

# Power Politics

## Equity and Environment in Electricity Reform



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# Overview

- What is at stake in electricity sector reform?
- *Power Politics:* Our main messages
- A way forward: Recommendations



# Electricity Reform Defined

- Electricity Reform =
  - Changes in ownership and management +
  - Restructuring for market competition
- Developing countries and transition economies are rapidly implementing reform

Independent power producers	40%
New electricity laws	29%
Independent regulator	33%
Privatization of generation	21%
Privatization of distribution	18%

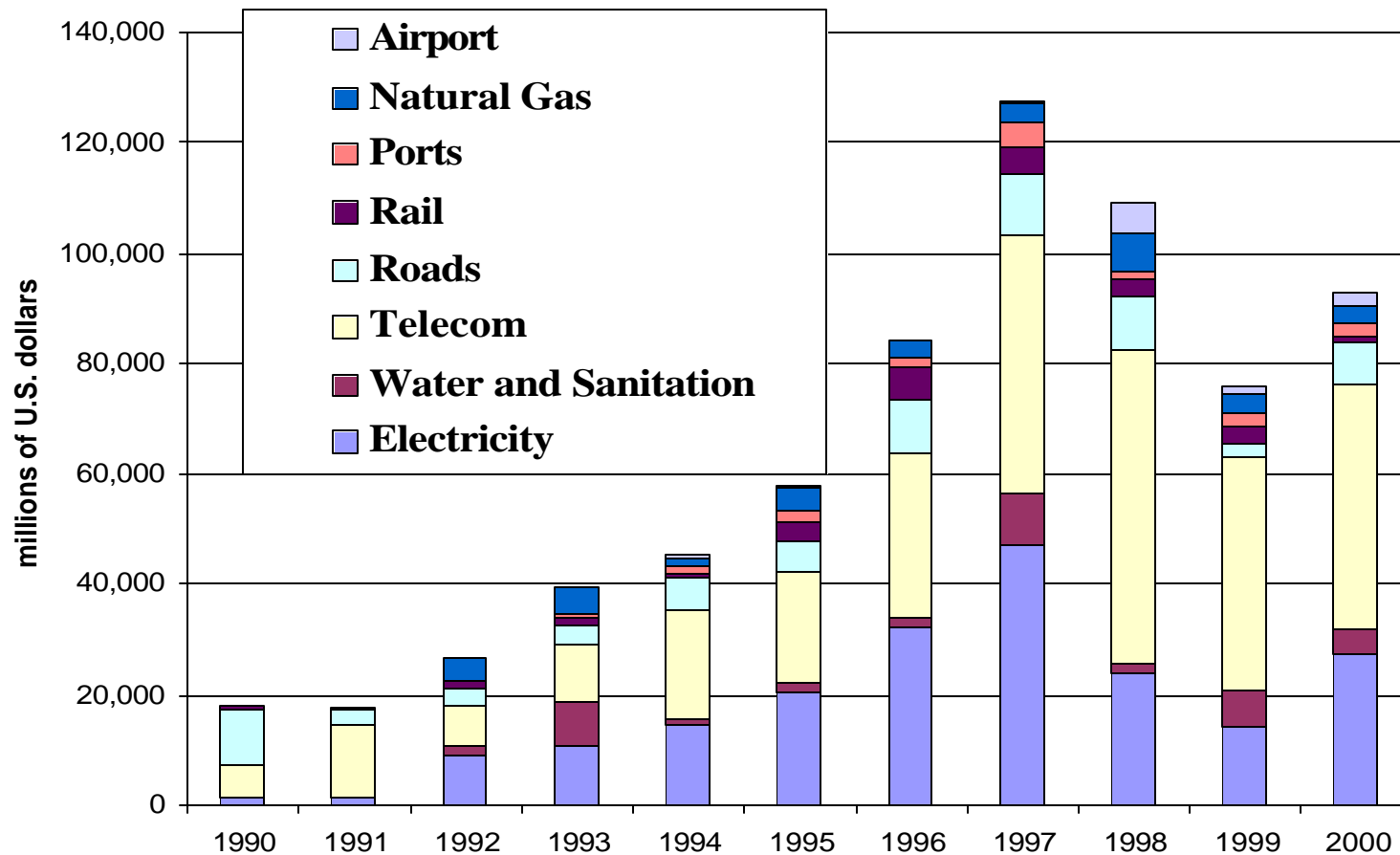


# International Context

- “Washington Consensus”: Private sector led development
  - Structural adjustment lending
  - World Bank Energy Policy, 1993
- Institutional reform in electricity markets in Chile, UK, and Norway
- Development of information technology



## A Shift to International Finance: Infrastructure Investment in Emerging Markets



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# Reform is a Political Game

- Market-first reformers
  - Markets will automatically generate benefits
- Public benefits-first advocates
  - Markets will stifle attention to public benefits
- Impact of markets depends on how they are established (e.g. California)
- Our view: Market could be structured to be part of the solution, but unlikely to be all of the solution
- Outcomes depend on how reforms are guided  
=> political process of reform



# Social Concerns

- Access to electricity
  - 56% of rural population globally did not have access in 1990
  - Profit is an insufficient driver of electricity access
- Price of electricity
  - Pressures to limit subsidies
  - Social hardship and political opposition
- Labor interests
  - Job cuts can lead to social unrest and political opposition
- Quality of service





# Environmental Implications

- Economic efficiency can lead to environmental improvement, but ...
- Absence of planning framework
- Regulators implicitly make environmental decisions when they make economic decisions
- Restructuring undermines end-use efficiency





# Share of Carbon Dioxide from Electricity and Heat Production

Region	(%)
Middle East & North Africa	26
Sub-Saharan Africa	50
South Asia	50
Latin America & Caribbean	21
East Asia & Pacific	39
Europe & Central Asia	51
North America	42
High-Income Europe	30
Other High Income	40
<b>World</b>	<b>38</b>



# *Power Politics: Our Approach*

- *How can the process of electricity reform support rather than hinder promotion of sustainable development outcomes?*
- Six country studies: Argentina, Bulgaria, Ghana, India, Indonesia, South Africa
- Focus on political decision-making process
- Four questions:
  - Drivers of reform?
  - Political interests that shaped reform?
  - Role of donors?
  - How were public benefits incorporated?



# Finding: Financial Concerns Drive Electricity Reform

- Macroeconomic crisis and donor conditions
  - Debt in Argentina
  - Structural adjustment in Ghana
- Shortage of capital in the sector
  - IPPs in India and Indonesia
- *Implication: Financial issues crowd out social and environmental concerns*



# Finding: Exclusionary Politics of Reform

- Closed political processes
  - Argentine reforms run by technocrats
  - No environment or rural development ministry at the table
- Interested stakeholders have been vocal
  - Tariff increases are a political problem
  - Existing utilities have been an obstacle
- *Implication: Are open processes better?*
  - No: Danger of political capture, e.g. farmers in India
  - Yes: Check on narrow gain, e.g. Indonesia
  - Yes: Builds public support and accountability e.g. Ghana



# Finding: Donors Play a Mixed Role

- Donors pressure has resulted in politically difficult decisions to undertake electricity reform
- But donors have frequently exerted a heavy-hand in steering the direction of reform
- Studies and research on environmental impacts have been potentially useful
- Donors have been hampered by reputational liabilities
- *Implication: Donor role is more complex than conditions alone*



# Finding: Limited Attention to Social and Environmental Benefits

- Public benefit equated with financial viability alone
- Minimal attention to electricity access
- Greater political attention to price
- Minimal engagement by national or international environmental constituencies
- Very limited attention to environmental implications of reform
- *Implication: Risks of technological, institutional and political “lock-in”*





# Looking Forward: Re-Frame Reforms around Goals

- Widen the problem definition to include social and environmental concerns
- Initiate a public discussion on goals prior to crisis situation
  - Governments: broaden participation in defining goals
  - Donors: allow domestic political space for ownership over direction of reform
  - Civil society: develop a vision of a post-reform sector that promotes equity and environment



# Looking Forward: Finance and Reform Goals

- Forge a broader public consensus to reduce political and financial risk
- Attract capital based on reduced risk
- Develop alternative financial sources
  - Governments: attract capital based on lower risk associated with a popularly backed reform agenda
  - Donors: reconsider advocacy of reform designed to attract capital as a primary objective
  - Civil society: conduct analysis to demonstrate the financial viability of sustainable energy policies
  - Private sector: explore the risk benefits of investment in countries with a social consensus around reform



# Looking Forward: Governance

- Use an open process to build political support for reform
- Ensure good governance in operation of the sector
  - Governments: design open reform and post-reform processes
  - Donors: support capacity building in civil society to participate in reform consultation
  - Civil society: develop capacity to monitor and engage electricity regulators



# Looking Forward: Political Strategies to Support Sustainable Development

- Social issues are more potent than environmental concerns
- End-use efficiency brings both social and environmental gains
  - Governments: include social and environmental benefits in regulatory mandates
  - Civil society: develop coalitions for promotion of a public benefits agenda
  - Private sector: advocate policies to enable a level playing field across electricity technologies



# Back to the World Bank Group

- New (2001) Energy Program (effectively displaces 1993 Strategy)
- OED review of Private Sector Development approach to electricity
- Private Sector Development Strategy (2001)
- Revision of OP 8.6 on Structural Adjustment



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EQUITY AND ENVIRONMENT IN ELECTRICITY REFORM



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