Realistic Approaches to Financing Transitional African Power Sectors: The Link Between Policy and Finance

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Realistic Approaches to Financing Transitional African Power Sectors: The Link Between Policy and Finance

A. Inherent Tensions Between Desires of Investors, Lenders, and Host Countries

B. Impact of Independent Regulation on Financing
A. Inherent Tensions Between Desires of Investors/Lenders and Host Countries

1. Security Vs. Performance Incentives

2. Certainty vs. Flexibility

3. Differing Views of Risk-Reward Symmetries

1. Economic Efficiency vs. Social Expectations
1. Security vs. Performance Incentives

- Guarantees (e.g. sovereign) vs. Reasonable Opportunity to Learn
- Performance Rewards and Penalties
- Cutting Costs vs. Efficiencies Gains
- Compliance and Enforcement
2. Certainty vs. Flexibility

- Contract Based Regulation vs. Rule Based Regulation

- License Conditions vs. Statutory Provisions vs. Regulatory Discretion

- Inherent Difficulties of Articulating Rules of the Game Upfront

- Risks of Ex-Post Rule Changes
3. Differing Views of Risk-Reward Symmetries

- Controllable Risks (e.g. Performance)

- Uncontrollable Risks (e.g. Currency, Inflation)

- Partially Controllable Risks (e.g. social requirements, tax liabilities, fuel prices)

- Privatized vs. Socialized Risks
4. Economic Efficiency vs. Social Expectations

- Internalized Economics

- Economic Externalities
B. Impact of Independent Regulation on Financing

1. Tariff Focus vs. Financial Ratio Focus

2. Revenue Focus vs. Pricing Focus

3. Management Autonomy vs. Regulatory Oversight

4. Direct Government Involvement vs. Regulatory Supervision
1. Tariff Focus

vs. Financial Ratio Focus

• Paradigm Shift Away from Tariff Focus

• Altered Relationship Between Borrower and Lender

• Coverage Ratios: Signals to Both Management and to Regulators
2. Revenue Focus vs. Pricing Focus

- Broader Policy Focus of Pricing (e.g. policy signals, market structure, productivity assumptions)

- Lender Interest in Revenue Stream and its Certainty

- Pricing Fixed and Variable Costs
3. Management Autonomy vs. Regulatory Insight

- Blurred Lines Between Management and Regulators
- Prudence Risks
- Consumer Feedback and Involvement
4. Direct Government Involvement vs. Regulatory Supervision

- Changed Role of Government

- Who Can Bind the Regulator

- Ex-Ante and Ex-Post Regulatory Decision Making