

Thoughts on Regulatory Aspects Relevant to the ESCWA Region

Hisham Khatib (Jordan)

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Regulatory institutions and regulatory culture is not yet implanted in most of ESCWA countries.

Regulations and regulatory institutions are part of the social and business culture in all mature economies.

Introducing regulatory culture is badly needed in the ESCWA region but it demands effort, training and time.

- Skills in regulatory matters and management are still modest in the region. A regulator must have worked in the industry and discipline for many years before becoming a regulator, (legal skills are also needed)
- Training and creating incentives to attract and keep good regulators is a challenge.

Regulatory culture is not common in the ESCWA region countries.

How to develop and educate regulators? How to choose them?

Appointing a consultant from a country with regulatory culture will help.

- Regulatory bodies are needed not only to protect investors, and ensure fair play between the provider and the consumer.

But to protect the public at large

- The Regulator is an ombudsman. He can be the authority of the last resort.

Even countries with centrally planned utilities need regulators.

These are needed to protect the public (and not only investors or government interest).

To whom should the Regulator report?

This is most important to protect the integrity of
the regulator and his clout

To the Prime Minister?

But the PM is too busy.

To the Minister with the nearest
interest ?

But this will jeopardize the
independence of the regulator.

To the Speaker of the Parliament?

Maybe, but legislators are not
always aware of the problems
or capable of following them
up.

This is matter of great concern.

Each country must solve it in its
own way

But in a manner that gives the
regulator independence and
clout.

Services (electricity, transport, telecommunications, etc.) are growing very rapidly in the ESCWA region (6-8% annually).

There is a growing need for
investing in these activities

(beyond the usual governmental involvement)

Mobilizing local and foreign
investment necessitates strong
and respected regulatory bodies

Technology is changing rapidly
(particularly in electrical power and
telecommunications)

Regulators must be kept in
continuous contact with changing
technologies → these improve
service and reduce cost

There is a need (in ESCWA region) to have an international consultant working with the regulator.

All ESCWA countries have a (large) element of rental practices and mentality.

Subsidies distort the economic and social scene.

Regulators need to gradually
phase out subsidies.

But How!!!

Simultaneously they need to protect the interests of the limited income part of the population.

Working out the delicate arrangements is a major challenge to the regulator

Corruption is not uncommon in
the ESCWA region

(as a matter of fact it can be common
in some countries)

Isolating/protecting the
regulator from the corruption
institution is most important
for his clout and safeguards his
integrity

PPP Partnership

The investor wants a save return while isolating himself (as much as possible) from risk

That means that investors must be shielded from cost fluctuations in the risky components of output.

For instance volatility in the price of fuel in electricity generation

How to allow for this , while
ensuring efficiency of
performance?

By having fuel cost as a pass through
or preferably have a fuel escalation
component in product pricing !

ESCWA and Nuclear Power

The need for an independent regulatory agency with authority and independence from politics cannot be overemphasized.

(In ESCWA) easier said than done!

No country without this should deploy
nuclear-power technology

Regulatory Challenge to Electricity Markets in ESCWA

This depends on which extent is the market centrally planned

Most ESCWA markets are centrally planned to a considerable extent, but things are gradually improving

Many citizens consider electricity as an essential commodity that should be freely/heavily subsidized by the state

There is need to educate the consumer as to the dangers of the rental society.

There is no free Lunch

The greatest challenge is to introduce legislation that gives the regulator clout

Another challenge is to introduce “market” prices in contrast to “centrally planned subsidized” prices. This needs a powerful regulator who coordinates this sensitive issue with the government/state.

A very important challenge is to introduce new technologies – intelligent meters, smart grids...etc.

Without the regulator intervention, new technologies, may not come through

Regional Cooperation Infrastructure Projects for the Energy sector

- Regional infrastructure projects can be strategic in:
 - ✓ Maximizing economies of scale
 - ✓ Optimizing the use of resources
 - ✓ Facilitating trade
 - ✓ Improving institutional capacity
 - ✓ Spur economic development

- The integration of energy markets can serve to:
 - ✓ Enhance energy security
 - ✓ Improve export potential from natural resources
 - ✓ Optimize the use of infrastructure and dispatch of power plants
 - ✓ Maximize economies of scale
 - ✓ Facilitate the development of world class power plants
 - ✓ Generate a better framework for market competition

- Regional integration also allows for a higher penetration of renewable energy. This is particularly relevant to the Arab region, given its very rich renewable energy resource base.
- Sharing an advanced regulatory culture facilitates trade and regional market integration

Regional Integration of Arab Regulators

A coordinating body already exists. But it is modest in performance. Mainly because of wide differences in regulators mandates.

It's existence however helps cooperation and dissemination of information among regulators

ESCWA can play a constructive role in this quarter

Challenges to attracting investors

The present regional instability is a major challenge

Another challenge is the modest clout of regulators in the region (or their absence in many times)

Also, the rapidly changing laws and regulations in ESCWA region countries, distracts regulators

**Laws and regulations are there to be respected
over the long term**

Private-Public-Partnership (PPP)

New concept/culture in ESCWA region but it is gaining ground rapidly, but there is still difference in mentality

The private sector is looking for fast profits

The public sector (dominant in ESCWA) aspiring for subsidized services.

It is the role of the regulator to strike the right balance. This needs a regulator with independence/ clout, armed with well defined laws and regulations

State services may be needed sometimes to enforce PPP agreement

To summarize:

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Thank you