

A world map in a light tan color is centered on the slide. Overlaid on the map are several small, semi-transparent icons representing utility regulation. These icons include line graphs, bar charts, and text boxes with titles such as 'The Utility Regulator', 'The Utility Regulator', and 'The Utility Regulator'. The text '30 Years of British Utility Regulation: Developing Country Experience and Outlook' is written in a large, bold, orange font across the map.

30 Years of British Utility Regulation: Developing Country Experience and Outlook

**Katharina Gassner &
Nataliya Pushak**

London School of Economics, 31 March 2014



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The Littlechild legacy

1. independent regulatory institutions
2. focus on competition
3. incentive based regulation

Littlechild, S. (1983) *Regulation of British Telecommunications: A New Regulatory State*, February 1983. London: Department of Industry.

Littlechild, S. (1986) *Fallacy of the mixed economy: a new paradigm for industry and policy*. London: Institute of Economic Affairs, 2.

Littlechild, S. (ed.) (1990) *Austrian economics: vol. 1-3*.

Littlechild, S. and Shutler, M. (eds.) (1991) *Operations and Strategy*. Prentice Hall, Rev. edition.

Littlechild, S. (1999) *Privatization, competition, and regulation: some implications for India: the Sixth Annual TERI Foundation Lecture*, 1999. New Delhi: Tata Energy Research Institute.

Littlechild, S. (2000) *Privatisation, competition and regulation: implications for developing countries*, delivered on 14th October 1999. London: Institute of Economic Affairs.

Littlechild, S. (2000) *Privatization, competition and regulation: implications for developing countries*.

Latin America and the Caribbean

Middle East and North Africa

Europe and Central Asia

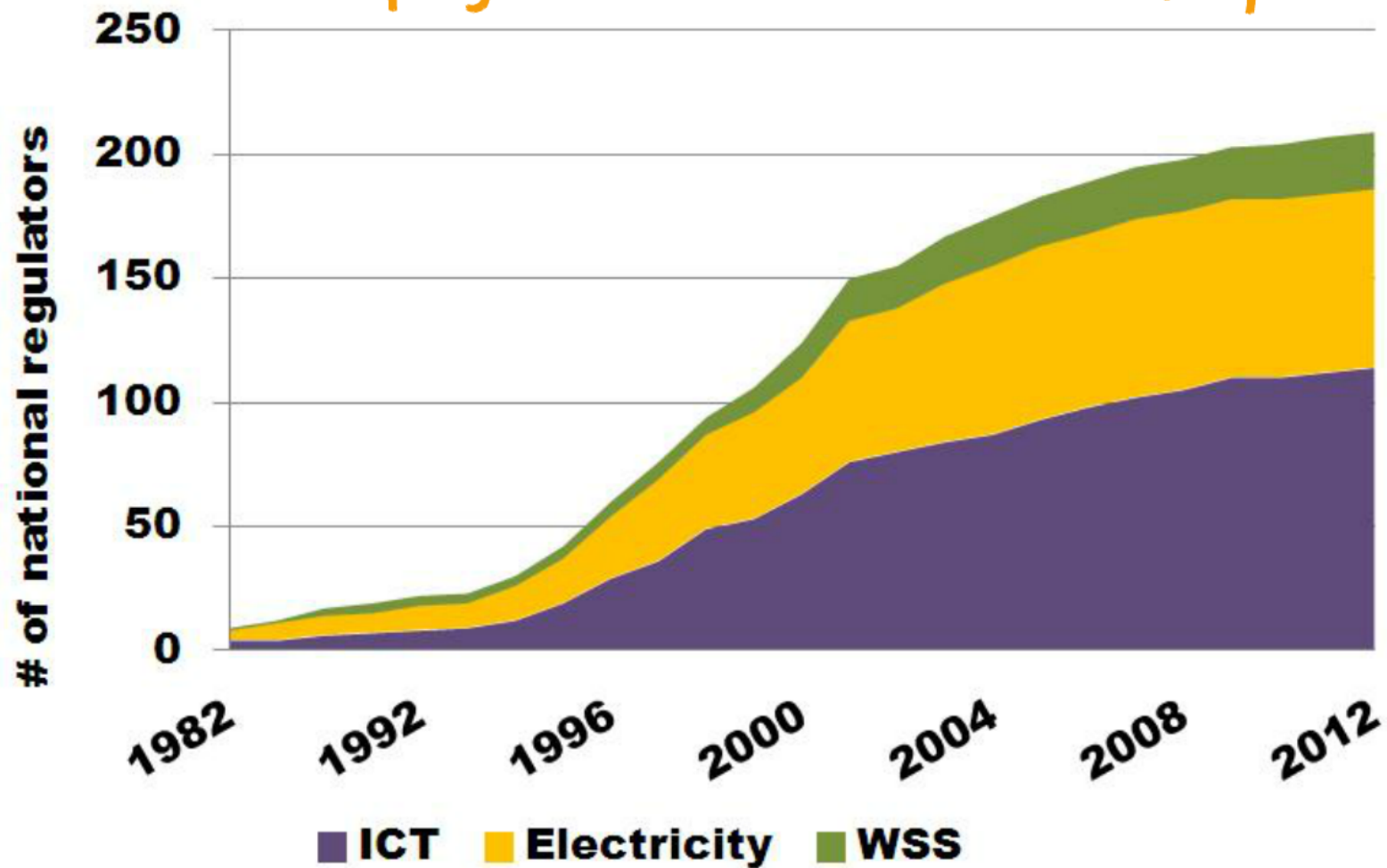
Is regulation in developing countries different?

South Asia

Sub-Saharan Africa

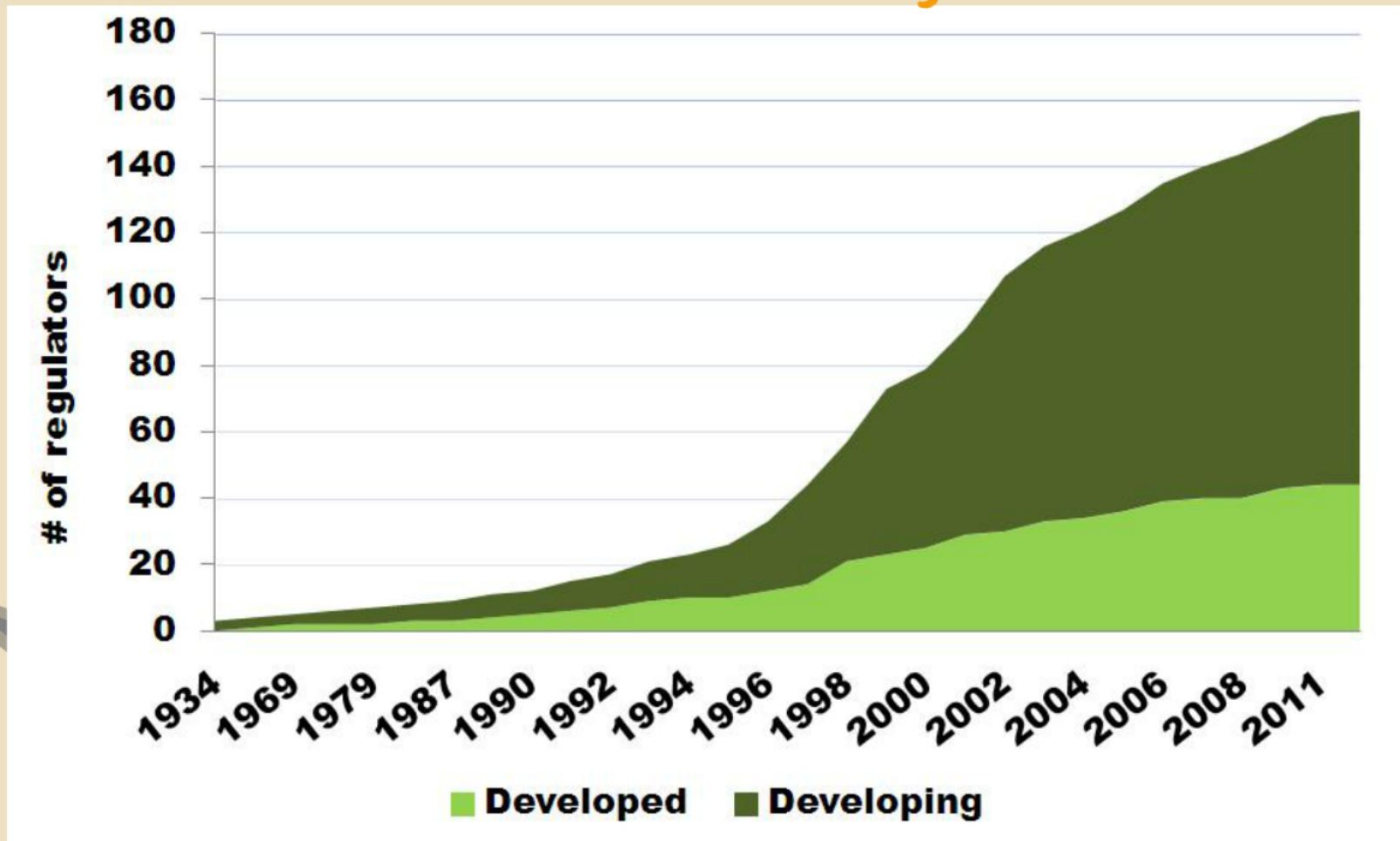
East Asia and Pacific

Exhibit I: The rise of regulatory agencies in developing and transition economies, by sector



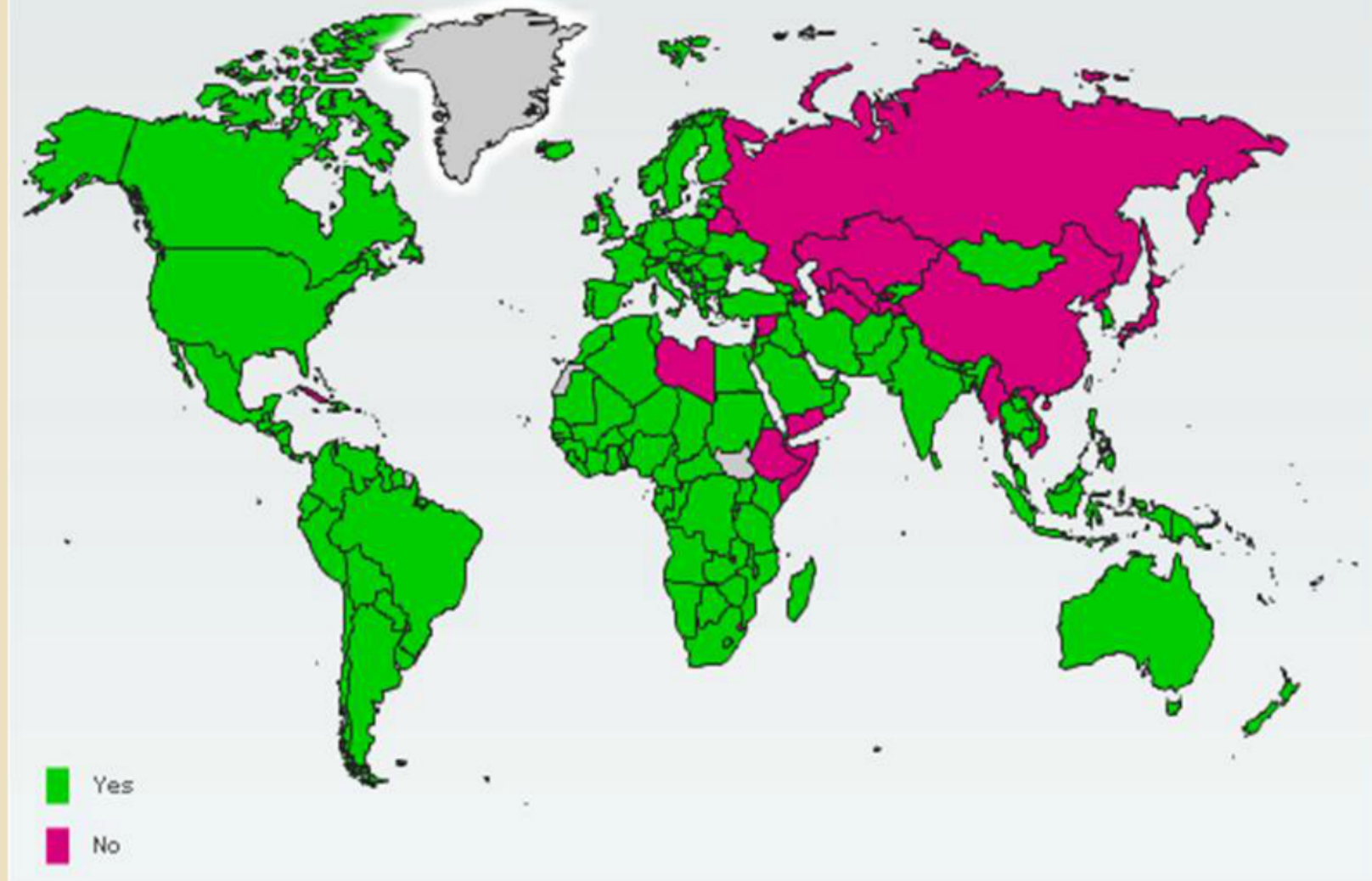
Sources: ITU (ICT); authors' database (electricity and WSS)

Developing countries have overtaken developed ones in number of telecom regulators ...



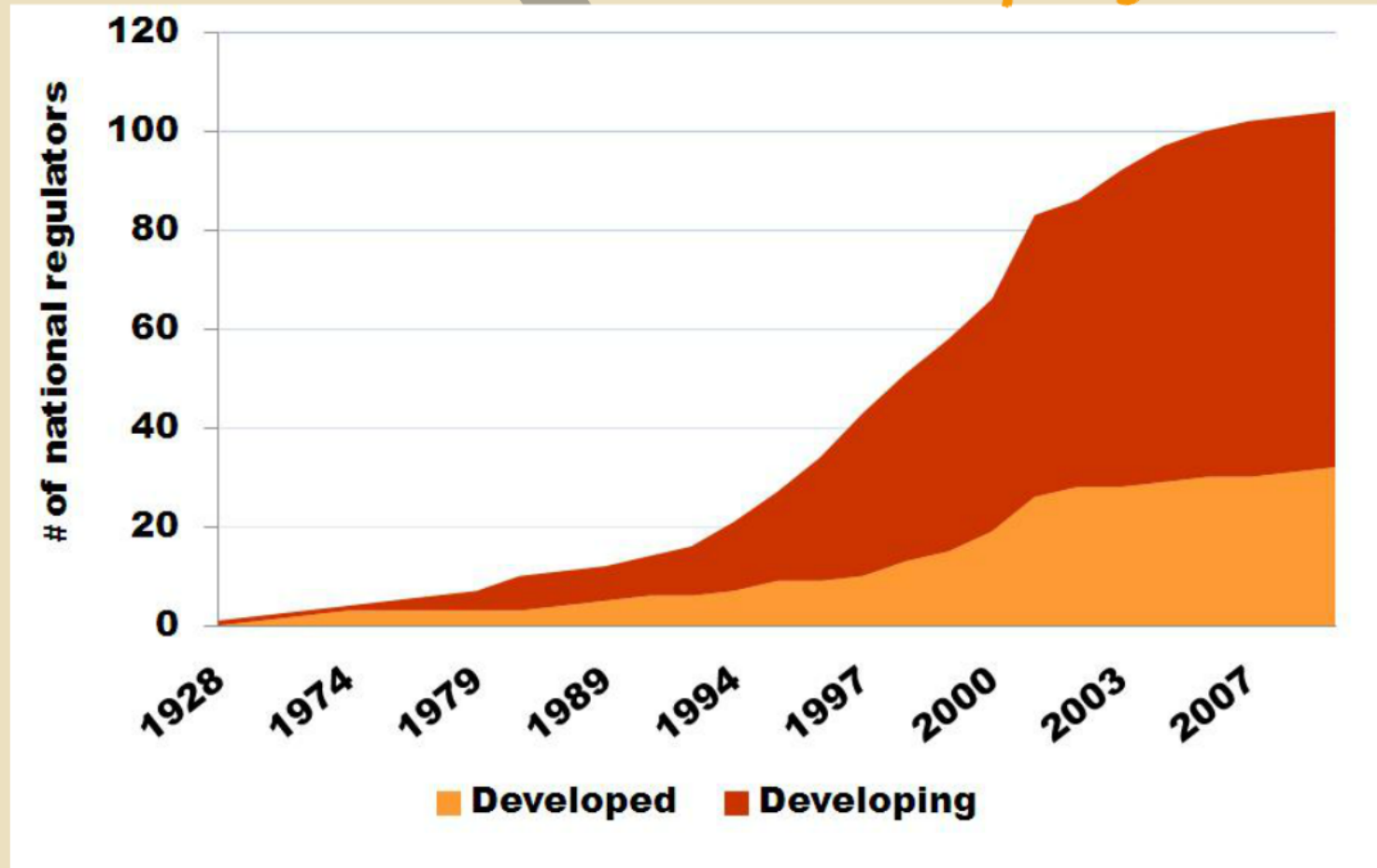
Source: ITU

Does a separate Telecom Regulator exist?



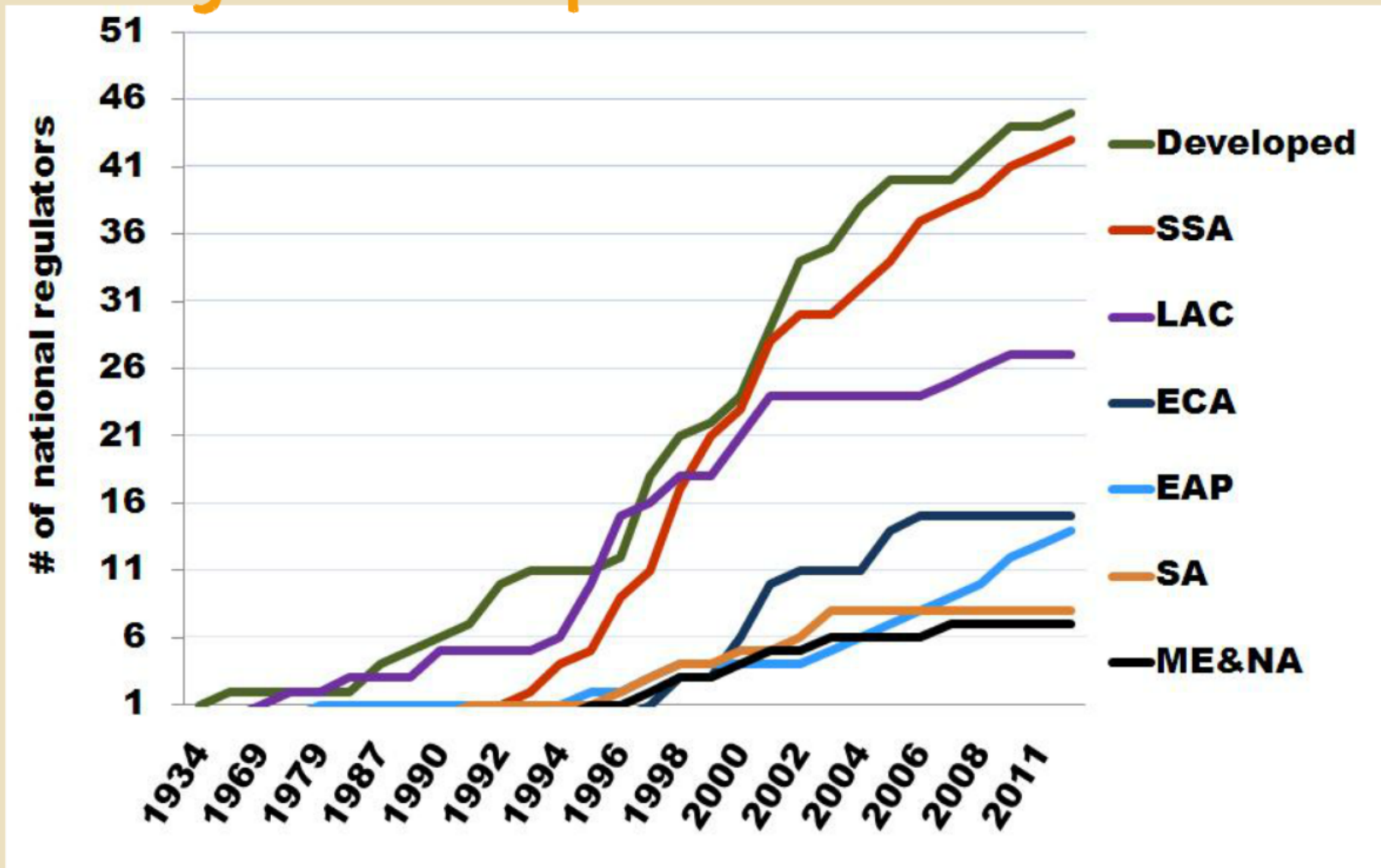
Source: ITU

....and in number of electricity regulators



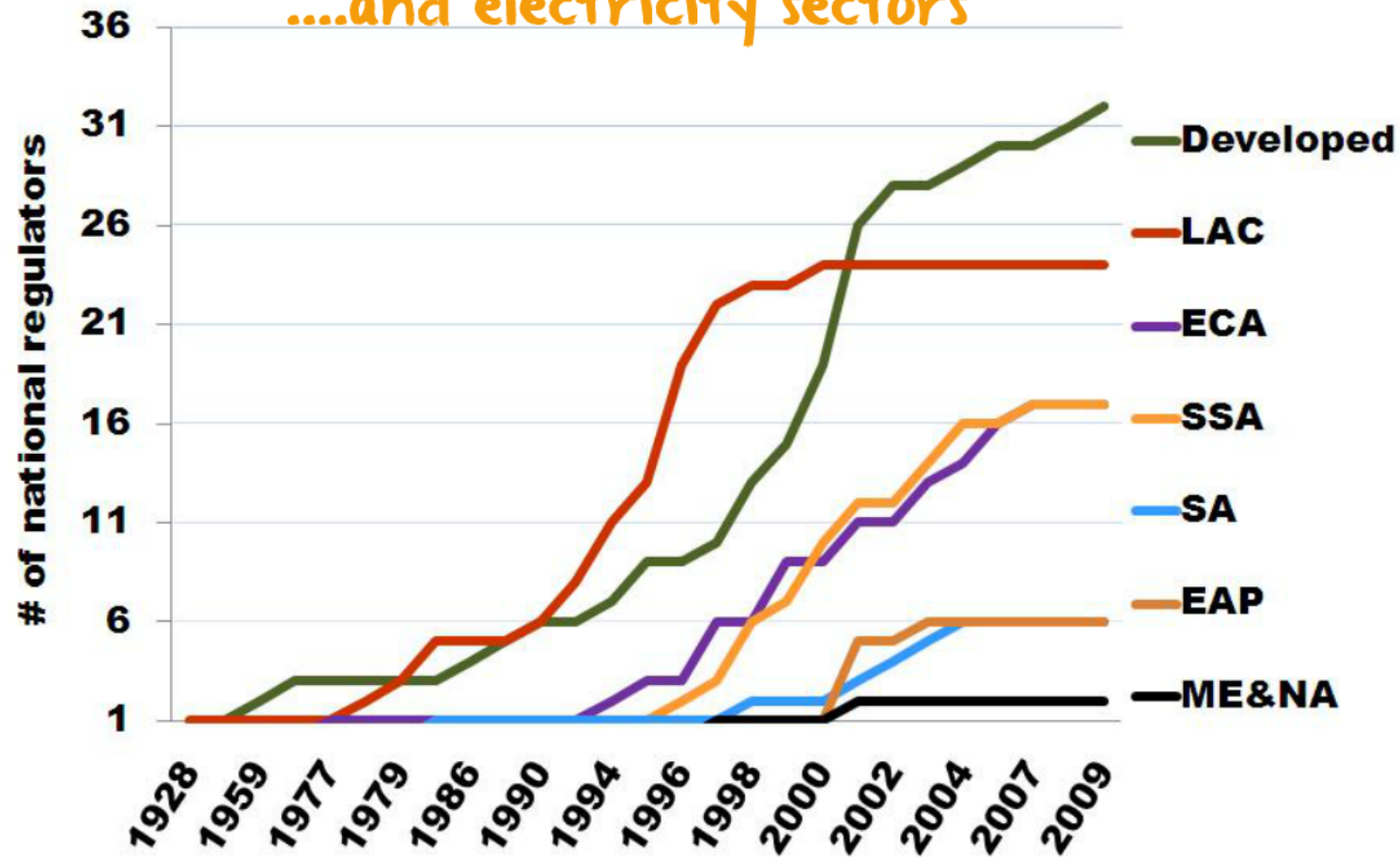
Source: authors' database

Regulators adopted in waves - in ICT ...



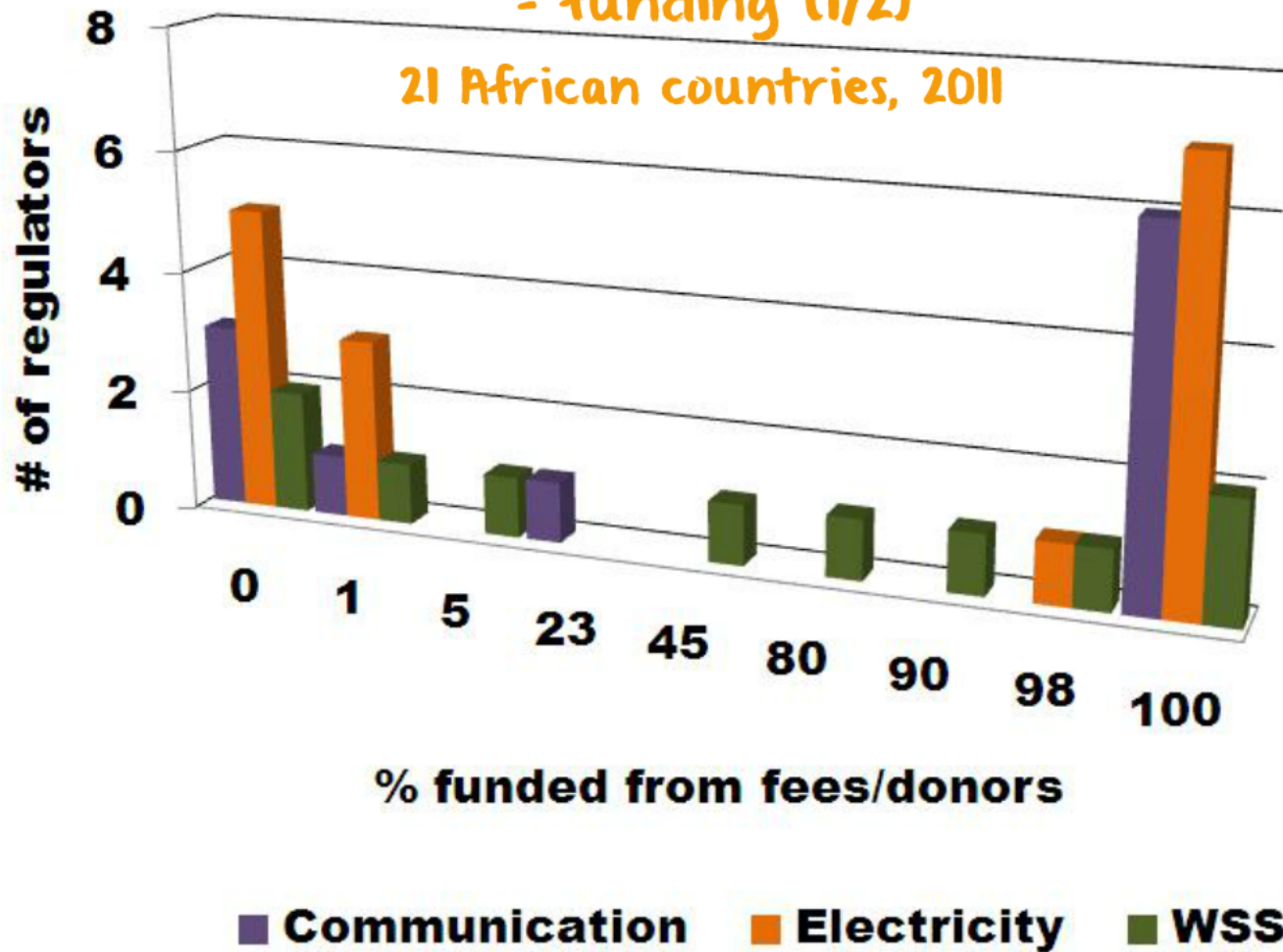
Source: ITU

....and electricity sectors



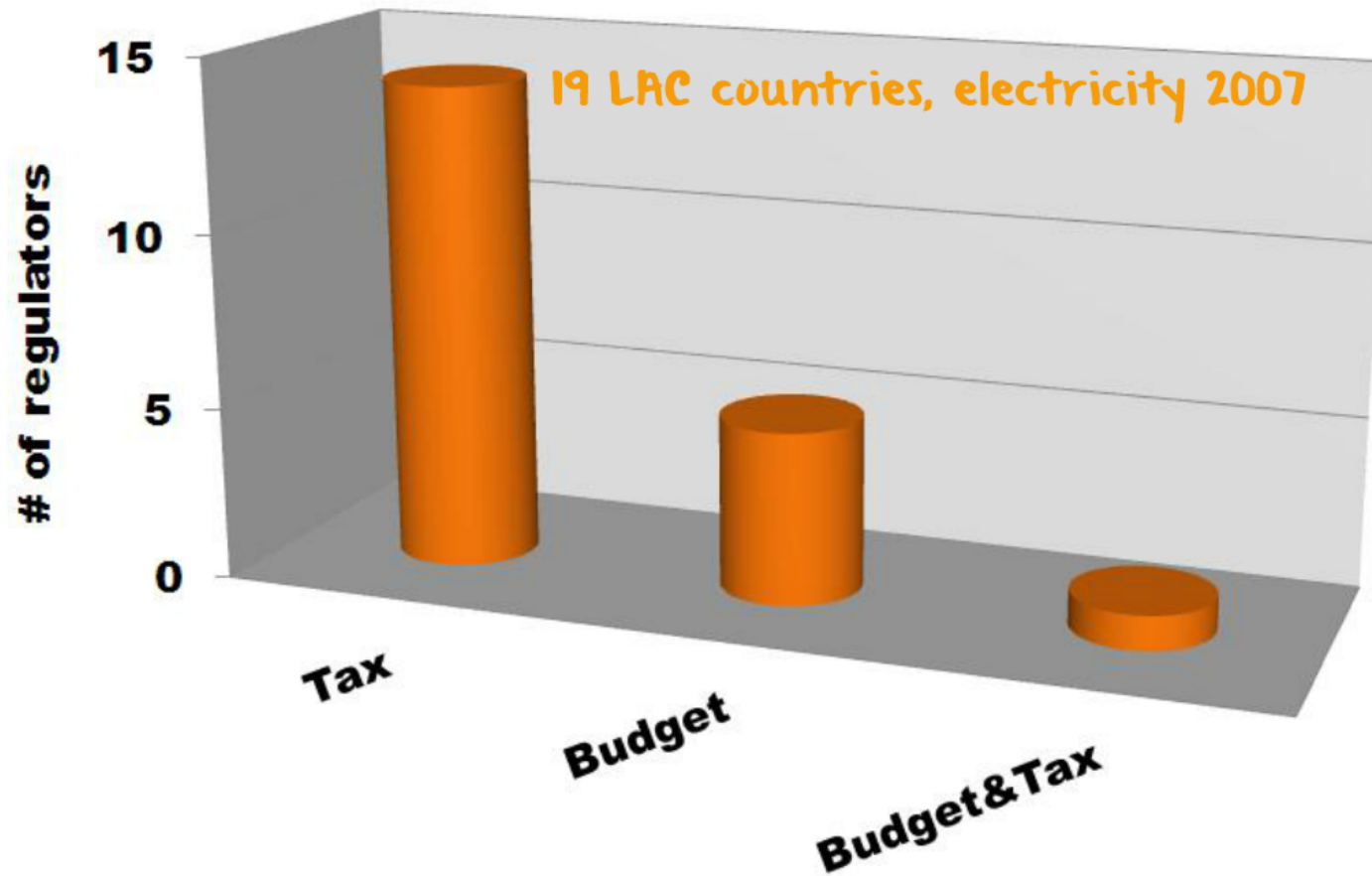
Source: authors' database

Exhibit 2: Regulatory autonomy - funding (1/2)



Source: AFDB

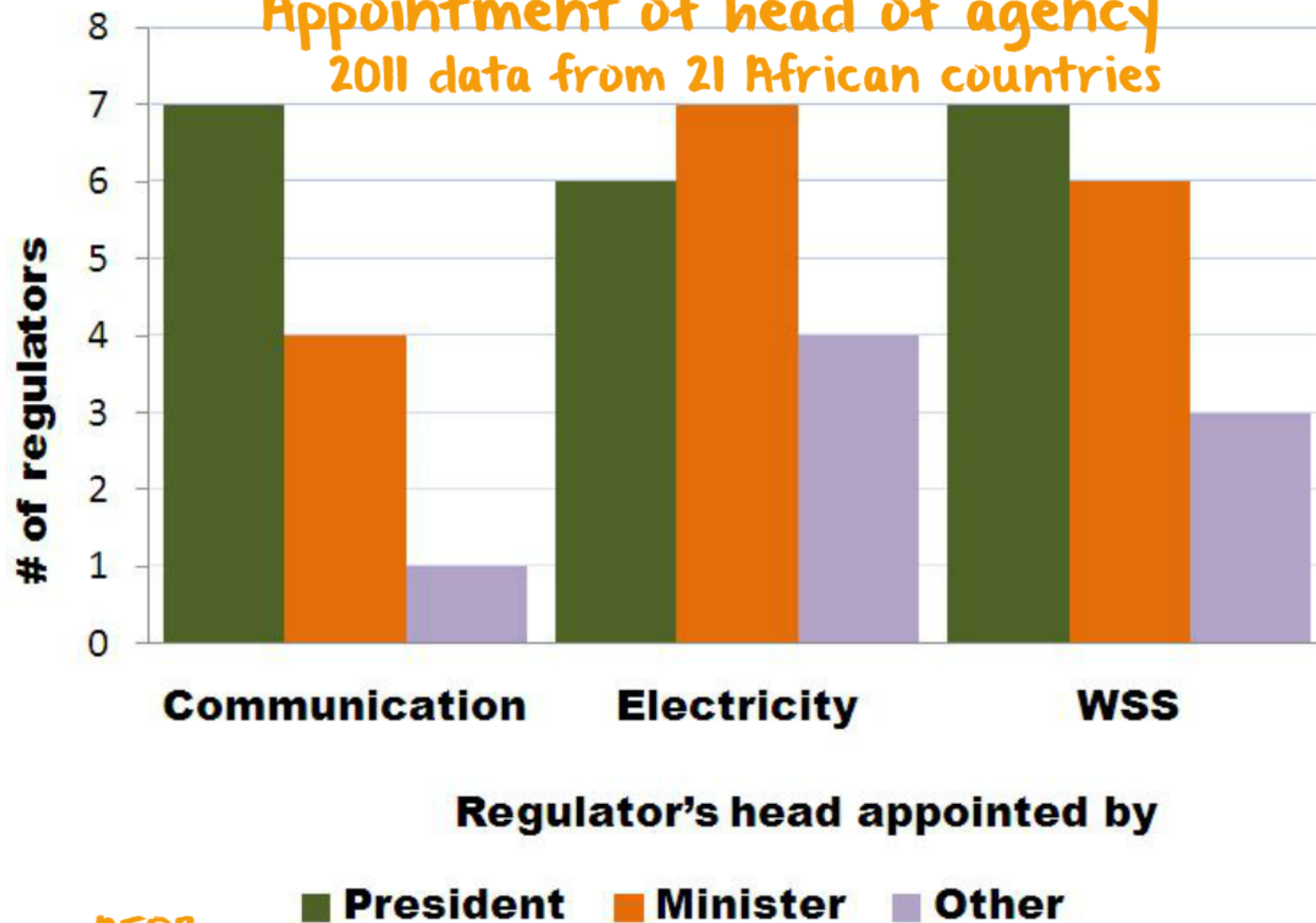
Regulatory autonomy - funding (2/2)



Source: Andres, 2007

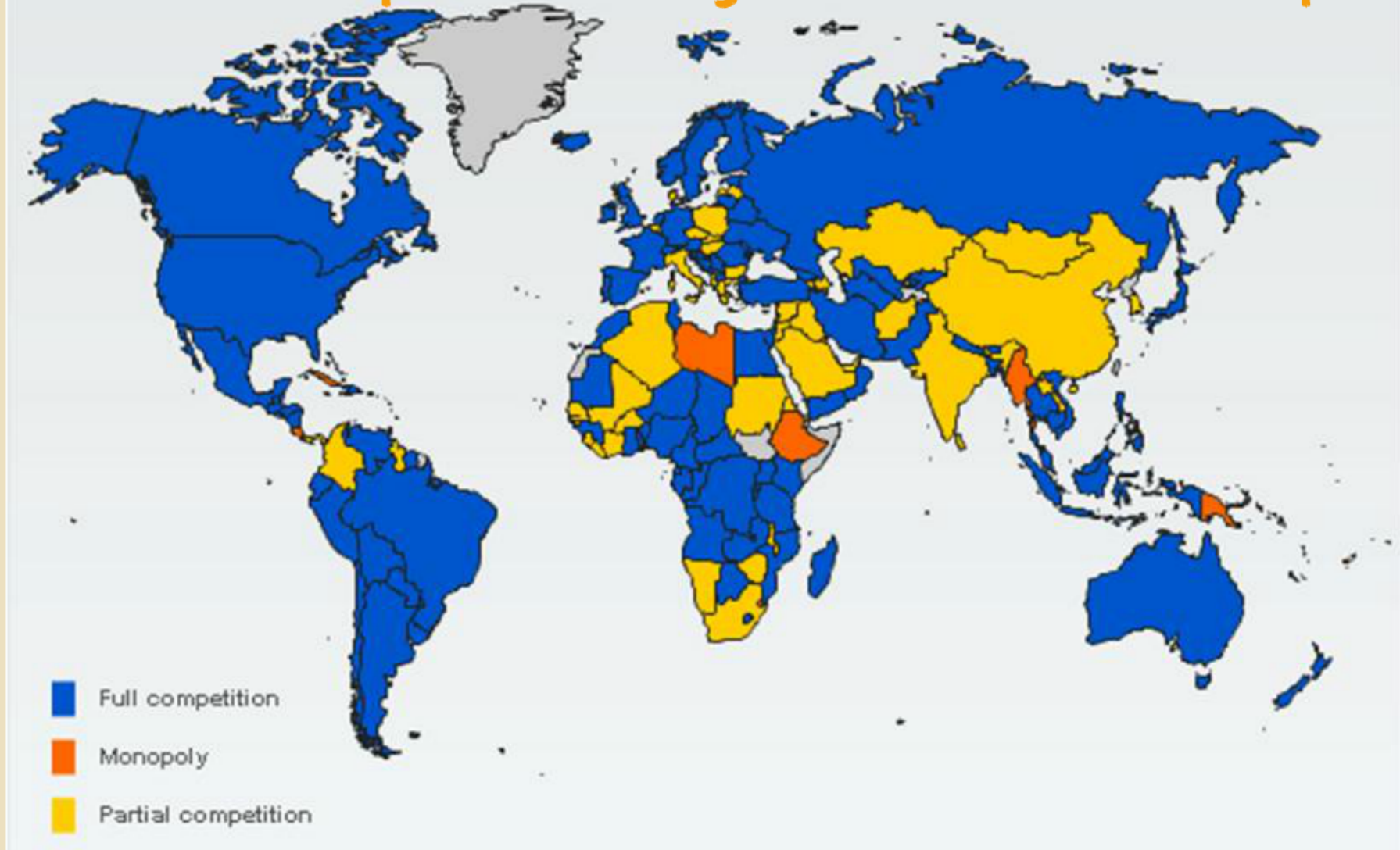
Regulatory autonomy -

Appointment of head of agency
2011 data from 21 African countries



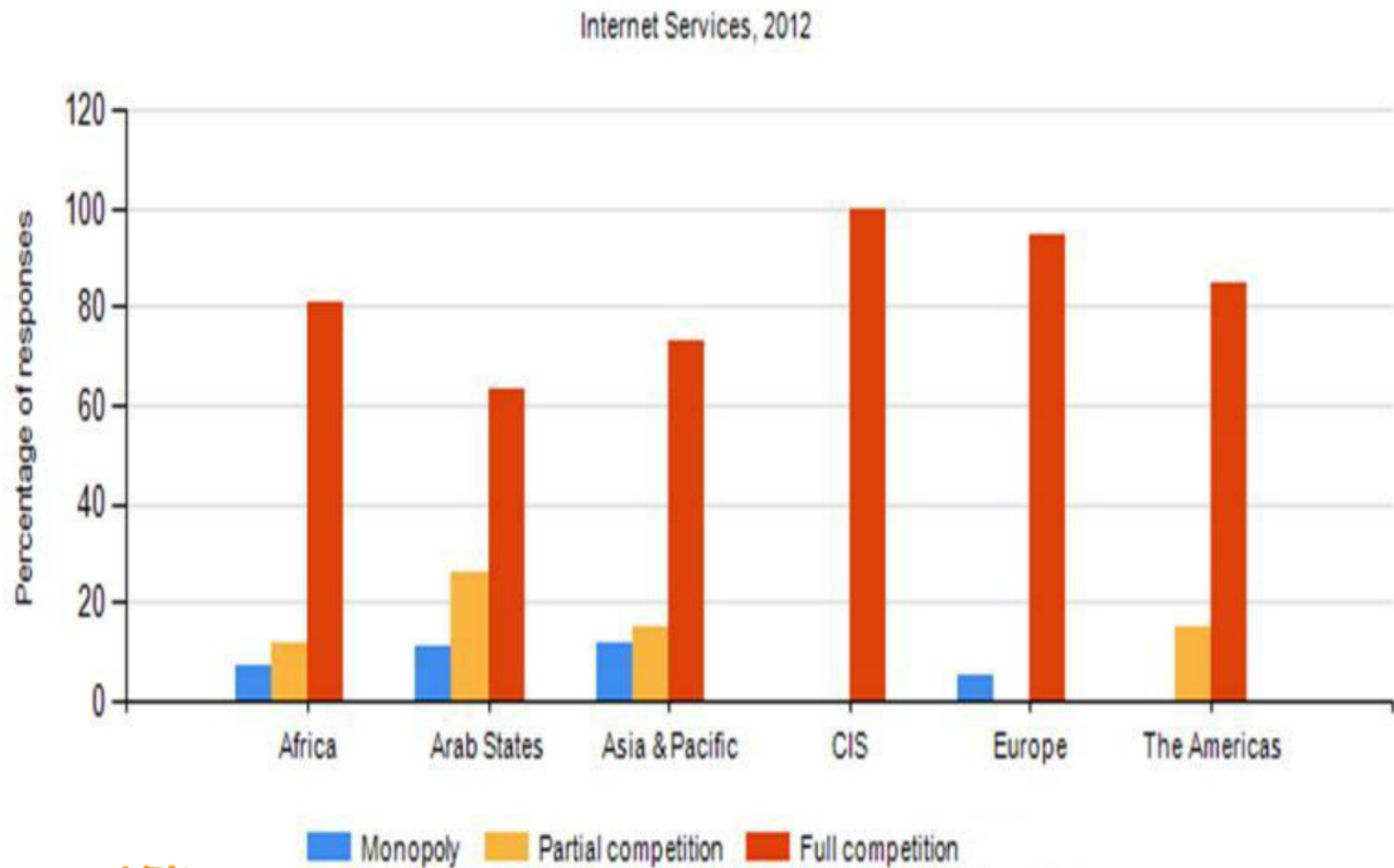
Source: AFDB

Exhibit 3: Competition - High levels in mobile telephony....



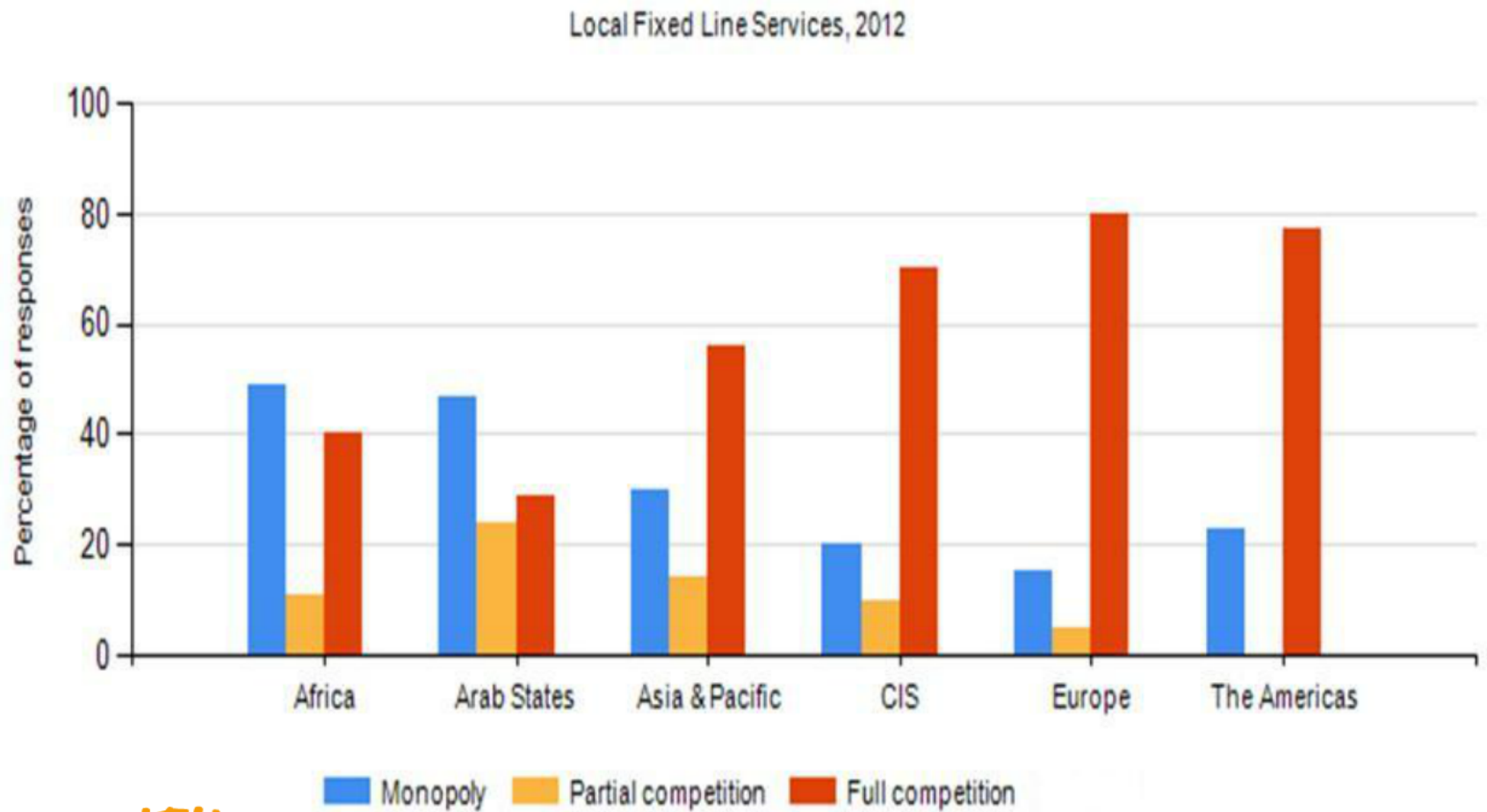
Source: ITU

... and internet services



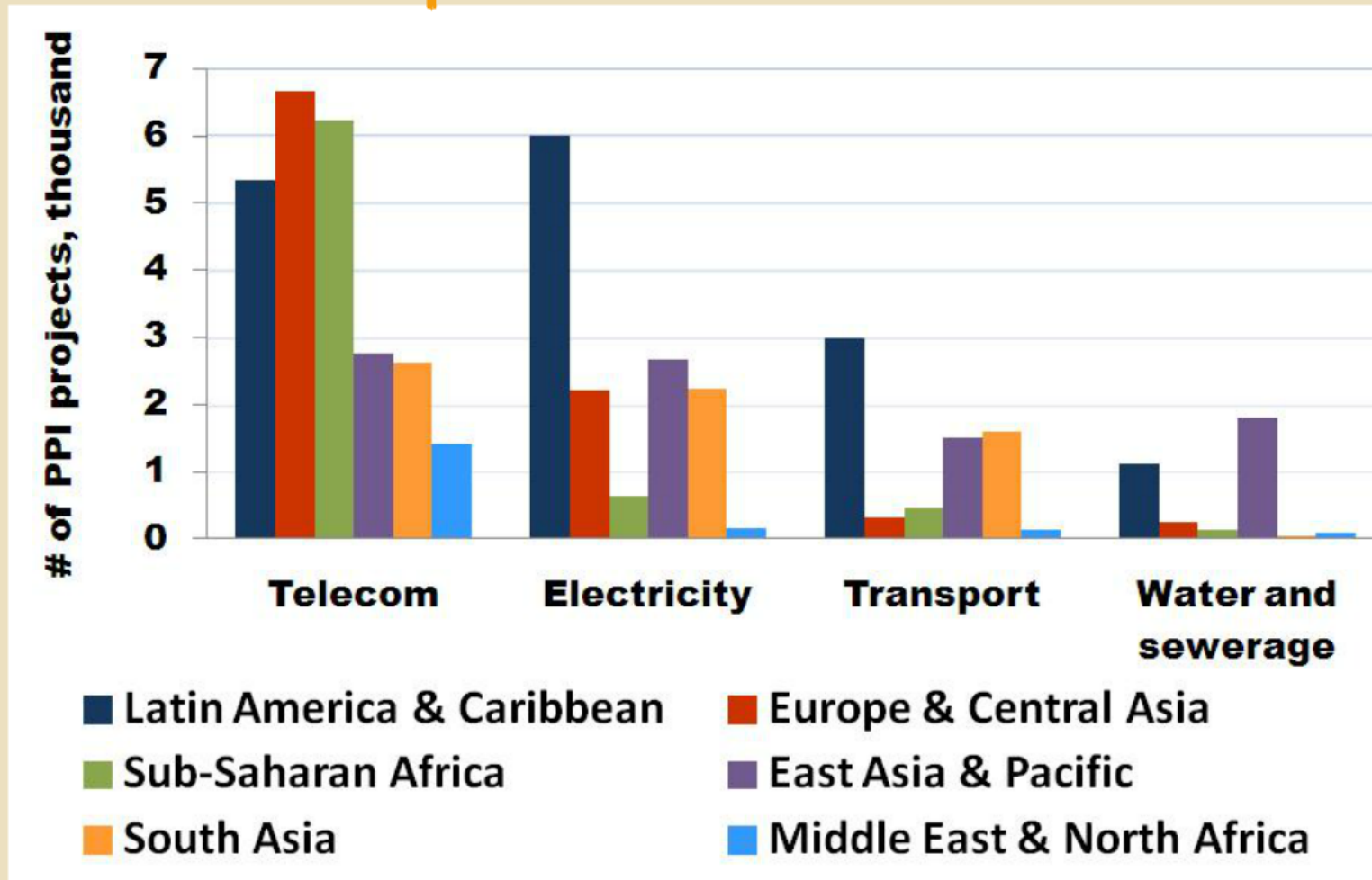
Source: ITU

Less competition in fixed lines services



Source: ITU

Competition and private sector participation less present outside ICT



Source: PPIAF PPI database

Exhibit 4: Efficiency and Incentives

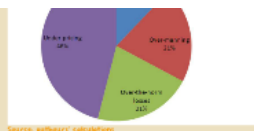
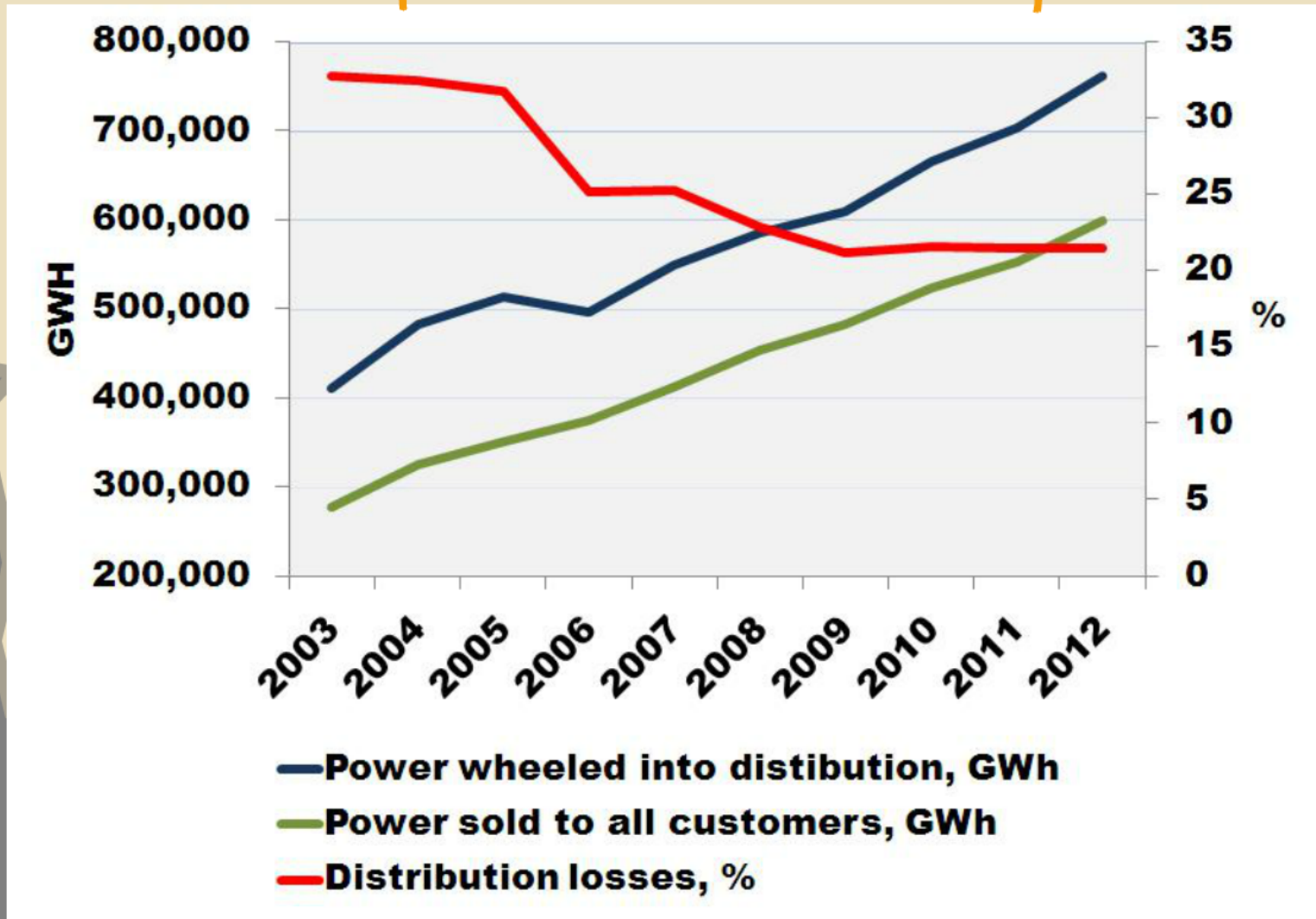


Exhibit 4: Efficiency and Incentives The Example of the Indian Electricity Sector



Source: Source: authors' calculations based on PFC of India data

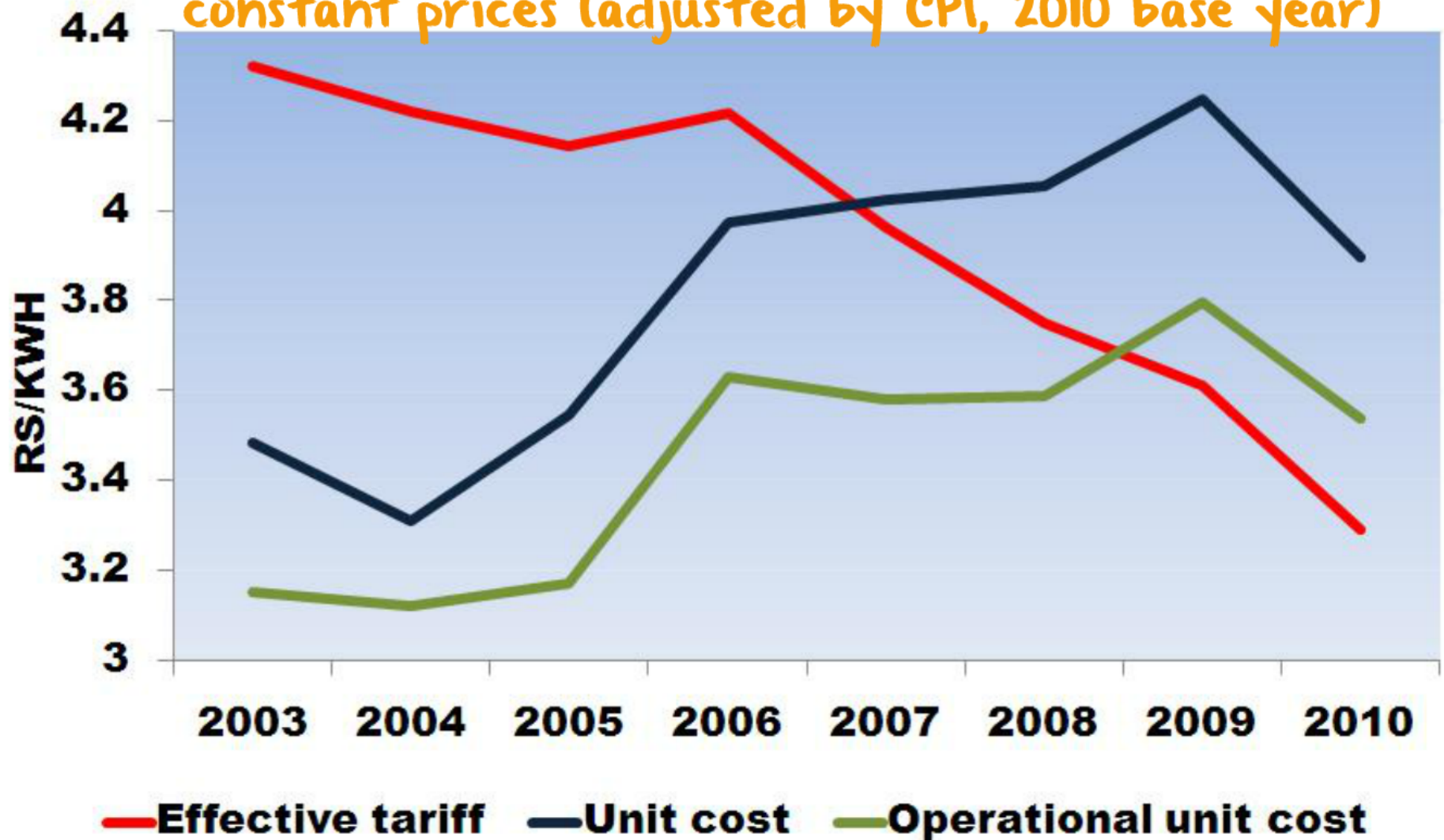
Regulation and reform in the Indian Electricity Sector

Table III - Status of Reforms & Restructuring in States as on 20th June, 2013

Milestones	Arunachal Pradesh	Andhra Pradesh	Assam	Bihar	Chattisgarh	Delhi	Gujarat	Goa	Haryana	Himachal Pradesh	Jammu & Kashmir	Jharkhand	Karnataka	Kerala	Meghalaya	Manipur	Mizoram	Maharashtra	Madhya Pradesh	Nagaland	Orissa	Punjab	Rajasthan	Sikkim	Tamil Nadu	Tripura	Uttar Pradesh	Uttarakhand	West Bengal	Total	
	1.0 SERC																														
a Constituted	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	29
b Operationalisation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	29
c Open Access Regulations	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	28
2.0 Unbundling / Corporatisation																															
a Unbundling/ Corporatisation - Implementation		✓	✓	✓	✓	✓	✓		✓	✓			✓		✓			✓	✓	✓		✓	✓	✓		✓	*	✓	✓	✓	19
b Privatisation of Distribution						✓																✓									2

Source: Public Finance Corporation of India

Under-pricing in India, electricity constant prices (adjusted by CPI, 2010 base year)

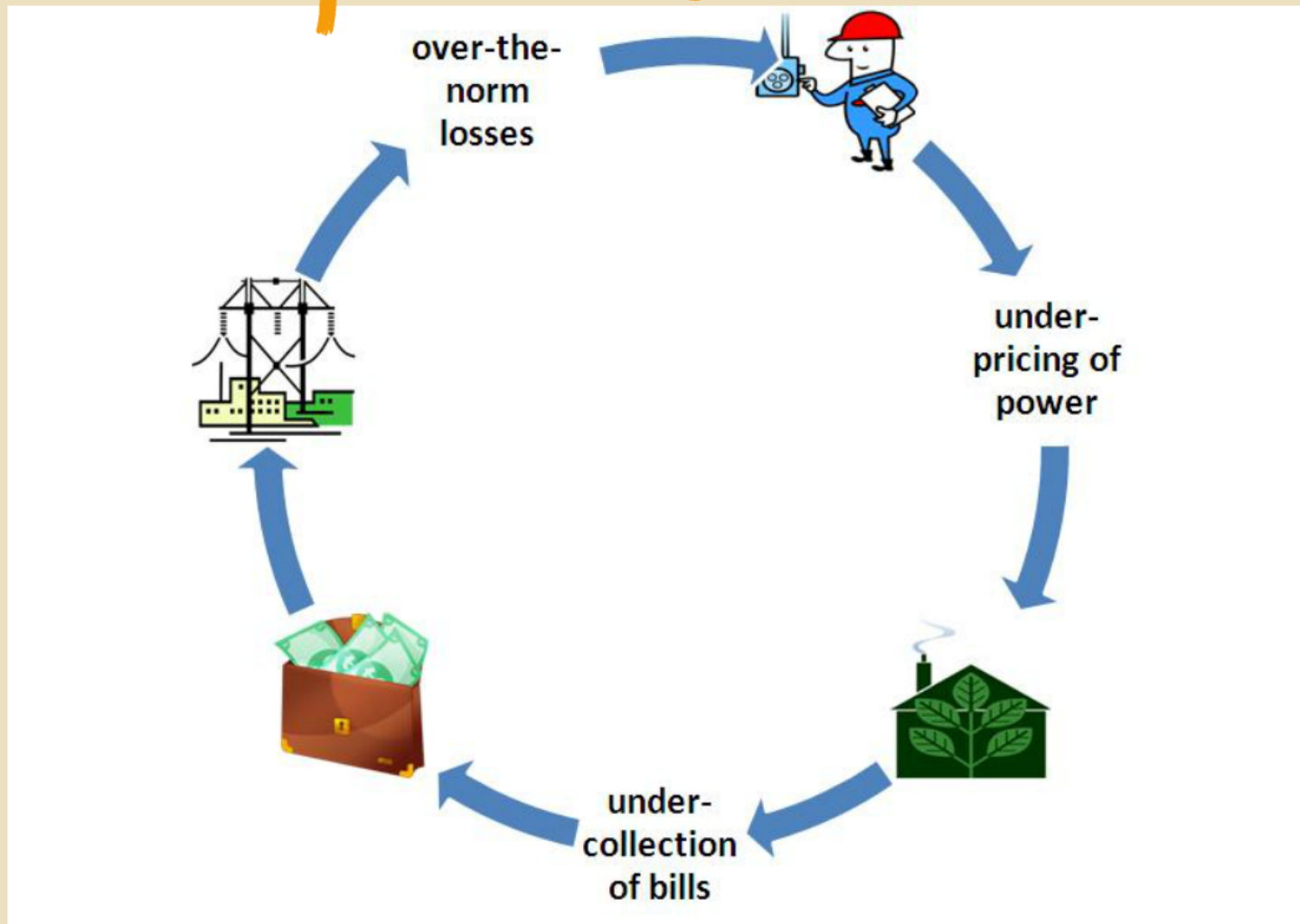


Source: authours' calculations based on PFC of India data

The Regulatory Challenges of Developing Country

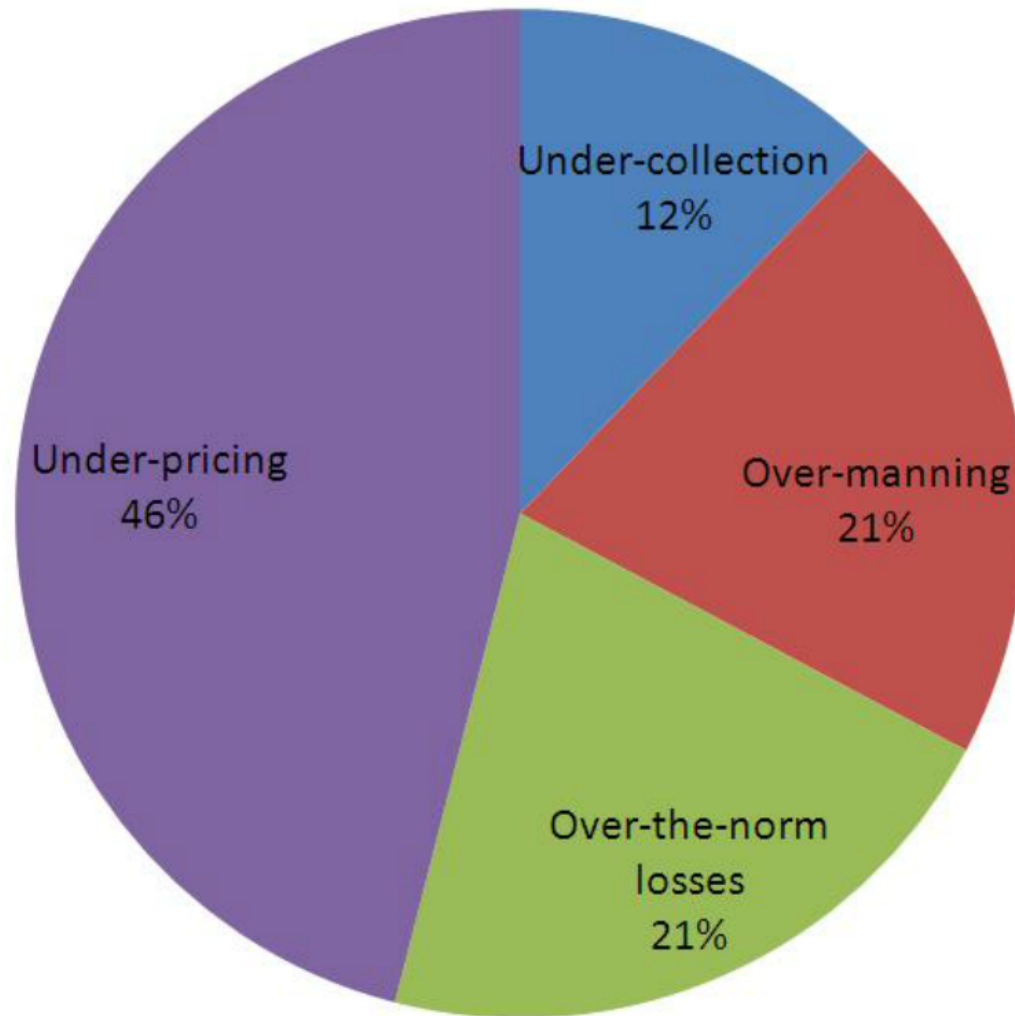
- **significant operational inefficiencies (network losses, overstaffing)**
- **problematic cost recovery (under-pricing, under-collection)**
- **systematic cross-subsidization (which often does not benefit intended beneficiaries)**
- **continued public ownership (or unsatisfactory privatization results)**

The Cycle of Hidden Costs



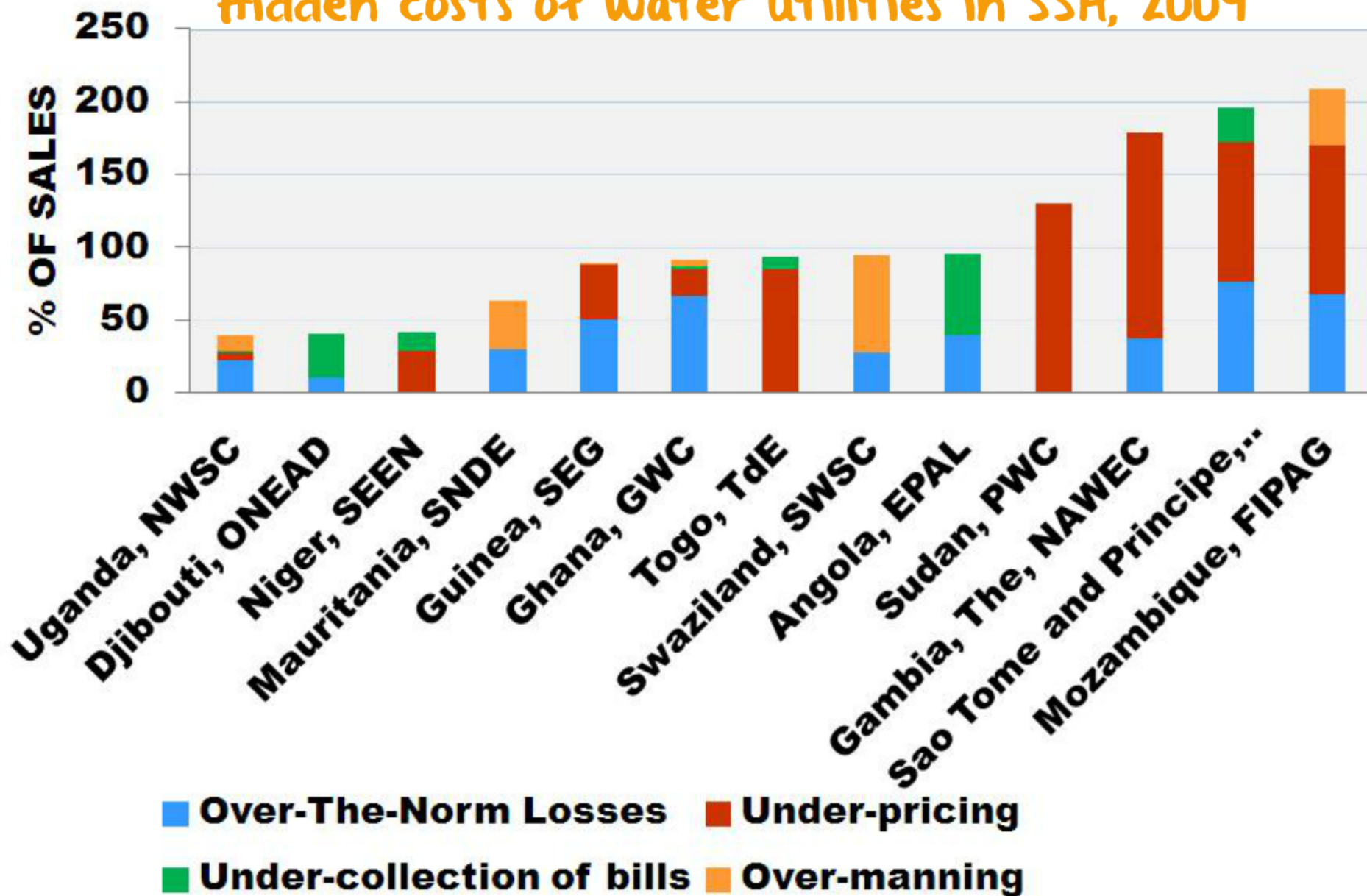
Hidden costs, India, electricity 2010:

US\$ 14 billion per year or 1% of GDP or 40 % of utility revenues



Source: authors' calculations

Hidden costs of water utilities in SSA, 2009



Source: authors' calculations; AICD (World Bank) and AIKP (AFDB) data

What to conclude?

Distance to the UK Ideal
=
continued public ownership
+
absence of cost recovery prices

The connection between utility performance and private sector participation

Global evidence suggests private sector participation has a strong positive effect on performance:

number of residential water connections up by 12 %

electricity sold per worker up by 32%

residential coverage in sanitation services up by 19%

bill-collection rate in the electricity sector up by 45%

distribution losses in electricity down by 11%

hours of daily water service up by 41%

These effects—differences in averages between the pre-PSP and the post-PSP period—occur over five years or more and are over and above the change for similar SOEs.

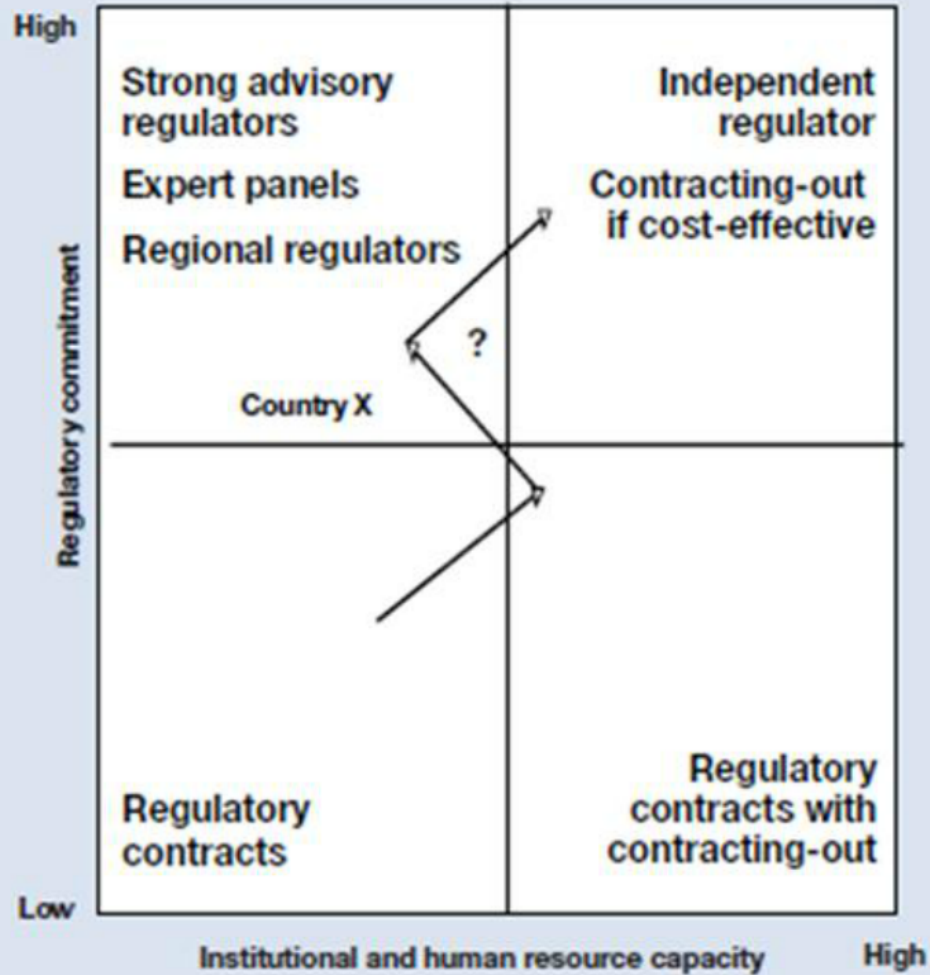
But: prices aren't systematically affected by PSP, nor is investment.



The Hybrid Regulatory Model

- **Compatibility with a country's regulatory commitment and institutional and human resource endowment**
- **Need to select from a menu of regulatory options to create hybrid models that best fit its own circumstances and challenges (Eberhard, 2007).**

The choice of regulatory option should fit the context



Source: Adapted from Brown and others 2006.

Eberhard, 2007

Conclusion

In the context of developing countries, the major achievements for regulators are:

- **bringing transparency to the price setting process**
- **developing methodologies to determine appropriate cost levels (including using benchmarking)**
- **educating government and public to the need for cost-reflective tariffs**
- **securing the revenues for utilities to undertake needed maintenance, repairs and replacements**

Thank you for your attention!

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