust
 - More in-depth work on independence of regulators to be discussed by the NER on 17 April 2015 in Paris



THANK YOU!

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