

# Economic regulation and pro-poor market development



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indigenous **growth**

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# Introduction

- Infrastructure industries essential elements of the economy.
- Important for economic growth, alleviating poverty and increasing international competitiveness
- Naturally monopoly elements create need for economic regulation



# Main policy objectives

- Accelerated sector growth and modernisation
- Achievement of universal service/access
- Promotion of economic efficiency; and
- Black economic empowerment (BEE)

} Tension

Through the following means:

- SOE restructuring and privatisation;
- Market reform/liberalisation;
- Economic regulation;
- Universal service funding mechanisms; and
- Promotion of FDI



# Why economic regulation?

- Protection of customers from market power abuse
- Ensure access to monopoly segments
- Facilitate investment
- Implementation of government policies



# IEA Regulatory principles

Independent regulators necessary – investment.

Principles for establishing independent regulators

- Rule of law
- Transparency
- Neutrality
- Predictability and consistency
- Independence
- Accountability
- Resources in terms of human skills, expertise and financial resources



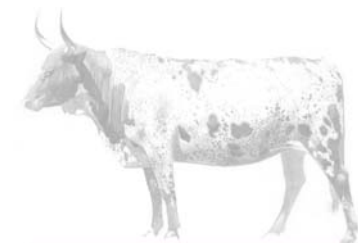
# AFUR – “A framework for utility regulation in Africa”

- Regulatory governance
  - Minimum regulation/proportionality
  - Due process and transparency
  - Independent regulation
  - Accountable regulation
- Non-discrimination
- Investment protection and promotion
- Competition



# Asian region

- Prognosis not good re establishment of credible independent regulators:
  - Investor doubts
- Main reasons:
  - Structural, policy and governance reforms
  - Capacity shortages in regulators



# Latin America

- Prior to privatisation – direct governmental intervention – led to low tariff causing underinvestment and declining quality.
- Privatisation – attempt to break circle of inefficiency and exclusion
- Service access = supply and demand
  - Supply – connection
  - Demand – affordability, quality, relevance and fit
- Economic regulators established to remove uncertainty and facilitate competition
- Policy interventions to increase access – embedded in privatisation deals and enforced through regulation (e.g. investment targets and universal service obligations).



# Case study – Latin America cont...

- Demand side – affordability
- Questions raised about redistributive impact of privatisation and regulatory effectiveness to protect poor consumers
- Regulation so far successful – investor guarantees, achievement of targets and efficiency increases. Question remains: Will these efficiency gains translate into lower charges to the benefit of low-income consumers?



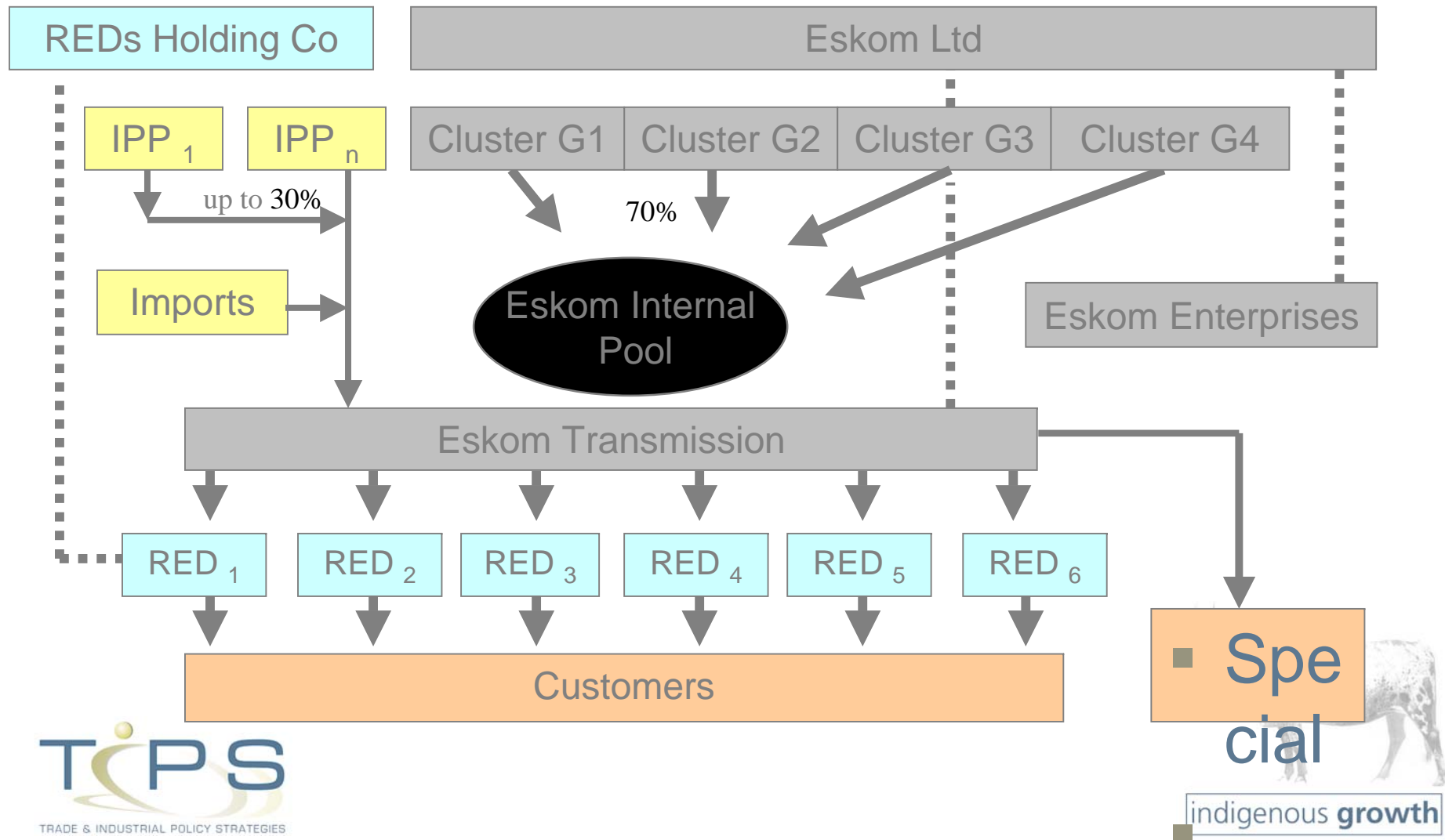
# Current SA utility regulator practices

Characterised by monopoly segments

- Telecoms industry – ICASA
- Energy industry – National Energy Regulator
- Transport industry:
  - Aviation: Regulating Committee for ATNS and ACSA.
  - Ports: Independent Ports Regulator – not established as yet.
- Water industry - DWAF



# Electricity industry



# Universal access and affordability of electricity

- Electrification and free basic electricity tariff
- Challenges and opportunities:
  - Different role players
  - Targeting
  - Financing of infrastructure



# Regulatory Pitfalls / constraints

- Importance of policy coherence
- Lack of “trust” in regulators
- Piecemeal sector-by-sector development of regulators
- “Strong” incumbent monopolies vs. “weaker” regulators
- Bigger role for regulators in pro-poor initiatives that are not utilised currently



# Conclusion

- A clear legal framework essential
- Regulatory framework should fit the local circumstances
- Balancing economic efficiency and social equity
- Balancing act – Ensure provision of affordable and accessible services. On the other hand keeping in mind the macroeconomic performance (economic growth and investment)



# Recommendations

- Strengthening human capacity – policy formulation, regulation
- Clear separation of roles
- Comprehensive approach and co-ordination among different role players crucial
- Mechanism of monitoring outcome of pro-poor initiatives – important role for regulators
- Learn from international experiences, but keep local circumstances in mind

