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Abstract

This paper assesses two alternative approaches to private sector engagement in utilities, namely the Build Operate Transfer (BOT) and sector-wide reforms. The assessment draws on the new theory of regulatory contracts. The paper first evaluates the two approaches in terms of their effectiveness in dealing with the problems of information asymmetry, incentive compatibility and commitment. It then reviews the evidence on the economic impact of both approaches. Finally, it applies this analysis to the electricity sector in four Arab countries, namely, Egypt, Jordan, Morocco and Syria. The paper concludes that sector reforms may not be as effective in attracting private investment in the short run as BOTs. However, the sector approach is more beneficial to society in the medium term.

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(BOT)

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(Natural

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(New Theory of

(Imperfect Contracts)

.(Regulatory Capture)

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(BOOT)

(BOT)

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Monopolies)

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Regulation)

(Information Asymmetry)

(Multiple Contracts)

(Independent Power Producers)

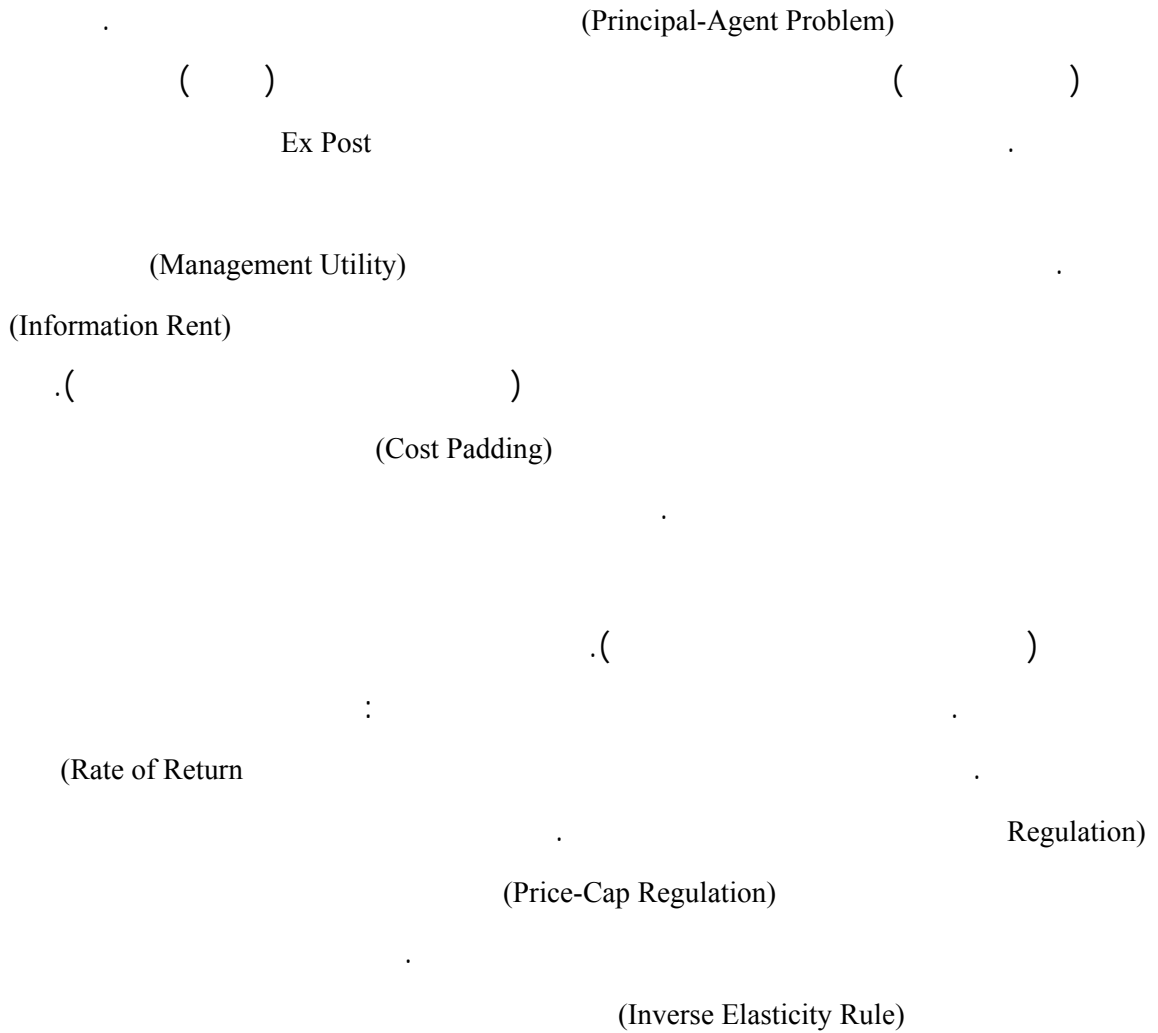
(Regulatory Contracts)

BOT

(Information Asymmetry)

.BOT

(New Theory of Regulation)



.Laffont and Tirole (1993)

.Caillaud, Guesnerie, Rey, and Tirole (1988); and Benasko and Sappington (1987)

.EX Post

(Imperfect Contracts)

(Asset Specificity)

(information

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(Information Asymmetry)

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Rent)

(Information Asymmetry)

(Vertical Integration)

Hart and Holmstrom (1987)

Williamson (1989)

(Competition

by Comparison)

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(Competition

for the Market)

(Unbundling)

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(Information Rent)

(Price-Cap Regulation)

(Rate of Return Regulation)

(Benchmark Regulation) "

" "

(RPI-X)

(Cost Padding)

(Residual Claimant)

(Laffont, 2001)

Laffont

(Rate of Return Regulation)

(BOTs)

(Sector Reform)

(BOT)

.BOT

(Unbundling)

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(Majority

(Imperfect Information Model)

Baron (1988)

Rule)

.Baron and Besanko (1987)

Levy and Spillor (1996)

BOT

(Vertically Integrated)

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(Purchasing Power Agreements)

(Information Asymmetry)

(Information Rent)

(Unbundling)

(Competition for the Market)

(Spot Market)

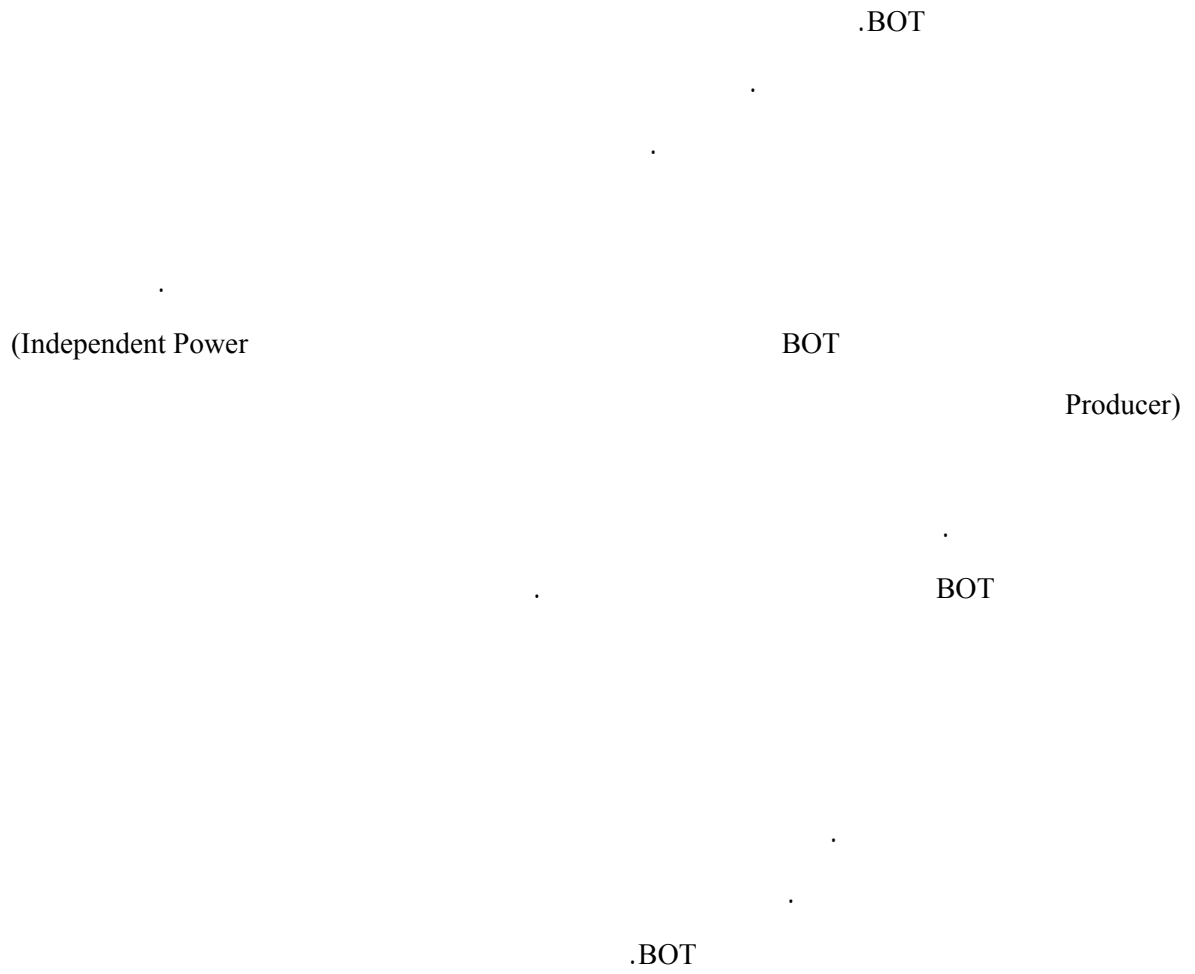
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(Independent Power Producers)

BOT

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(Divestitures)

(Greenfield

.BOT

Projects)

Galal et al. (1994)

.BOT

.(Enersis)

(Chilgener)

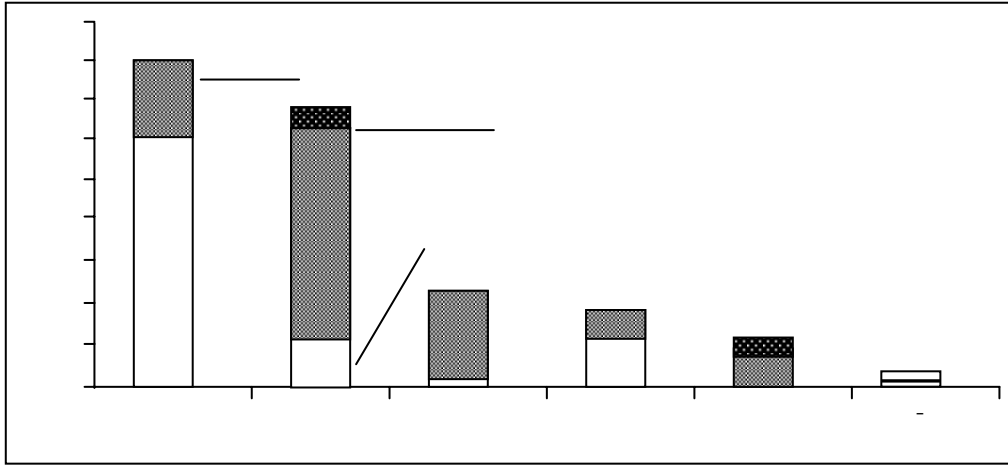
Chisari, Estache, and Romero (1997)

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.(Computable General Equilibrium Model)

Galal and Nuryal (1994)

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Source: Private Participation in Energy, Public Policy for the Private Sector, Note No. 208, PPI Project, World Bank.

BOT

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(Unsolicited Proposals)

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(Take-or-Pay Contracts)

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(Gray and Schuster, 1998)

(Vertically Integrated)

BOT

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(EDECO) (IDECO)

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BOT

(Vertically Integrated)

(Cross Subsidization)

BOT

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(Muller, 2001)

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(Independent Power

Producers)

BOT

BOT

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BOT

(Office Nationale de

(Vertically Integrated)

L'Electricite)

(Independent Power Producers)

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.Rent Extraction

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(Devil is in the details)

BOT

(BOT)

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