POVERTY AND REGULATION: HOW REGULATION CAN CONTRIBUTE TO POVERTY REDUCTION IN DEVELOPING COUNTRIES

Colin Kirkpatrick and David Parker*

Centre on Regulation and Competition

Institute for Development Policy and Management

University of Manchester

UK

***and School of Management**

Cranfield University

Cranfield, MK43 0AL

UK

DRAFT ONLY: NOT TO BE CITED

Correspondence to: David Parker, address above or email:

david.parker@cranfield.ac.uk

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ABSTRACT

Poverty reduction is a primary goal of development policy. In large parts of the World people have to live on meagre incomes and have limited access to infrastructure services, such as pure water, safe sanitation, mains power supplies and telephones. At the same time, more and more state activities have been opened up to private investment and regulatory institutions have been introduced to protect the public interest. In this paper the potential role of regulation in poverty reduction is investigated and a number of research questions on regulation and poverty are proposed. The paper confirms that existing knowledge of the activities of regulators in developing countries does not provide a clear picture. There is mixed evidence regarding the extent to which regulators address poverty issues and about the results of regulatory decisions.

Introduction

International development policy since the 1980s has emphasised privatisation, market liberalisation and regulatory reform. Although much has now been written on the effects of privatisation and market liberalisation (for a recent review of the literature see Parker and Kirkpatrick, 2005a), relatively less is known about the impact of state regulation especially in terms of poverty reduction. The UN Millenium Goals require that global absolute poverty be reduced by 50% by 2015 and that health and education and the environment be improved. But the challenge is huge. The total number of chronically poor may range from 450 million to 900 million. In Sub-Saharan Africa, the World's poorest region, more than a half of the population lives on less than US$1 a day and globally one billion lack access to safe, piped water supplies and an additional 1.2 billion to proper sanitation. Around 2 billion are estimated to lack access to electricity supplies. In the poor countries educational provision lags behind that available elsewhere, as does health care. Whereas on average 6.2% of GDP is spent on health care in high income economies, the figure is only 1.3% in low income countries (World Bank, 2001, Table 7). At the same time, there is growing recognition that if the economic reforms are to have their intended effects of raising economic growth and reducing poverty, there needs to be a commensurate improvement in regulatory governance. Inefficiencies in state regulation have been identified as a primary cause of poor economic performance (World Bank, 2004).

Regulation can take many forms and definitions of regulation therefore differ (Minogue, 2005). At one extreme the term regulation is applied simply to rules of behaviour laid down by dedicated regulatory bodies of the state, such as Public Utility Commissions and Government Departments. At the other it can embrace all forms of influencing human behaviour, extending from state regulation to private sector behavioural norms. In this paper to keep the discussion manageable we opt for a narrow definition, that given by the UK Better Regulation Task Force (1998), namely "any government measure or intervention that seeks to change the behaviour of individuals or groups." More specifically we are concerned with the rules and directives of government departments and government regulatory agencies. These rules and directives may embrace a large array of economic, social and environmental regulation, including health and safety, employment laws, taxation and planning. Various governmental agencies (or quangos) have sprung up in a number of countries in recent years, sometimes as a result of privatisation programmes promoted by donor agencies. In particular, dedicated regulatory offices exist for a number of infrastructure industries notably telecommunications and power. It is often assumed that the goal of state regulation is higher economic welfare resulting by addressing market failures, such as externalities, information asymmetries and imperfectly competitive markets (in infrastructure industries more specifically "natural monopoly"). However, the "regulatory capture" literature warns that a social welfare goal cannot be presumed and regulation may, in fact, result in the promotion of special interests rather than the public interest (Stigler, 1971; Posner, 1974). Regulation is subject to rent seeking behaviour (Parker, 2002).

Competitive markets with lots of buyers and suppliers so that suppliers are price takers and consumers have plenty of choice are almost synonymous with welfare maximisation. Many real world markets in the developing world are not like this. Moreover, there may be significant information asymmetries in developing country markets, especially where consumer associations are underdeveloped or absent. There may also be important externalities resulting from lax environmental controls. Therefore, the decision within government in these countries is often less a matter of whether or not to regulate but how best to do so. The premise that lies at the heart of this paper is that well-regulated markets can both promote national economic development and protect the interests of the poor.

A distinction needs to be made between "economic regulation", which is concerned with the regulation of prices and outputs in monopoly or near-monopoly markets, and wider regulation, which takes in matters such as consumer protection, health and safety and the environment. The latter are often associated with failures arising from information asymmetries and externalities (Ogus, 2004, p.146). Social regulation tends to be associated with a wider "public interest" rather than simply "market failure". This is evident, for example, in the Philippines, where the 1987 Constitution stresses "social justice" and state intervention to tackle poverty and rejects laissez faire policies (Cariño, 2004, p.258). This paper will focus mainly on economic regulation, but many of the points made apply equally to social regulation. In the first section of the paper we consider how regulation could be used to advance poverty reduction and conclude with a series of research questions. We then turn to the existing evidence in the development literature on regulation and poverty reduction. We find that existing knowledge is patchy, at best. While much has now been written about regulation in developing countries, especially in relation to the privatisation of infrastructure, little has been focused specifically on the poverty agenda. We conclude by indicating directions for future research into regulation and poverty in developing countries.

How Regulation can Help the Poor

Poverty is complex and there is no single cause and discussion of causation is subject to vigorous and sometimes acrimonious debate (Sen, 1981, chapter 2). We are not concerned here directly with the causes of poverty but rather with how regulation may contribute to its reduction. In lower income economies poverty is both absolute and endemic no matter how it is defined. In the simplest of terms, the contribution of regulation to poverty reduction can be direct and indirect.

Regulation can have a direct impact on poverty by its effects on prices and in terms of improving access by the poor to vital services. Through regulation of pricing regulators can have an important impact on the distribution of income and wealth and therefore general economic welfare. By monitoring the impact of market liberalisation policies on the poor, the regulator can take a stand on the optimal timing and extent of deregulation. Regulators can also assist by designing regulatory mechanisms and methods that improve provision for the poor with least transaction costs (which are a resource cost) and conversant with the political constraints that exist within any country. They should also be aware of changes in industrial structure brought about by competition and regulation and the effects on incomes and employment amongst the poor. Finally, regulators in developing countries, as elsewhere, need to remain acutely aware of the threat from special interest groups, leading to regulatory capture.

A regulator in a developing country will need to understand the needs of the poor, their location and the real barriers to their access to adequate services. The regulator will also need to understand the different ways in which the interests of the poorest might be best advanced; for example the promotion of local electricity supplies using small generators or solar power over expanding the national grid, or the provision of communal water and sanitation schemes. In Jamaica the regulator attempts to discover views through local churches and in Bolivia town hall meetings are held (Smith, 2000, p.13). However, it is not clear how regulators more generally attempt to gauge the views of the poor and the fear exists that regulators receive most of their information from the regulated bodies and higher income groups. The regulator needs to have a constructive but not sycophantic relationship with politicians and suppliers if investment is to be promoted while the interests of the poor are protected.

Regulation can also contribute to poverty reduction indirectly by being both effective (achieving its intended goals) and efficient (doing so at least resource cost) and thereby promote economic growth. Economic growth is a necessary condition for a long-term sustained reduction in poverty (see the survey of the literature on growth and inequality by Berg and Krueger, 2003; also Srinivasn and Wallack, 2004). However, in the short-term the impact of growth on poverty is less certain. Hence the need for policies directed at promoting “pro-poor” forms of economic development.

Economic growth results from an expansion in the quantity and quality of labour and capital and their efficient management and from effective exploitation of natural resources.[1] While the quantity of potential labour has risen quickly in developing countries, a deficit remains in terms of the quality or productiveness of the labour force resulting from poor health, education and training. Turning to capital, domestic savings

[1] Innovation can also be an important cause of economic growth but innovative activities tend to be centred in the richer economies.

rates remain low and financial institutions are normally underdeveloped, so therefore domestic savings are not easily turned into productive capital investment (Kirkpatrick and ??, ??). Foreign investment might make up for low domestic savings but most developing countries have proved to be unattractive to international investors because of poor resource endowments and weaknesses in regulatory governance (Kirkpatrick, Parker and Zhang, 2005a). Sound political and legal systems are now known to be important pre-requisites for attracting foreign capital. Moreover, growth will be restricted where the quality of the economic infrastructure (power supplies, water and sanitation, telecommunications, ports and airports and road and rail links) is poor. Therefore, the promotion of economic growth needs investment in many areas including education, health care and financial institutions.

A recent paper by Paul Joskow (2005) summarises the positive and normative lines of inquiry that have dominated in the regulatory reform literature over the last 25 years. All of these are relevant to the study of regulation and poverty reduction in developing countries. They include:

1. How regulation affects costs, prices, innovation and the distribution of income and wealth, and overall welfare.
2. How changes in regulatory mechanisms, including deregulation, affect behaviour and performance.
3. What are the best regulatory mechanisms and methods to use given information asymmetries, political constraints and transaction costs.
4. What changes in industrial structure and regulatory mechanisms are needed to facilitate the introduction of competition into regulated industries.
5. Why regulation is introduced and what particular forms it takes, including the roles of interest groups and political and legal institutions in shaping regulations.

In developing countries there are four particular concerns, namely:

- achieving adequate access by the poor to vital services – currently the poor often do not have access to safe water and sanitation, telecommunications or mains power, especially in rural areas:
- the related issue of affordability - where the marginal cost of expanding supply exceeds the marginal revenue that the poor can afford to pay services will be deficient in the absence of regulatory intervention; but regulators do not have access to funds to pay direct subsidies leading to a disconnect between economic regulation and social policy;
- inadequate administrative and regulatory capacity – regulatory offices in developing countries are often understaffed and staff lack proper training;
- political and regulatory risk and its impact on private investment - this links to the adequacy of the protection of private property rights in countries, the commitment to regulatory contracts by governments, and the issue of regulatory capture.

Important research questions on regulation and poverty reduction follow logically from the above discussion. They are:

1. To what extent do regulators in developing countries prioritise access by the poor to vital services and what measures do they adopt to improve and monitor access?
2. How is the affordability issue addressed and how do regulators interface with other government departments concerned with social welfare – is there joined up government on poverty reduction?
3. What administrative and regulatory capacity exists and how does the resourcing of regulatory offices affect their ability to tackle poverty issues?
4. In what ways do political and regulatory risk impact on investment and therefore on service expansion for the poorest in society?

From providing answers to these research questions deficiencies in tackling poverty in regulatory offices will be identified and better regulatory policies should result. We now turn to consider the existing evidence relating to these questions.

The Existing Evidence on Regulation and Poverty Reduction

During the 1990s there was a welcome shift in development priorities in donor agencies to the goal of poverty reduction. Policy now focuses more on providing sustainable livelihoods for the poor, particularly through direct targeting of social goods and services such as health and education provision (World Bank, 2004; DFID, ??).[2] Research on the characteristics and determinants of household poverty has show that the poor in developing countries suffer from both a high degree of exclusion from public infrastructure services and from the poor quality of those limited services to which they do have access (Kirkpatrick and Parker, 2003). Moreover, although the urban and rural poor share a common poverty, there are many regional differences, in particular, typically rural areas are much less well served by public services (Komives et al., 2003). For example, in Sir Lanka the reduction in poverty since the early 1990s has been slow and regionally uneven. Only 30% of government health expenditure reaches the poorest 2% of the population and poverty alleviation programmes have become vehicles for political patronage at the grass routes. Labour laws do not cover the 45% of the employed labour force which works in the informal and subsistence sectors. (Kelegama, 2003).

From the 1980s the deficit in terms of infrastructure was tackled primarily by donor bodies through privatisation policies. It was intended that privatisation would introduce superior private sector management skills and scarce capital and raise economic growth. In 1998 worldwide privatisation receipts peaked at around US$100bn. In lower income economies privatisation programmes were common in the Transition Economies and Latin America, although much less so in Sub-Saharan Africa, South Asia and the Middle East and North Africa. These regions were less attractive to foreign capital and some governments remained sceptical of the policy. As a consequence these regions accounted

[2] This is a policy for reducing poverty that was heavily criticised in a recent report by the Bank's Operations Evaluation Department, which called for a return to more attention to the growth agenda than raising spending in the social sector. The report singled out failures in getting social spending to the poorest and for inadequate investment in infrastructure schemes. *Financial Times*, 2005.

for less that 10% of privatisation receipts in developing countries during the 1990s (Chong and Lopez-de-Silanes, 2004).

The hope was that privatisation would raise economic efficiency in sleepy and sometimes corruption ridden state enterprises. Undoubtedly there have been successes but also failures. Where success has resulted, output has increased and so has profitability (Estache et al, 2000; Bortolotti et al., 2002; Chong and Lopez-de-Silanes, 2004). The increase in service provision is particularly obvious in telecommunications. For example, Fischer et al. (2004) claim that there has been a sharp improvement in access and service quality in telecommunications in Chile since privatisation. Economic returns on investment projects have been estimated to average 30-40% in telecommunications, over 40% in electricity generation, and around 80% for roads, even after taking out some of the schemes with extremely high returns. Returns have tended to be larger in low-income than in middle-income countries (Estache, 2004, p.4). In some cases there is also direct evidence of benefits to the poor. Galiani et al. (2004) suggest that in Argentina private sector involvement in the provision of water has led to an increase in the number of households connected by 11.6% and a fall in child mortality of between 5% and 7%, and by 24% in the poorest municipalities. Similarly, Leipziger et al. (2003) report that the better access to infrastructure services resulting from economic reforms has played an important part in improving child health.

However, a number of studies have highlighted weaknesses in privatisations. For example, Clarke et al. (2004) find that connection rates to water and sewerage improved after the introduction of private capital in Latin America no faster than in cities that retained public ownership of their water systems. Studies by Harris (2003) and Clarke and Wallsten (2002) suggest that privatisation has had a marginal effect in terms of widening the access of the poor to infrastructure services. The collection of studies by Latin American scholars in Saha and Parker (2002) provides numerous examples of worsened conditions for the poor following privatisation and market liberalisation policies in Latin America. Estache?? has emphasised how in Latin America much of the gain in efficiency had gone to owners and to Government through higher tax receipts on profits. Little of the gain appears to have percolated down to the poor. Our research into performance in privatised water and electricity utilities in developing countries finds a mixed picture with some improvements, but with competition and regulation proving to be more important than ownership in explaining the performance differences, especially so in electricity generation (Zhang et al., 2003, 2005) and telecommunications (Wallsten, 2001). Gutierrez and Berg (2000) look at privatised telecommunications in Latin America and the Caribbean and find that regulation is an important determinant of telecommunications density growing quickly. Overall, what the privatisation research suggests is that the quality of regulation matters, especially in the absence of competitive markets. This is not a surprising finding when it is recalled that Adam Smith over two centuries ago warned that no good came from private monopolies! Competition policy cannot be relied upon to control privatised monopolies because competition law is either unformulated, inoperative or subject to politically inspired intervention in many developing economies (Mehta et al., 2003). Therefore the quality of sector specific economic regulation is of paramount importance in infrastructure markets.

Studies also raise doubts about whether the investment in infrastructure schemes resulting from privatisation has reduced poverty through higher economic growth. Much of the privatisation activity of the 1980s and 1990s occurred in Latin America. Calderón and Servén (2005), comparing 19 major Latin American and Caribbean countries and two sets of comparator countries (fast expanding East Asian economies and middle income developing countries and 21 industrial economies of the OECD), find that overall neither the quantity nor quality of infrastructure services in Latin America seems to have improved faster than elsewhere. Also, across the region, leaving aside telecommunications, private investment has failed to make good the loss of public sector investment during this period. The overall decline in investment in infrastructure in Latin America can hardly have been good for economic growth and by implication longer-term poverty reduction. In addition, privatisation of infrastructure has often been associated with reduced employment reflecting over-manning under state ownership (Mitlin (2004, p.324) provides a number of examples; also Bortolotti et al., 2002). It is to be expected that many of those made redundant were lower paid.

The relationship between regulation and inputs, infrastructure, institutions and trade barriers in determining pro-poor growth is illustrated in Table 1. Regulation impacts on the quantity and quality of labour (through employment laws, health and safety, housing policies and education and health care), infrastructure (through regulation of outputs, prices and access) and trade barriers (through competition laws, business registration and foreign trade policies). Regulation also interrelates with the country's political and legal institutions. Regulation can lay down minimum service levels at prices that the poor can pay. Service obligations can be built into regulatory contracts to ensure that services are expanded into poorer areas. However, it is just as possible that regulation will exacerbate poverty if such concerns do not weigh highly within regulatory offices, particularly at a time when cross-subsidies are removed after the introduction of competition (for a useful discussion of the issues, see Chisari et al., 2003) . Economists tend to view government policy in terms of achieving allocative and technical efficiency, leaving questions of income and wealth distribution to others. However, in lower income countries the welfare state tends to be little developed. Hence, it cannot be safely assumed that higher prices, say, for water services, so as to relate charges more closely to marginal costs, will be compensated for by larger welfare payments to the poor. Affordability will be affected if services are priced higher while incomes remain depressed.

For such reasons regulation can contribute to poverty reduction by adopting pricing and output rules that prioritise the poor and address affordability constraints; but at the same time regulators may ignore issues of poverty and affordability if their agenda is purely concerned with economic efficiency or may do so because of resourcing constraints. Regulatory agencies in Asian countries, in particular, are often ill-equipped and trained to pursue effectively both efficiency and poverty objectives, most have been created since 2001 (ADB, 2004). Also, regulatory policies may backfire or be "captured". For instance requiring suppliers to provide services to the poor at the same price as to other consumers can undermine any financial incentive to expand services. In Bangladesh further entry into some industries, such as edible oil, electric and corrugated iron, has been stopped by government on the grounds that there is already adequate competition (Mehta et al., 2003, p.15). It is difficult not to conclude that rent seeking groups with dominant positions in Bangladeshi markets were instrumental in shaping this decision, providing a good example of "regulatory capture".

To improve access and affordability regulators might (1) require access and prevent disconnections for payment failure; (2) provide subsidies or require cross-subsidies to pay for connections costs; and (3) authorise tariff schedules that prioritise income distribution goals over allocative efficiency including lifeline tariffs. But to date evidence on the nature and impact of regulation on poverty in developing countries is sparse. The privatisation and market liberalisation literature provides some pointers. It is the case that subsidies under state ownership often benefited middle income groups rather than the poor, because they were more likely to access and use mains electricity and water (Estache et al., 2001), but it does not follow from this that privatisation has led to improvements for the poor. We do know that privatisation of water services, for example, has been associated with more metering of usage (in part to reduce water losses). Privatisation has also been associated with a clamp down on unregistered and illegal connections; therefore reports of increased official connections after privatisation may (at least in part) reflect regularising of previous unofficial usage. While there is evidence that in a number of cases that charges including charges to the poor have risen sharply. For instance, in Chile water and sewerage rates increased by 40% in privatised utilities compared with about 20% in non-privatised areas (Bitran and Valenzuela, 2003). A concession agreement for water services in Cochabamba in Bolivia collapsed after serious civil unrest against the proposed increase in tariffs. In Guinea a lease contract was not renewed when it expired, in spite of evidence of improved services under private management, because of public opposition to the large price rise that followed the introduction of private participation. In Buenos Aires the cost of connection under the water concession agreement entered into in 1993 amounted to about 20% of annual household income for the poorest groups. Counterbalanced against this, Chile has operated a subsidy policy so that subsistence-level water and sanitation services should account for no more than 5% of a household's income (Smith, ??, p.94) and eligibility for subsidies for a wide range of other services is means tested. In Peru pay phones in rural areas receive subsidies; the poor are more likely to use pay phones.

In other words, although the research findings are by no means one way, there is worrying evidence that at least some regulatory systems were either ineffective or absent when privatisations occurred or that regulators existed but were not required or chose not to prioritise poverty reduction. Privatisations have been associated with monopoly powers, take or pay contracts and the like that can bear down heavily on poorer consumers through higher charges. Even where schemes have been introduced to assist the poor to access infrastructure services, they have not always been maintained. For example, in Argentina a number came under stress during Argentina's economic recession of 2002, when GDP fell by 12% and unemployment reached 24% (Chisari and Ferro, 2004). In other cases regulators appear to have had no specific mandate to pursue the poverty agenda. For example, in Indian utility sectors "poverty alleviation is not on the direct or indirect agenda of regulation… It is not a specified objective of regulation" (Garg et al., 2003, p.7). However, in such cases the picture is further blurred because it seems that many regulatory commissions in the electricity sector in India have nevertheless introduced innovative approaches linking electricity access and tariffs to income (ibid., p.9). Government schemes such as the Kutir Jyoti Programme established in 1998/99 exist to encourage electrification of households below the poverty line. In the Budget for 2002/3 the Government announced the introduction of a new interest subsidy scheme to accelerate rural electrification. Nevertheless, there appears to have been a decline in the growth rate of village electrification in the post-reform period (ibid., p.12). In Ghana the law requires that the Public Utilities Regulatory Commission when negotiating prices takes into account the consumer interest, investor interest, costs of production, the financial integrity of the public utility, the economic development of the country, the best use of natural resources, uniformity of prices across the country, and competition amongst utility companies(Aryeetey, 2004, p.302). It is not clear from this list where poverty reduction features and what weighting, if any, it receives in practice.

Moreover, there is also international evidence that regulation has been too often ineffective in providing a climate conducive to high levels of private investment. It appears that private investment has proven too risky and the potential profits too low (Guasch, 2004; Estache and Pinglo, 2004). Investor doubts about the quality of the regulatory environment have contributed to a decline in private sector interest in investing in developing countries, especially since the East Asian financial crisis of 1997/98 (World Bank, 2003, p.13). Regulatory risk is compounded by examples of regulatory capture. What evidence exists, for example for Sri Lanka (Knight-John, 2004) suggests that politicians and ruling elites prove unwilling to accept regulatory independence. A recent survey found a preference amongst 13 Asian countries for independent regulation, but only a third of the regulators in these countries reported that their decisions could not be overturned by a Minister. A half of the agencies had budgets incorporated into ministerial budgets and most of the regulators regulated state owned enterprises as well as private sector firms, thereby increasing the risk of political intervention. There was a lack of supporting competition law and regulation remained fragmented across government. Objectives set for regulators were often confused and conflicting, including protecting jobs, attracting private investment and reducing prices. Eighty per cent of regulators had no access to training and regulatory offices were usually understaffed. The report concludes: “Asia’s governments rely too much on under-equipped and unsupported independent regulators to carry out tasks that are beyond their capabilities” (Jacobs, 2004, p.4).

Turning to methods of regulation, much of the thrust of the economics of regulation literature in recent years has been concerned with the perceived benefits of price caps over rate of return regulation in terms of efficiency incentives. However, our research has revealed serious difficulties in the operation of price caps in developing countries due to information asymmetries and risk (Parker and Kirkpatrick, 2005b; Kirkpatrick et al., 2005b). Guasch (2004, pp.113-115) too has pointed to the increased risk to potential investors under a price cap regime; while Estache (2004, p.12) has recently commented “when risk levels are perceived to be very high, rate of return regulation may be more effective in attracting private capital than a price cap regime.” However, whereas the impact on investment is now being researched, very little if anything is known about the relative merits of operating rate of return and price cap regimes (or hybrids) on achieving poverty reduction objectives.

Elsewhere we have put forward regulatory impact assessment has a governmental reform that could help to reverse the governance deficit in low income economies (Kirkpatrick and Parker, 2004a; Kirkpatrick et al., 2004). Used so far mainly in the advanced OECD economies, it is now being used to some degree in a number of lower income countries. RIA has the potential to improve regulatory practice by introducing systematic assessment of new regulations (ex ante RIA) and existing (ex post RIA) regulations. As part of any RIA in developing countries there should be an assessment of the effects of regulations on poverty. However, even where countries claim to use RIA there is very limited knowledge of how poverty issues are assessed and the weightings given to the outcomes within the overall assessment.

Returning to the research questions proposed earlier in the paper, much more research is needed before they can be adequately answered. However, the existing evidence points as follows:

1. To what extent do regulators in developing countries prioritise access by the poor to vital services and what measures do they adopt to improve access?

There is evidence that some regulators are prioritising services for the poor but the results are patchy. Some regulators are not mandated to pursue poverty reduction, but nevertheless appear to do so, while others may be so mandated but fail to do so.

2. How is the affordability issue addressed and how does regulators interface with other government departments concerned with social welfare – is there joined up government on poverty reduction?

There is evidence that affordability concerns are real with the poor often finding it difficult to afford the improved services offered.

3. What administrative and regulatory capacity exists and how does resourcing impact on the ability to tackle poverty issues?

There is evidence of significant administrative and regulatory weaknesses. In particular, regulatory offices tend to be undermanned and lack the necessary regulatory skills. While RIA offers a way forward, it can do so only as part of a more general reform of regulatory capability. This should be a priority for donor agencies.

4. In what ways do political and regulatory risk impact on investment and therefore on service expansion to the poor?

Political and regulatory risk do seem to impact on investment, leading to lower investment, though the precise impact on the poor is unclear. Much more research is needed.

Conclusions

In this paper we have looked at how regulation can help the poor. But we have also shown that the existing research evidence, admittedly sparse, suggests that economic regulation is not currently sufficiently focused on poverty reduction. Reflecting concerns in the West, where the economics of regulation literature originated, the primary concerns appear to be achieving allocative and technical efficiency rather than income distribution. The paper has proposed a number of research questions, which we are currently pursuing in our research in the Centre on Regulation and Competition at the University of Manchester.

There remain large gaps in our knowledge of how regulators are actually approaching poverty as an issue. To cite Minogue (2005):

> "Development agencies are still inclined to proffer models based on conditions and practices… [from] high income economies, then become frustrated when such models do not seem to work elsewhere, or receive little more than diplomatic lip

> service. There is a reality gap here between donor ideas of best practice, and the actual legal, administrative, political, and economic processes that exist in low and middle income countries.”

The purpose of our on-going research is to identify what exactly lies in the “reality gap” as far as regulation and poverty reduction is concerned. We have already identified potential gains from the application of RIA methods and drawn attention to the difficulties of operating price cap regulation in the very different conditions of developing economies. The next stage will be an audit of pro-poor policies in regulatory offices.

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Figure 1 : Regulation and Pro-Poor Growth