



# REFORM AND REGULATION IN THE CONTEXT OF POVERTY

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# Overview

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# Reform Rationale

## **□ Reform in the African Power Sector – Rationale**

- The dissatisfaction over the poor technical, financial, and managerial performance of the state-owned electricity utilities.
- The inability of utilities and the Government to mobilize sufficient investment capital for the electricity sub-sector's development and expansion.

# Regulation and Poverty

## Regulation

- ❑ A set of functions that ensure that utility service providers comply with existing rules and allow for those rules to be modified in order to cope with unforeseen events.

## Poverty

- ❑ Poverty is the deprivation of common necessities such as food, clothing, shelter and safe drinking water, all of which determine our quality of life. It may also include the lack of access to opportunities such as education and employment which aid the escape from poverty and/or allow one to enjoy the respect of fellow citizens. (Wikipedia)
- ❑ The state of living on less than \$2 a day, according to the World Bank. Poverty can also represent a lack of opportunity and empowerment, and bad quality of life in general.

# Regulatory Governance and Status of Regulation

## □ Regulatory governance

- Design of regulatory institutions and decision-making methodology/ processes through policy, laws, decrees and regulations.

## □ Status of regulation in the region

- 10/15 countries have regulators
- Two countries to establish regulators this year i.e. Swaziland and Mauritius
- Nine institutions members of the Regional Electricity Regulators Association (RERA)



# Rationale for Pro-Poor Regulation

- ❑ Poverty is complex and there is no single cause and key concern is lack of access/inadequate and unreliable supply resulting in the following impacts:

1. Economic

- Livelihood
- Productivity

2. Social

- Health and well being
- Social standing and welfare

3. Environmental

- Pressure on alternate resources -deforestation

# Regulatory Impacts

## □ How can regulation contribute to poverty reduction?

### ➤ Direct

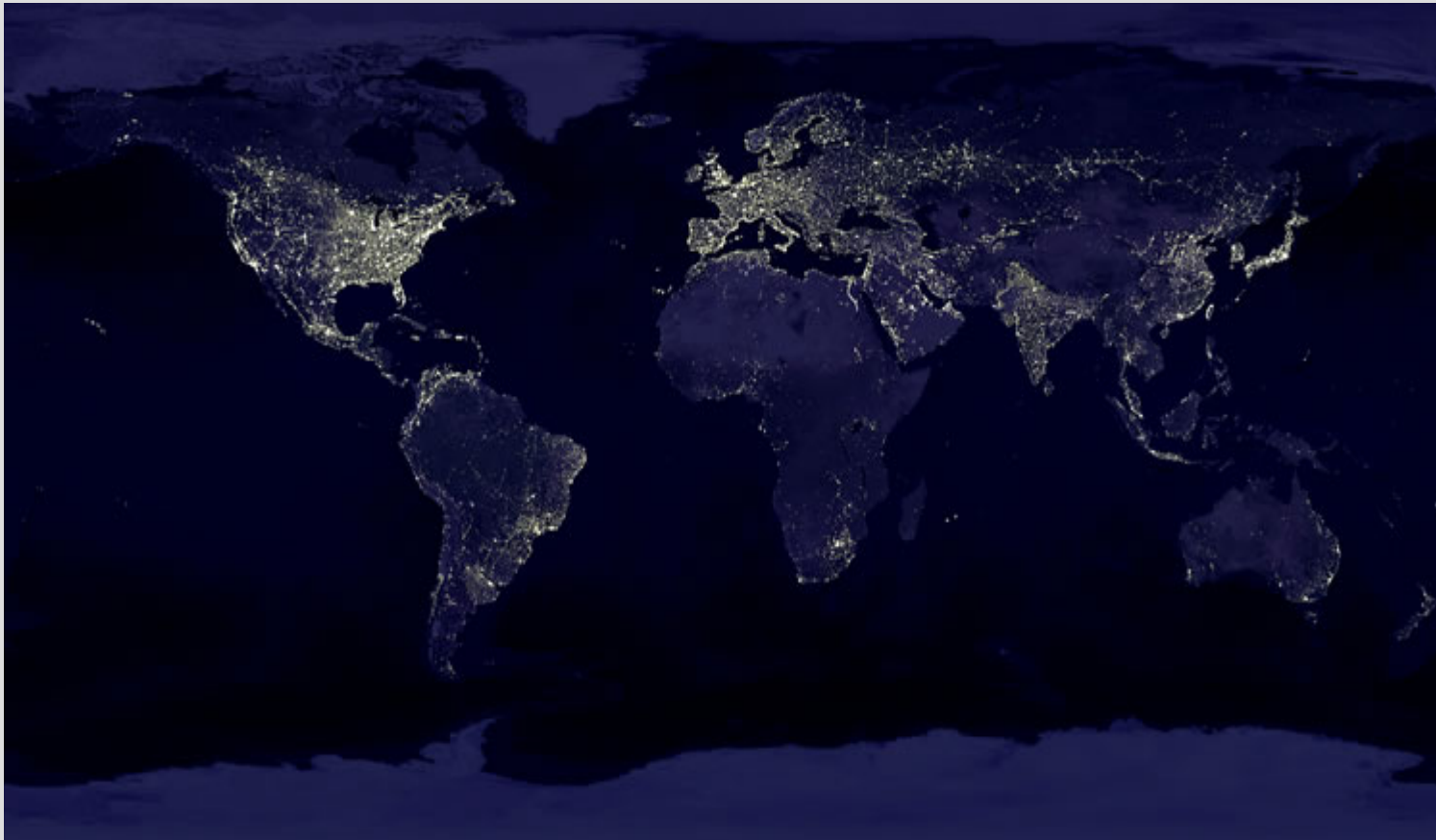
- Price regulation
- Assess impact of policy on poor (market liberalization)
- Designing regulatory mechanisms and methods that improve service provision for poor
- Understand the needs of poor/who?/where located/barriers to access

### ➤ Indirect

- Being efficient (least resource cost) and effective (achieving intended goals)
- Promote economic growth policies- infrastructure investments

# Expanding Access levels is priority to reach poor

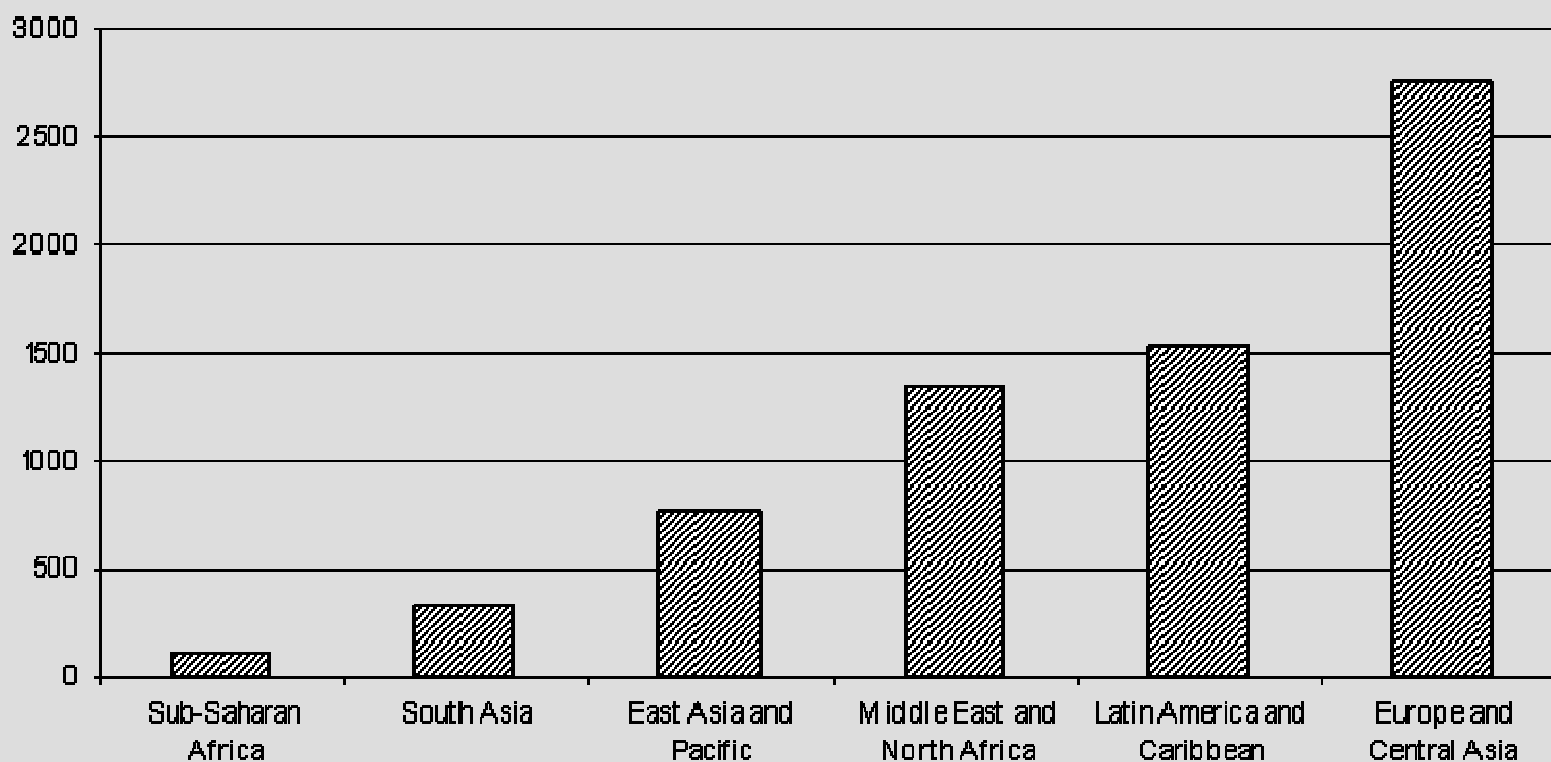
Satellite photo of world at night





# Access Levels

- Most countries rural electrification rate < 10%
- Electricity Consumption by Region in 2000

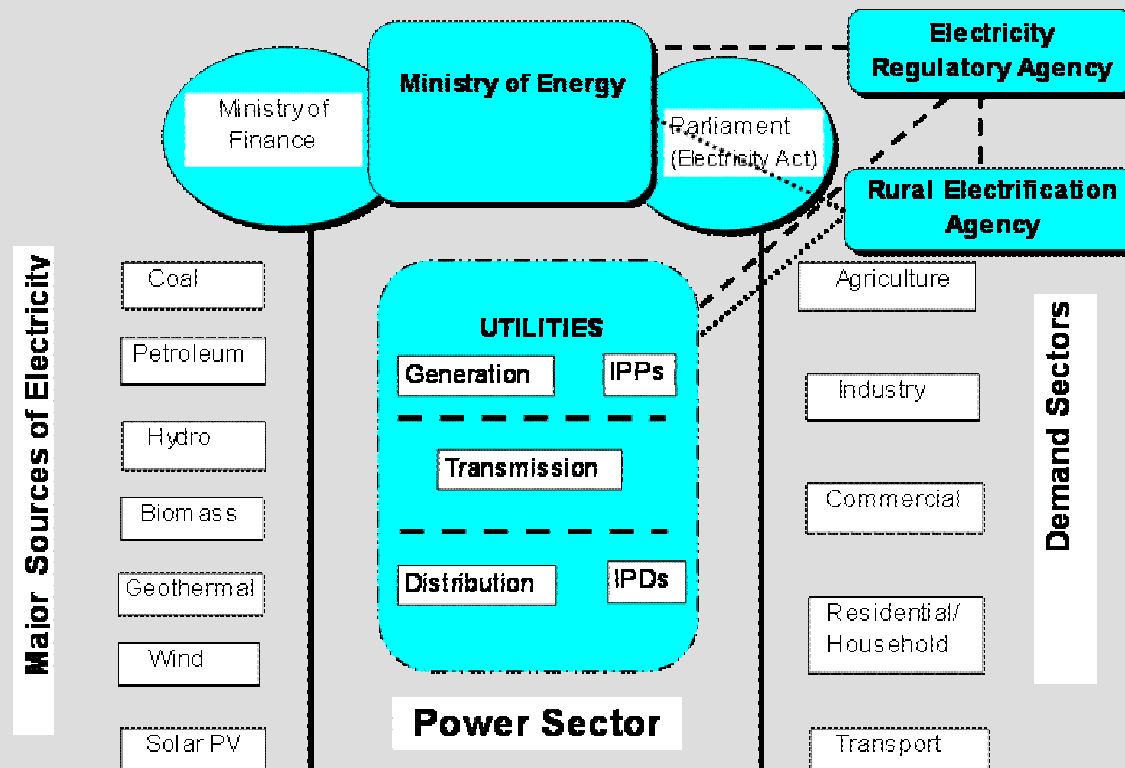


## Access Levels (continued)

- Rural and Urban Electrification levels (2000)**

Country	Urban	Rural
Mozambique	<20%	<2%
Malawi	<40% (38)	<2%
United Rep of Tanzania	<40% (39%)	<4%
Zambia	<50% (48%)	<5%
Zimbabwe	<85% (83%)	<20 % (19%)
South Africa	<80% (78)	50%

# Institutional structure of Power Sector



# Role of Regulator

- ❑ Government role (ministry)- Defines policy objectives
  - Social development objectives e.g. target levels of access for rural and marginalized communities
- ❑ Regulator – Develops regulations to implement and enforce
- ❑ Regulatory Roles
  - Set service standards
  - Define tariff setting processes
  - Customer rights and obligations

**Key Role-Balancing the interests of government/service provider or investor/customer**

# Key Challenges to Pro- Poor Regulation

- ☐ Evaluating existing Regulator (Regulating the regulator)
- ☐ Regulating Prices
- ☐ Regulating the Service Quality
- ☐ Regulating Informal Service Providers
- ☐ Protecting Consumers

# Regulating the Regulator

## Existing regulatory arrangements

- Regulators are entrusted with regulating utility service providers yet in most countries the poor fall outside these services
- Regulation of access expansion
  - Targets too ambitious
  - Restrictive targets
  - Creation of demand
- Key issues
  - Are there sufficient incentives to increase access by poor?
  - Is there adequate funding in place?
  - Does the regulator have tools and instruments to regulate access targets?

If not how does the regulator protect the poor ?

# Regulating Pricing

- ❑ Common belief among stakeholders that charging the lowest tariff is the more direct way to benefit the poor
- ❑ Common problems -low tariffs/too high tariffs (rare) / subsidies (inadequately targeted)
- ❑ Impact of low tariffs
  - Insufficient revenues to cover costs
  - Poor service quality
  - Failure to expand service/increase access
  - Alternatives often too expensive

## Regulating Pricing cont'

- **Traditional Approach to Affordability**

Policy	Problem
Govt subsidizes utility to make service affordable	Many poor people are not connected so they do not benefit
Tariffs are kept below cost	Utility can not provide good service or finance expansion- poor people do not get access
Service to poor is provided by cross subsidy	Pvt utilities avoid serving poor or other services are not affordable to poor



# Regulating Pricing (cont)

## □ Key questions

1. How are the tariff principles defined- do you have provision for poor or equity and cost recovery as part of key objective?
2. Do tariff structures target subsidies to poor consumers?
  - Are subsidies available to all?
  - What is size of first block- if inclined block tariff is used?
3. Can poor customers afford new connections?
  - Social connection policy does it benefit the poor?

# How to Improve price regulation

1. Improve subsidy design to include cost recovery
  - Cross subsidy by service provider (between customer categories)
  - Direct subsidies to service provider by government
  - Targeted subsidies (RSA)
2. Use connection rather consumption subsidies
  - Subsidize connections and charge correct prices for consumption to encourage efficient use
3. Identify the poor deserving consumers
  - Know who are the poor and their needs
4. Improve targeting- reduce size of first block
  - Price other blocks correctly
5. Improve metering system
  - Prepayment
  - Load limiters –punish poor and reward the rich

# Regulating Service Quality

- ❑ One of the key role of regulator is to set service standards that customers want
- ❑ Key issues:
  1. Are quality of supply standards well defined?
  2. What is the cost of meeting these standards?
    - Best practices adopted from developed world
    - Is the cost of meeting standards a barrier for poor consumers?
  3. Is this quality defined by customers?
    - Example from the water sector in Jakarta
      - ✓ Surveys found main complaints were supply interruptions and low pressure
      - ✓ What did the customer want?- reliable clean water not necessarily portable

# How to Improve service quality regulation for poor

- ❑ Adapt standards and encourage innovation
  - Consider cost versus benefits
- ❑ Use penalties (for failure to meet standards) when appropriate
  - Use benchmarking
  - Self regulation
- ❑ Key questions
  - Are quality standards set at appropriate levels to meet needs of poor?
  - Are appropriate quality monitoring mechanisms in place?

**Adopt flexible approach to service quality in order to give incentives to service providers to cut costs and innovate whilst meeting minimum standards**

# Regulating the 'other market'

- ❑ Regulators usually have challenges of regulating the informal service providers of alternate services (especially in water sector)
- ❑ Key issues:
  1. Allow other players- recognize the role of informal service providers
  2. Decide on what critical aspects to regulate
  3. Do the existing rules give incentives to alternate service providers to fill in the access gap?
  4. Consider the role of main service provide – partly regulatory/provider of last resort

**Develop competition framework which allows a wide range of service providers**

# Protecting Consumers

- ❑ Poor customers often lack a formal mechanism to relay their complaints and obtain redress.(lots of people claim to be advocates of the poor do not necessarily address poor concerns)
- ❑ Key issues:
  1. Organize consumer groups –customer voice
  2. Feedback mechanisms
  3. Critical to develop localized regulation especially for informal sector

**Develop mechanisms to address complaints from all customers including the most marginalized**

# Conclusion -Critical issues

1. New regulators have problems in setting own priorities in terms of pro-poor regulation
  - Overwhelmed by scale of challenge
2. Regulators need to develop relay mechanisms that allow them ability to perform regulatory tasks on the ground
  - Need to gather information on where the poor are, how do they get service and preferences
3. Regulators need to promote relationships between various stakeholders to develop pro poor regulatory arrangements
  - Improving service delivery for poor might mean change in regulatory frameworks, policy etc.
  - Impartiality -Arbitrate fairly in conflicts
4. Regulators need to create partnerships as a way of dealing with regulatory constraints- regulators can not resolve issues alone
  - Avoid regulatory capture
  - Neutral arbiters within sector

# Food for thought - Rethinking the Classic Independent Regulatory Model

- *THEN*

- *“A requirement of all power lending will be explicit movement toward the establishment of a legal framework and regulatory processes satisfactory to the Bank.....this requires countries to set up transparent regulatory processes that are clearly independent .....*”

- Source: The WB's Role in the Electric Power Sector
- World Bank Policy Paper 1993

NOW

*“.. a credible regulatory system requires more than a formally independent regulatory entity.....other transitional arrangements may need to be established.... including limiting the amount of discretion that regulatory bodies have in setting prices and key parameters..”*

Public and private sector roles in the supply of electricity services

Operational Guidance for World Bank Group Staff 2004



**Thank you for your attention!!**

**Questions?**

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