

Utility regulation in Africa: How relevant is the British model?

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Some characteristics of African PPPs

- Divestiture infrequent
 - In water, mostly (short-term) concessions
 - In power, mostly Independent Power Projects (IPPs)
- Large amount of discontinuation
 - 25% of water contracts cancelled, 15% electricity (AICD)
 - Power: 3 out of 17 management contracts renewed (AICD)
 - Water: Many countries experiment with PPPs, then revert to public management
 - Not so true of IPPs
- Still plenty of unmet demand

The relevance of price-caps

- Clearly useful for short-term efficiency
 - Generally effective at reducing 'lost' electricity/water (e.g. non-payment, leakage)
- But what about other major problems?
 - Risk of renegotiation
 - Do price-caps increase profit variability, and hence risk?
 - Institution building
 - Is cost-plus a better way for regulators to gradually develop?

The relevance of price-caps

- Not necessarily inappropriate, just perhaps not major decision variable
 - Mentioned once in Africa Infrastructure Country Diagnostic (400 page document)
 - Does not correlate strongly with performance
- Should be adapted to context
 - Prices are very political
 - Cote d'Ivoire vs Mali
 - Suitability for institution building an empirical question

Independent regulation

- Independent regulator model works well when:
 - Culture of independent civil service
 - Redistributive concerns are separate
- In Africa, price regulation is a relatively effective form of redistribution
- For short-term PPPs, accountability and legitimacy may be more important
- For IPPs, reputation may be more important than de jure independence

Competition

- IPPs
 - Multiple players... but lack of spare capacity makes competition infeasible
 - Coordination of new investment difficult /crucial
 - Direct provision may be viable option

- Does renewable energy (e.g. solar) have the potential to be the new mobile phone?
 - Exclusivity clauses have the potential to be highly damaging

Questions going forward

- How does form of regulation impact institutional capacity and independence?
- How to make regulatory environment best suited to decentralised power production?
- What can we learn about regulating public enterprises from UK... or elsewhere in OECD