

1D	
EFFICIENCY	Principle 4. Regulatory frameworks
<b>Target group / Relevant stakeholder:</b> National Policy-Makers, Municipal Governments, Regulators, Urban Water Utilities, Medium Water Utilities, Rural Service Providers, Watershed or River Basin Organisations, and/or Private Sector	
<b>DESCRIPTION</b>	Ensure that sound water management regulatory frameworks are effectively implemented and enforced in pursuit of the public interest (OECD, 2024, 40).
<b>EXPECTED RESULTS</b>	<p>Outputs:</p> <ul style="list-style-type: none"> <li>• Comprehensive, coherent and predictable legal and institutional framework sets rules, standards and guidelines for achieving water policy outcomes, and encourage integrated long-term planning (OECD, 2024, 40).</li> <li>• Key regulatory functions are discharged across public agencies, dedicated institutions and levels of government and regulatory authorities are endowed with necessary resources (OECD, 2024, 40).</li> <li>• Rules, institutions and processes are well-coordinated, transparent, non-discriminatory, participative and easy to understand and enforce (OECD, 2024, 40).</li> <li>• The use of regulatory tools (evaluation and consultation mechanisms) fosters the quality of regulatory processes and makes the results accessible to the public, where appropriate (OECD, 2024, 40).</li> <li>• Clear, transparent and proportionate enforcement rules, procedures, incentives and tools (including rewards and penalties) promote compliance and achieve regulatory objectives in a cost-effective way (OECD, 2024, 40).</li> <li>• Effective remedies can be claimed through non-discriminatory access to justice, considering the range of options as appropriate (OECD, 2024, 40).</li> </ul>
<b>CONDITIONS FOR SUCCESS</b>	<ul style="list-style-type: none"> <li>• Governance arrangements for regulators foster cooperation, build legitimacy for enforcement actions, and ensure efficient policy achievement while maintaining public confidence in regulatory operations.</li> <li>• According to the OECD, good governance principles for regulators include clear roles definition, safeguards against uneven influence to maintain trust, and independent decision-making supported by an effective governing body structure. Accountability and transparency are also key, along with active stakeholder engagement, adequate funding, and regular performance (OECD, 2014).</li> <li>• In addition to good governance, achieving better regulatory outcomes requires: <ul style="list-style-type: none"> <li>◦ Well-designed, efficient, and effective rules and regulations.</li> <li>◦ Appropriate institutional frameworks and governance arrangements.</li> <li>◦ Consistent and fair operational processes.</li> <li>◦ High-quality, empowered institutional capacity and resources, particularly in leadership.</li> </ul> </li> </ul>
<b>BARRIERS</b>	<ul style="list-style-type: none"> <li>• Fragmented authority and overlapping mandates: Many agencies or levels of government with shared responsibilities can lead to unclear roles, inefficiencies, and enforcement gaps. Water regulation models vary, including government oversight, independent agencies, outsourcing, and self-regulation (SIWI, 2021).</li> <li>• Lack of institutionalised coordination mechanisms: Absence of formal mechanisms for coordination between different government tiers and entities can hinder dialogue and clarity on roles and responsibilities.</li> </ul>

- Integration challenges with other sectors: Lack of coordination with regulators in other jurisdictions and sectors can impede information exchange.
- Lack of autonomy in decision-making: Reliance on government budgets for funding may undermine autonomy with political pressures influencing decisions, such as keeping tariffs low, which can negatively impact infrastructure and service expansion.
- Financial constraints: Regulators' budgets can limit their capacity to perform their functions.
- Weak or outdated regulatory frameworks: Regulations may be unclear, outdates, or poorly enforced.
- Limited transparency and accountability: Inadequate financial transparency in budgets, cost-recovery fees, and other revenue sources can erode trust in regulators' independence, undermine enforcement, and lead to public resistance or non-compliance.
- Capacity constraints: Lack of skilled personnel, tools, and internal capacity hinders regulators' ability to ensure governance and accountability.
- Conflicting policy objectives: Balancing priorities such as affordability, water as a human right, and financial sustainability for service providers can be difficult.
- Challenges with tariff regulation: The absence of established methodologies for setting or revising tariffs can lead to inconsistent and ad hoc regulation.
- Decentralisation issues: Decentralisation can weaken accountability when local political dynamics, capacity constraints, or fragile governance structures are in place (SIWI, 2021).
- Challenges with information collection: Issues with data quality, fragmented key performance indicators, and lack of access to up to date data can hinder informed decision-making. Even when information on water service provision or resources is collected, it may not made publicly available.

## SOLUTIONS

- Strengthening of legal and regulatory frameworks can address emerging challenges.
- Clear, consolidated roles and responsibilities among institutions.
- Enhanced transparency and stakeholder participation in decision-making processes.
- Capacity development through training, funding, and technology upgrades.
- Development of IWRM approaches can align water regulation with broader environmental, agricultural, and urban policies.

## EXAMPLES

### Advancing Institutional Frameworks and Local Capacities for Sustainable Infrastructure and Water Services in Bosnia and Herzegovina

#### SDGs linked



#### Water risks



Bosnia and Herzegovina faces significant water management challenges, with high water losses (55%), inconsistent service quality, and low wastewater treatment rates (only 41% of the population connected to sewerage systems). To address these issues, the Water Services Improvement programmes were adopted in 2022 by both entity governments (Federation of Bosnia and Herzegovina and Republika Srpska). These initiatives focus on strengthening regulatory frameworks, building institutional capacity, and improving financial sustainability. By introducing a tariff-setting methodology based on affordability, cost recovery, and environmental efficiency, the programmes aim to ensure financially sustainable utilities while improving service access. Additionally, the initiatives leverage international partnerships (EU, World Bank, EBRD, and others) to align water sector reforms with EU standards. The intervention has strengthened local governance, encouraged citizen participation, and increased accountability in water service delivery.

### Linkages to Governance Principles

The initiative enhances regulatory frameworks by aligning national policies with EU standards, ensuring institutional coherence across governance levels. Capacity building has played a central role, strengthening local government expertise in water planning, management, and service delivery. Financing mechanisms have been improved through the introduction of a tariff-setting methodology, balancing affordability with cost recovery to secure long-term investments. Additionally, stakeholder engagement has been fostered through collaboration between ministries, municipalities, international development partners, and local communities, driving systemic reforms and promoting transparent, efficient, and inclusive governance.

### Strengthening Lithuania's Capacity for Water Investments through Regulatory Reforms

#### SDGs linked



#### Water risks



Lithuania has introduced a regulatory framework to ensure the financial stability of water service providers while protecting consumers' rights to uninterrupted water supply and wastewater management. Since 2023, amendments have strengthened the financial capacity of municipal water companies, ensuring they can make essential investments in infrastructure and service quality. If a water company fails to meet legal requirements, such as wastewater treatment standards or water quality obligations, the municipality should reorganise it, potentially through mergers or divisions. In cases where a public supplier loses its license, a guaranteed water supplier is appointed to maintain continuous service, taking over infrastructure and assets without additional cost. The framework addresses financial sustainability by allowing water companies to secure an additional tariff component for investments when existing funds are insufficient, ensuring the long-term resilience of the sector.

### Linkages to Governance Principles

Regulatory frameworks play a central role in strengthening water governance by ensuring financial sustainability while maintaining service quality. Policy coherence is enhanced by aligning municipal restructuring processes with national investment regulations. Financing mechanisms, including additional tariff components, provide key support for long-term infrastructure development. Data and information transparency is improved through automated price calculations, reducing administrative burdens and ensuring accurate investment planning. The initiative also contributes to environmental resilience by promoting green investments and incentivising innovative water treatment solutions that minimise greenhouse gas emissions.

### REFERENCES

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OECD (2014) *Accountability and democratic governance, DAC guidelines and reference series*. Paris: OECD Publishing. [https://www.oecd.org/en/publications/accountability-and-democratic-governance\\_9789264183636-en.html](https://www.oecd.org/en/publications/accountability-and-democratic-governance_9789264183636-en.html)

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