

The World Bank discovers power in the power sector

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Key Messages

The World Bank's 2019 report on Rethinking Power Sector Reform recognises that many of the key challenges in power sector reform result from the political economy of the sector.

Its comprehensive analysis of how reform has actually taken place over the past three decades shows that countries have used many different institutional pathways to achieving good power sector outcomes, making a case for greater pluralism.

However, the report is weak in four areas:

1. On corruption – which it treats as a local problem rather than as a systemic issue linked to countries' political settlement;
2. On the political economy of donors – and how this can sometimes make reform more difficult;
3. On the impact of new technology – and how disruptive technologies can change local political incentives;
4. On how to Think and Work Politically in the power sector - the report gives little guidance on how to move beyond the focus on supply-side reforms.

We recommend that the World Bank and other development partners:

1. Embed political economy analysis in power sector projects and use it to guide the nature of interventions undertaken;
2. Tackle corruption by understanding a country's political settlement and the sorts of approaches that might change it;
3. Analyse the political impact of new energy technologies and the shift to low-carbon energy;
4. Stimulate demand for reform by building reform coalitions among domestic constituencies.

Introduction

In September 2019, with little fanfare, the World Bank released one of its most important studies of the past decade. This was not a flagship World Development Report or the findings from some global commission, but a reflection of the Bank's work in the power sector by two of its most able thinkers: a 359-page volume entitled *Rethinking Power Sector Reform in Developing Countries*, henceforth RPSR, by Vivien Foster and Anshul Rana.¹

While great progress has been made in the development of the electricity sector, there is a long-standing concern that all is not well in power in many countries. Not least among the issues has been the difficulty involved in maintaining a financially sustainable power sector while at the same time providing electricity to more and more people at a price they can afford. The World Bank's report marks formal acceptance by the agency that developments in the sector, particularly in Africa, have been disappointing, and that its own efforts have often been misplaced.²

But equally important, perhaps for the first time, the World Bank has explicitly located the key challenges as lying within the domain of the political economy of power sector reform. The international community has been aware of the importance of political considerations in power sector reform for decades – but for a long time has been cautious about discussing the issue too explicitly. RPSR takes the analytical challenge seriously, commissioning and drawing on political economy analyses (PEAs) of the sector in 15 countries to inform its results.

The World Bank has been a major source of funding for the power sectors of developing countries for decades,³ but, more importantly, it has been the dominant intellectual force in the sector, promoting particular approaches and influencing the way other investors behave. As a result, when the World Bank rethinks its approach, it is worth a closer look – since its new thinking is likely to influence what it does for a decade or more.

This Brief reviews the World Bank's historical approach to power sector reform and lays out the key findings of RPSR. It then provides a critique of the report from a political economy perspective. In particular, we argue that RPSR does not pay enough attention to four critical aspects of the political economy: corruption; the political economy of donors; the politics of new technologies; and how to 'think and work politically' in the power sector.

The World Bank's traditional approach to power sector reform

Over the past 30 years, the World Bank's approach to power sector reform has changed roughly every 10 years. Up to the 1980s, investment in power plant development represented a large part of the aid development agencies provided. However, it became

¹ The Bank study is based on over 30 background studies and reviews that are being published on a rolling basis in the World Bank's Policy Research Working Paper series and can be accessed on the project website at http://www.esmap.org/rethinking_power_sector_reform

² 'Uptake of power sector reform did not evolve according to the textbook [i.e. Bank] model' (p.3); 'only about half [of utilities] can be considered financially viable' (p. 18).

³ The World Bank does not publish separate figures on the electricity sector in general or power sector reform in particular. However, the large size of World Bank support to power sector reform is indicated by the long list under World Bank Support for Power Sector Reform Observatory Countries and States (Annex 3C, pp. 104–105), and the fact that the Bank has lent between \$4.8 billion and \$7.1 billion in each of the past five years to the energy and extractives sector, and this sector has remained the second most funded sector in the International Bank for Reconstruction and Development and International Development Association portfolio after 'public administration' (see World Bank, 2019).

increasingly clear to these agencies, including the World Bank, that national governments did not have sufficient capital to meet the voracious needs for capital of the rapidly expanding power sector. There was therefore a strong push to attract private capital to the sector.

In the 1990s, the World Bank promoted what became known as the 'standard model' of power sector reform (World Bank, 1993). This prescribed the unbundling of generation, transmission and distribution; corporatisation and the attraction of private sector participation to the sector; independent regulation; and, finally, the introduction of competition. This was influenced by the apparent success of this model in the UK and Chile. The World Bank and other donors pursued this largely ideological model for around a decade, even though it lacked empirical evidence of success in developing countries, ran counter to the many voices from experienced utility managers that such a model would not work in the relatively small power systems of most African countries and was unlikely to attract foreign capital, as there were more attractive investment opportunities in South East Asia. It was also noted at the time that the standard model would do little to increase the access of relatively poor people to modern electricity services.

In the 2000s, the World Bank began to abandon its one-size-fits-all approach (World Bank, 2003). It began to observe that this 'standard model' was inappropriate, particularly for small systems. A more nuanced approach subsequently evolved, and more 'hybrid' systems became the norm, particularly in Africa, where means were found to include private capital in government-controlled utilities. But performance was often still poor and, in the 2010s, the challenge of reform became even more complicated with the addition of new objectives. In addition to the usual reform goals of improving financial viability and the quality of electricity service provision, countries were now encouraged to increase 'access' to electricity services and to reduce carbon emissions from power systems at the same time.⁴

Rethinking power sector reform - key findings

Box 1 shows the key findings of RPSR. These findings are remarkable because they represent an admission of what has long been known to be true: that the standard model is not generally applicable, and that approaches to reform need to be much better grounded in the individual context. Indeed, RPSR backtracks on many aspects of the previously advocated standard model. For instance, the report:

- Recommends not privatising distribution, at least initially;
- Underlines the need for planning, as prices alone have proven not to give the market appropriate signals;
- Advocates the need for hybrid options that shift at least some of the private capital risk to the state;
- Suggests that 'unbundling' should 'not be the highest priority';
- Advises that regulatory frameworks be adapted to institutional context in each country.

⁴ Sustainable Energy for All. (<https://www.seforall.org/>).

Box 1: Findings of the World Bank's Rethinking Power Sector Reform

A nuanced picture emerges. While regulation has been widely adopted, practice often falls well short of theory, and cost recovery remains an elusive goal. The private sector has financed a substantial expansion of generation capacity. Yet its contribution to power distribution has been much more limited, with efficiency levels that can sometimes be matched by well-governed public utilities. Restructuring and liberalisation have been beneficial in a handful of larger middle-income nations but have proved too complex for most countries to implement.

Based on these findings, the report points to three major policy implications.

1. Reform efforts need to be shaped by the political and economic context of the country. The 1990s reform model was most successful in countries that had reached certain minimum conditions of power sector development and that offered a supportive political environment.
2. Countries found alternative institutional pathways to achieving good power sector outcomes, making a case for greater pluralism. Among the top performers, some pursued the full set of market-oriented reforms, whereas others retained a more important role for the state.
3. Reform efforts should be driven and tailored to desired policy outcomes and less preoccupied with following a predetermined process, particularly since the 21st century agenda has added decarbonisation and universal access to power sector outcomes. The Washington Consensus reforms, while supportive of the 21st century agenda, will not be able to deliver on it alone, and will require complementary policy measures.

Source: World Bank summary of RPSR, at

<https://www.worldbank.org/en/topic/energy/publication/rethinking-power-sector-reform>

In addition, the report includes some potentially sensitive findings:

- There is extensive 'isomorphic mimicry'⁵, whereby governments make policy statements that they think donors want to hear but with no intention of implementing the content.
- It is high-quality management that correlates most highly with higher electricity distribution efficiency and better recovery of operating costs, rather than whether the utility is privately or publicly owned.
- It is efficiency improvements, rather than price hikes, that are most likely to gain financial viability for a utility.
- Universal electrification will require the provision of 'sustained public subsidies to offset the associated financial losses'. (p.34).

⁵ RSPR report p. 82, but originally Pritchett et al.,2010.

While these findings will not be a surprise to many practitioners, their inclusion in a flagship World Bank review reflects how far the Bank's thinking has moved away from the standard model. This has important implications for practice going forward.

Critique

RPSR contains a huge amount of valuable evidence about how power sector reform has actually happened (or not) over the past 30 years; there is no doubt that it will become a major source of knowledge for many years to come.⁶ Its explicit acknowledgement of the importance of political economy factors is particularly welcome. The 15 in-depth background studies present numerous cases where particular interest groups have been able to promote or resist reform. The report maps out the different interests of key stakeholders, including the regulator, the incumbent utility, conventional independent power producers (IPP), renewable IPP, renewable mini-grids, consumers and 'prosumers'. Other parts of the report show the extent to which trade unions, donors, oligarchs, 'unipolar leadership', 'reform champions', opposition political parties, 'civil unrest', technocrat civil servants, farmers, the ruling elite and ideology have influenced how different countries have implemented different components of the standard model.⁷

The reality is that the power sector is highly politicized across much of the developing world. Power utilities - with their significant employment rolls and contracting volumes, as well as their ability to direct valued electricity services to different communities - are a natural focus for patronage politics. RPSR, p 5.

Despite the many good things in the report, we believe that the report's analysis of the political economy of power sector reform is weak in four areas:

1. Corruption

RPSR mentions the challenge of corruption - indeed it expands on the traditional recommendation of transparent international tendering to advocate auctions, and even suggests the elimination of unsolicited IPP proposals, which provide opportunities for corruption. However, it underplays the distorting effect of corruption in the power sector. In many countries, this sector is one of the main vehicles for corruption, and it is an important source of finance for increasingly expensive elections. This alone provides a powerful explanation of why reform is so difficult. But, where RPSR mentions corruption, it presents it as a largely local problem rather than as a systemic issue involving donors, consultants, contractors and national governments in the extraction of rents to safe havens abroad.

A particularly difficult issue, and one that is not addressed, is how, in practice, donors need to 'work with the grain' (Levy, 2014) of the national context, particularly where this entails making implicit deals with (potentially corrupt) 'big men' if they want to be involved in power sector development at all. In addition, the report could learn from the work of the School of Oriental and African Studies Anti-Corruption Evidence project,⁸ on when external actors, such as development agencies, can practically shift the incentives key players face, and, just as important, when such factors are so deeply embedded in the prevailing political settlement that the prospects of reform are negligible.

The eminent African authors of the Africa Progress Panel's 2015 report confirm this diagnosis when they say, 'Governments often view [electricity] utilities primarily as sites of political patronage and vehicles for corruption.' (Progress Panel 2015)

⁶ This wealth of material is supplemented by the excellent background document on PEA by Lee and Usman (2018).

⁷ This change of perspective in the energy sector was preceded by a more general acceptance that development more generally was a political process, as documented in the 2017 World Development Report.

⁸ See <https://ace.soas.ac.uk/> for studies on anti-corruption efforts in the electricity sector in Bangladesh, Nigeria, Tanzania and Lebanon.

2. The Political Economy of Donors

Another important omission entails analysis of the World Bank's (and other aid agencies') role in the political economy of power sector development. At one point, RPSR acknowledges that 'donors... do not seem to have much influence on a country's overall reform trajectory, which is rather shaped by local political factors'. This may well be true, but it ignores the fact that the Bank and other development partners are themselves political actors. Indeed, the report claims that, 'Development partners aim to provide advice that is technocratic and non-political, but their counterparts in government do not necessarily perceive their purported neutrality.'

A deeper analysis of the political economy of development partners is likely to uncover the unintended consequences of incentives on staff to increase the volume of disbursements, to promote their own projects as unsolicited proposals, to promote the sale of national goods and services and to operate competitively rather than cooperatively with other bilateral donors in the same country and sector (see McCulloch et al., 2017).

3. The impact of new technology on local politics – and the politics of the energy transition

RPSR rightly gives extensive attention to the disruptive effect of rapid technical change, which is increasing in complexity and uncertainty in planning. Much of this change is driven by the dramatic reductions in the costs of distributed renewable energy systems, particularly wind and solar PV, which in many contexts are now cost competitive, with more conventional centralised power supplies. The report notes that, as distributed energy supplies become more cost competitive, so the elite will be able to opt out of grid-based supplies and may consequently exert less political pressure to improve grid supplies. In future, elite groups may simply purchase their electricity services privately, as many already do for health, education, security and transport.

However, if this path is taken, the loss of profitable customers may further exacerbate utility finance issues, making it harder for them to extend energy access, while the ability of politically influential groups to provide for themselves will reduce the political pressure to supply communities through grid extension. New technologies may also change the geography of power politics, as community-level mini grids become a viable business model, potentially leading to tensions between central and local elites over who captures such rents.

A similar issue arises as a result of the desired shift to low-carbon forms of energy. Many developing countries have a strong emphasis on fossil fuel technologies. These technologies behave like point-source resources, typically concentrating rents in central elites that have access to large amounts of capital. The development of new technologies that do not rely on the same economies of scale as traditional thermal power opens up the possibility of a significant reduction in the size of rents and their dispersal across a much larger number of actors. The inability of central elites to capture such rents may be one reason why the expansion of renewables has been slow in some countries.

4. How to Think and Work Politically in the power sector

While RPSR says there is a need for greater ‘stakeholder alignment’ and that policy needs to be ‘grounded’ in the local context, it provides little advice on how to integrate PEA into both the planning process and aid relationships. Similarly, there is a clear injunction to build analytic and planning capacity in each country but little on how to integrate this new expertise into teams currently dominated by economists and engineers. Our own experience of PEA in the energy sector is that, while there is a general acceptance that politics matters, economists and engineers find political analysis to be outside their area of competence and their comfort zone.⁹ There are numerous examples of PEA being imposed on consultancy teams as a cosmetic add-on, whereas the evidence is that such analysis needs to be incorporated in a more fundamental way into the whole planning and implementation process (Piron, 2016).

Moreover, there is a growing literature on how programmes can be ‘politically smart and locally led’ (Booth and Unsworth, 2014) – including in the power sector (Barnett and McCulloch, 2018). A key lesson from these studies relates to the importance of political mobilisation and building coalitions of support. This appears to be most effective when it is done by supporting the agendas of legitimate local organisations that have interests that are closely aligned with the developmental objectives of the donor. Such approaches require a flexible and adaptive approach, with close real-time monitoring of what is working (and what is not) and shifting resources accordingly. It also involves facilitating alliances and building trust (Wood, 2016; see also Odarno et al., 2017).

An important step in building coalitions for change is to have a clear and independent analysis of the distribution of potential costs and benefits between the various interest groups of any proposed reform. This is a role that local analysts can perform, and that the World Bank or others could support. Such an approach is not a substitute for the more traditional technical assistance – but, we would argue, it is an essential complement to it, since it is aimed explicitly at tackling the political constraints to change and building demand for reform.

⁹ See, for example, Barnett (2015); Barnett et al. (2018); ENERGIA (2018); Barnett and McCulloch (2019); Tesfamichael and Barnett (2019).

Conclusions and recommendations

RSPR is the most comprehensive analysis of the way in which the power sector has evolved in developing countries for the past decade or more. It is an immensely valuable source of evidence about what has happened and why – and what has been learnt about reform processes along the way. For the first time, politics is taken seriously, with an entire chapter devoted to understanding the political factors that have influenced the observed changes.

Despite this, we believe that the report's analysis of the political economy of power sector reform falls short – with regard to the issues of corruption, donor behaviour and the political ramifications of new technology and in providing practical advice on how to Think and Work Politically in the sector.

We recommend:

1. Embed political economy analysis. PEA needs to become embedded in the way power sector projects are undertaken – not merely as an add-on but as a guide to the nature of the interventions to be implemented and the way to go about them.

2. Tackle corruption as a symptom, not as a disease. Donors focus on avoiding the misuse of their own funds. But in many countries wholesale corruption in the power sector is deeply rooted in the political settlement. Understanding the nature of this settlement and the sorts of approaches that might change it is essential if there is to be long-term progress in the fight against corruption.

3. Analyse the political impact of technology and the shift to low-carbon energy. While immense technical effort has been spent on incentivising renewables, far less has been devoted to understanding how new technologies and the incentives for shifting to low-carbon energy are affecting both national and local politics. Research in this area could help indicate new potential pathways for supporting wider access and the energy transition.

4. Stimulate the demand for reform. Power sector interventions are too often entirely focused on the supply side. Boosting demand for reform by building reform coalitions among domestic constituencies is critical to achieving sustainable reforms with benefits for all of society.

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