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Political Economy of Reform and Regulation in the Electricity Sector of Sub-Saharan Africa

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As part of their electricity sector reforms, Sub-Saharan African countries have established independent regulatory agencies to signal legal and political commitment to end self-regulation and provision of service by the state. The reforms aimed to encourage private investments, improve efficiency, and extend the service to the millions who lacked the service. However, after nearly two and half decades of reforms, these expectations have not been met as generation capacity and distribution and transmission networks have remained underdeveloped (World Bank, 2017; Ahlborg et al., 2015), and millions are still without access to electricity in the region (IEA, 2014). As a result, the electricity sectors of these countries remain undeveloped. These outcomes can be linked to poor design, non-credible, unpredictable regulations, and political interference.

These outcomes were reinforced by how SSA governments seeking to incentivise poor voters, fill positions in regulatory agencies with their political and financial allies to keep electricity prices low (Estache and Wren-Lewis, 2010). Others have also noted the lack of compatibility between various SSA governments political ideologies and the reforms which were often viewed as a neoliberal agenda (Gore et al., 2018). As a result, regulators have struggled to cater for the economic incentives of private utilities and social objectives of governments such as increasing access to affordable electricity services.

This paper examines the performance of electricity reforms in the context of government political ideology. Specifically, the paper investigates the ideological differences in the effect of independent sector regulation on access to electricity and installed capacity. We find negative impact from independent regulatory agencies on installed capacity in countries with left-wing governments while in countries with right-wing governments they have positive effects on capacity. Also, we find negative impact on electricity access when regulators are established in countries with left-wing governments, while we find no significant impact for the right-wing governments. The results have interesting policy implications for attracting private sector participation to increase generation capacity and access rates.

While it may be necessary to strengthen the independence of IRAs in all SSA countries to signal credibility and attract the needed private sector to improve performance, this may not be equally pressing in all countries of the region. For example, our results imply that intrusion into regulatory functions especially by left-wing governments would lead reductions in investments need to increase generation capacity and expand access rates since regulatory decisions would be viewed by investors as politicised. Therefore, countries with left-wing governments can enhance economic development by taking steps to reduce interferences in IRAs functions because this will not only increase generation capacity, but will also lead to higher access rates.

Our results also show that SSA governments with different ideologies should place differential emphasis on policies to strengthen the independence of IRAs as a means of improving efficiency and access rates. While strengthening the independence of IRAs in left-wing governments may be critical for increasing capacity and access rates, it may not be as critical for right-wing or centrist governments, especially in increasing capacity. Then giving more independence to IRAs or not interfering in their functions in SSA countries by the same proportion will not only improve increase capacity and access, it will also help narrow the gap among the countries with different ideologies, since SSA countries with low installed capacity and access rates will benefit the most by boosting the independence of IRAs.

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