

The Political Economy of Energy Transitions in Emerging Economies

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Overview

Trying to answer four questions:

1. How do **foundational and institutional factors** at the country level affect the approach to the energy transition?
2. How do the **ideas, interests and influence of key actors** affect the energy transition?
3. How might the **energy transition affect the nature of the political settlement** in a country?
4. What are the implications for the way in which **donor funded projects** should be managed?

How do foundational and institutional factors at the country level affect the approach to the energy transition?

Foundational factors

- **China and India** watered down the COP26 agreement to insist on 'phase-down' rather than 'phase out' of coal – why?
- **Saudi Arabia** would only agree to phase out *inefficient* fuel subsidies
- **Uganda and Nigeria** have enormous solar potential ... but officials focus on oil
- **Indonesia** refused to commit to no new coal-fired power stations



Formal and informal institutions

What are institutions?

- Institutions are *not* organisations – they are the ‘rules of the game’
- **Formal rules** include: laws, regulations, policies etc
- **Informal rules** include: norms, customs, understandings
- The informal rules can be as powerful as the formal ones

Examples

Formal

- Indonesian constitution requires state-control over energy prices
- Regulators powers are deliberately weak or absent

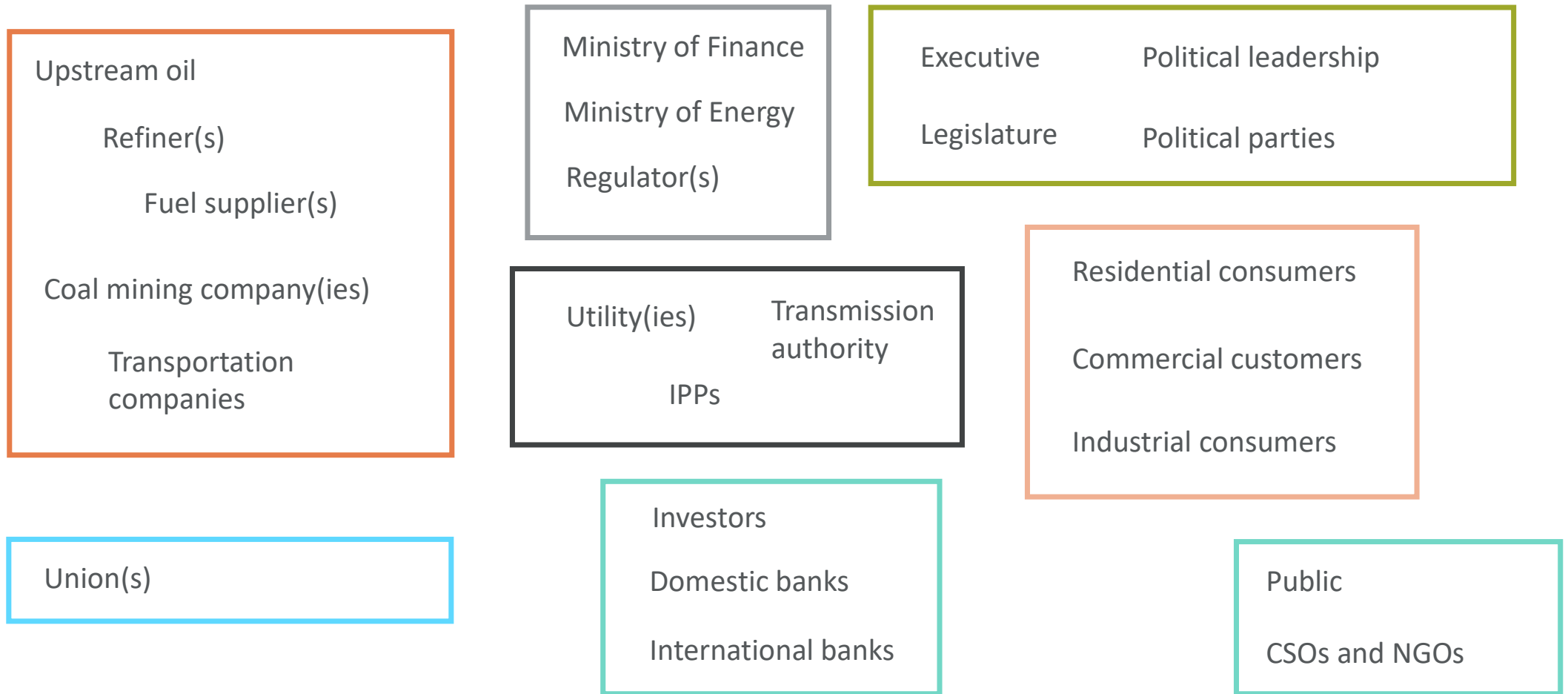
Informal

- Informal rule about how rents from energy procurement flow to parties
- Nationalist narratives about oil/gas (e.g. Nigeria, Timor Leste)

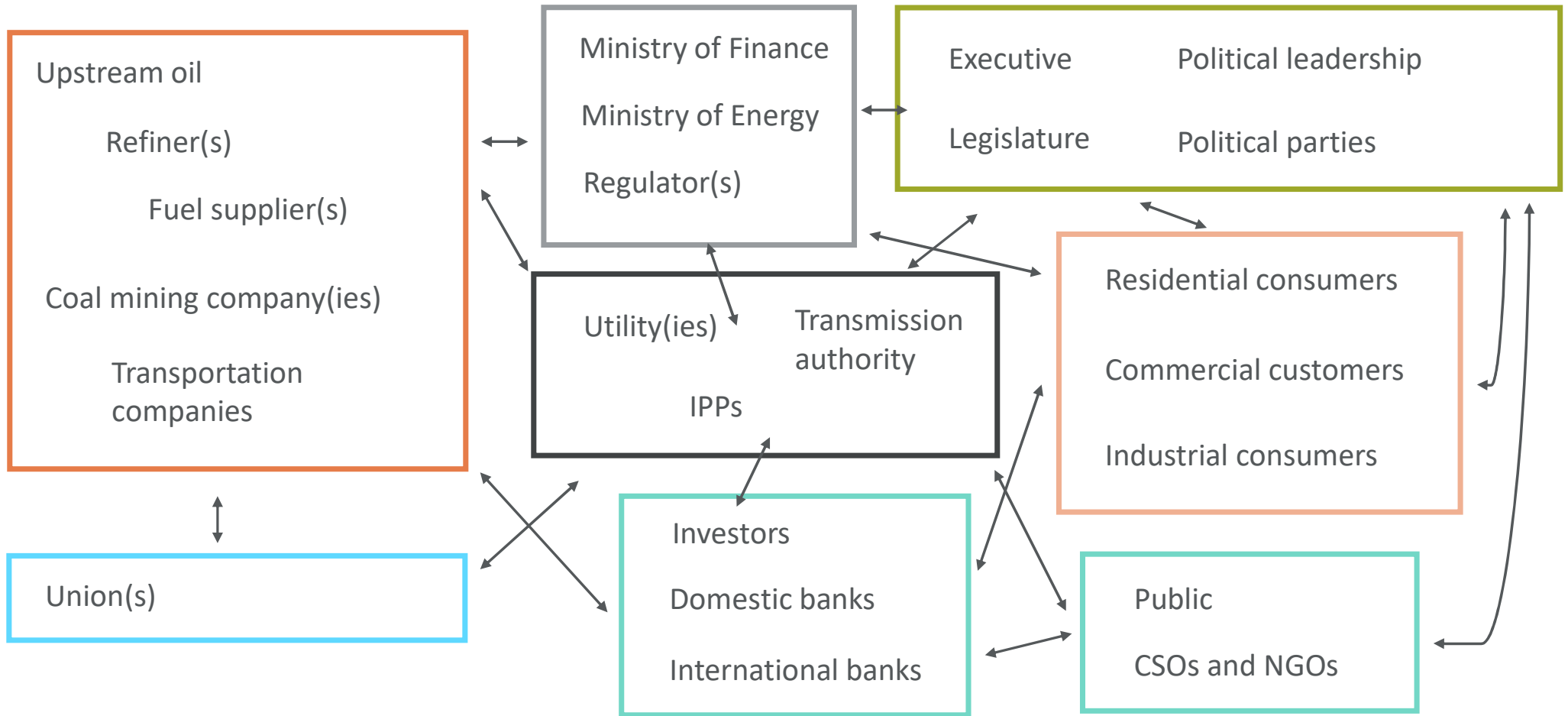
If you don't know the 'real' rules of the game you can get things badly wrong

How do the ideas, interests and influence of key actors affect the energy transition?

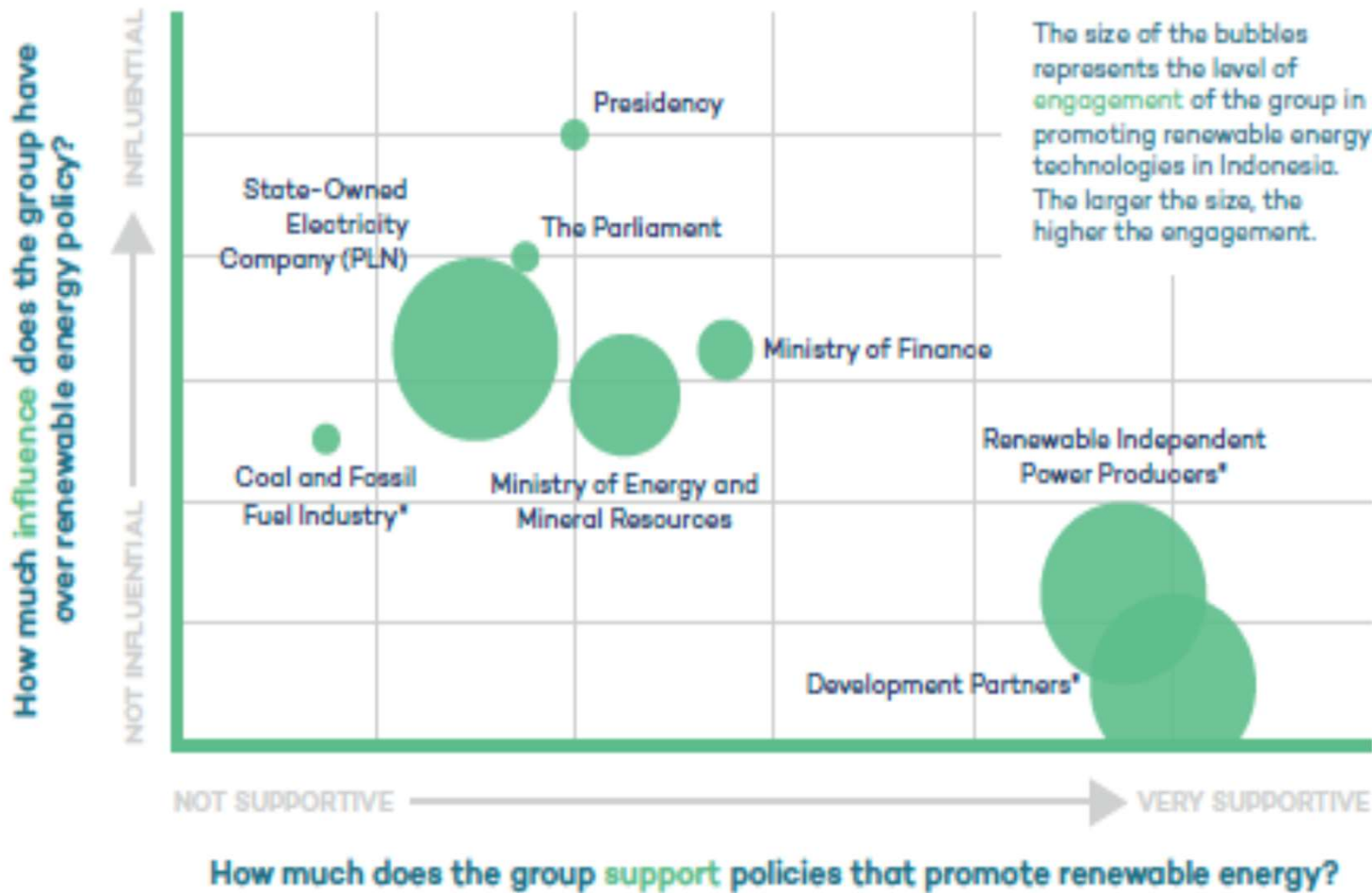
Mapping Electricity Sector Stakeholders



Complex relationships between stakeholders



Mapping support and influence



Behaviour is not only driven by Interests – others include:

- Ideas/ideology
- Affiliation
- Constraints
- Knowledge
- Capabilities

Five issues drive the speed of the energy transition

1. **Rents** (super normal profits)

- Ruling elites often depend on the 'rents' created by fossil fuels; battles over who controls the rents associated with renewables will determine who will be the elites of the future

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2. **Jobs**

- Fossil fuel industries can employ large numbers of people; but renewable industries also have the potential for large-scale employment.

3. **Affordability/Fiscal**

- A key concern of all leaders is ensuring that energy is affordable; at the same time, increasing the prices of fossil fuels can reduce costly fossil fuel subsidies

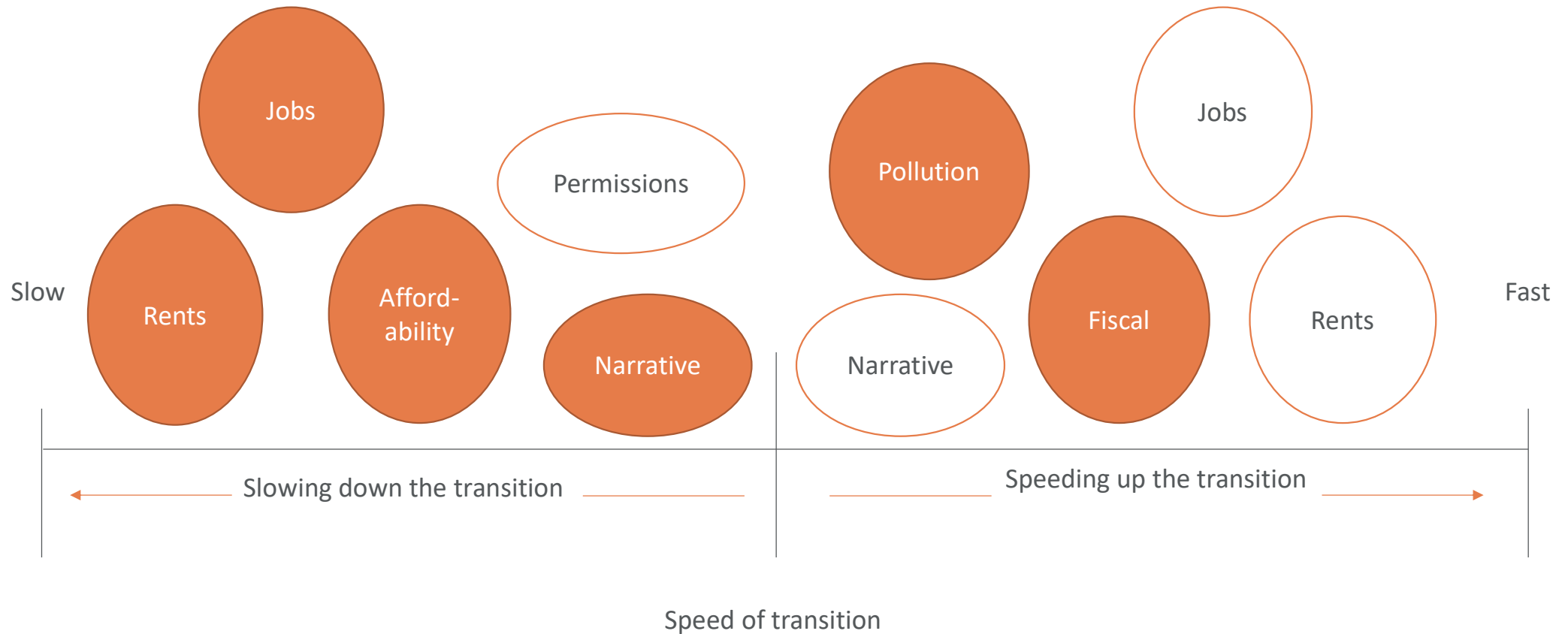
4. **Pollution & Permission**

- Burning fossil fuels causes pollution with major negative impacts; but, renewables also require a social license to operate

5. **Narrative**

- The civil society movement on climate action has reshaped the global narrative; but there are other narratives that also have resonance e.g. resource nationalism

Weighing current and prospective costs and benefits



How might the energy transition affect the nature of the political settlement in a country?

Political settlement

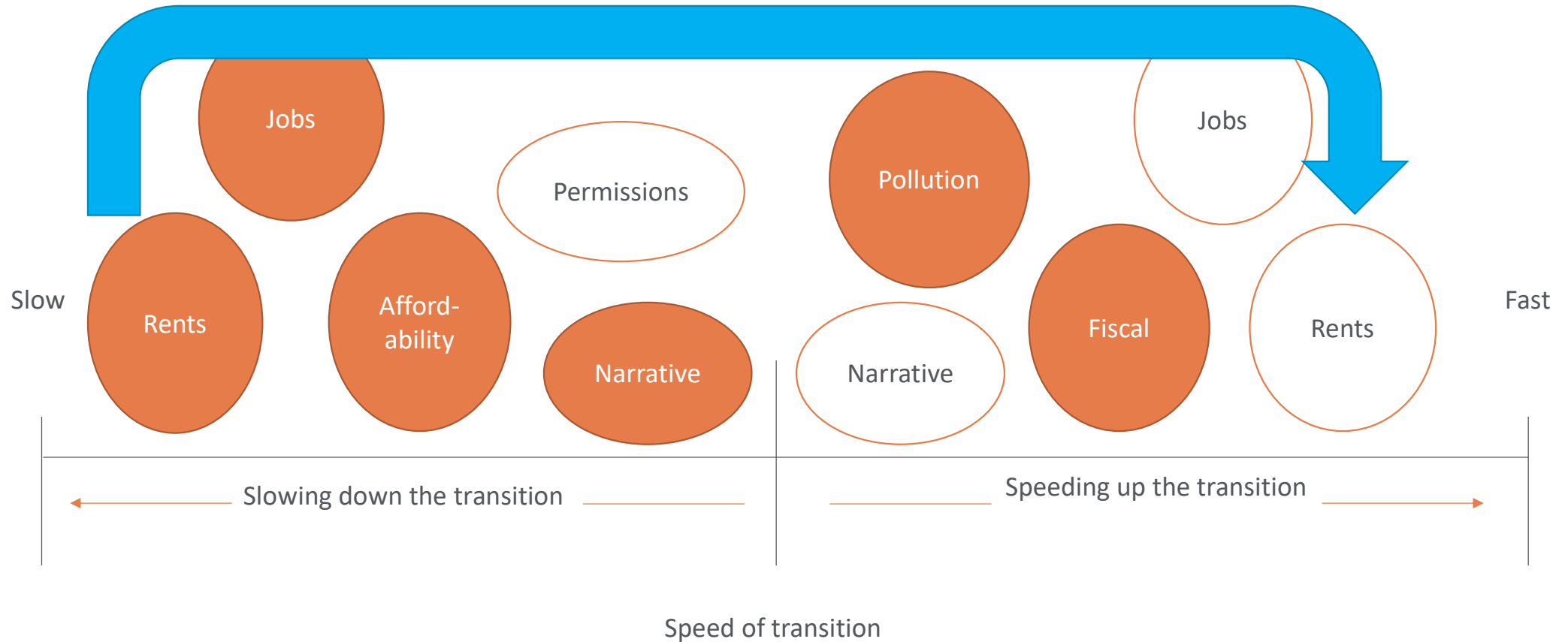
“A tacit bargain or power equilibrium among elites, and between elites and their followers, that prevents resort to civil war”

(Hickey and Kelsall, 2020)

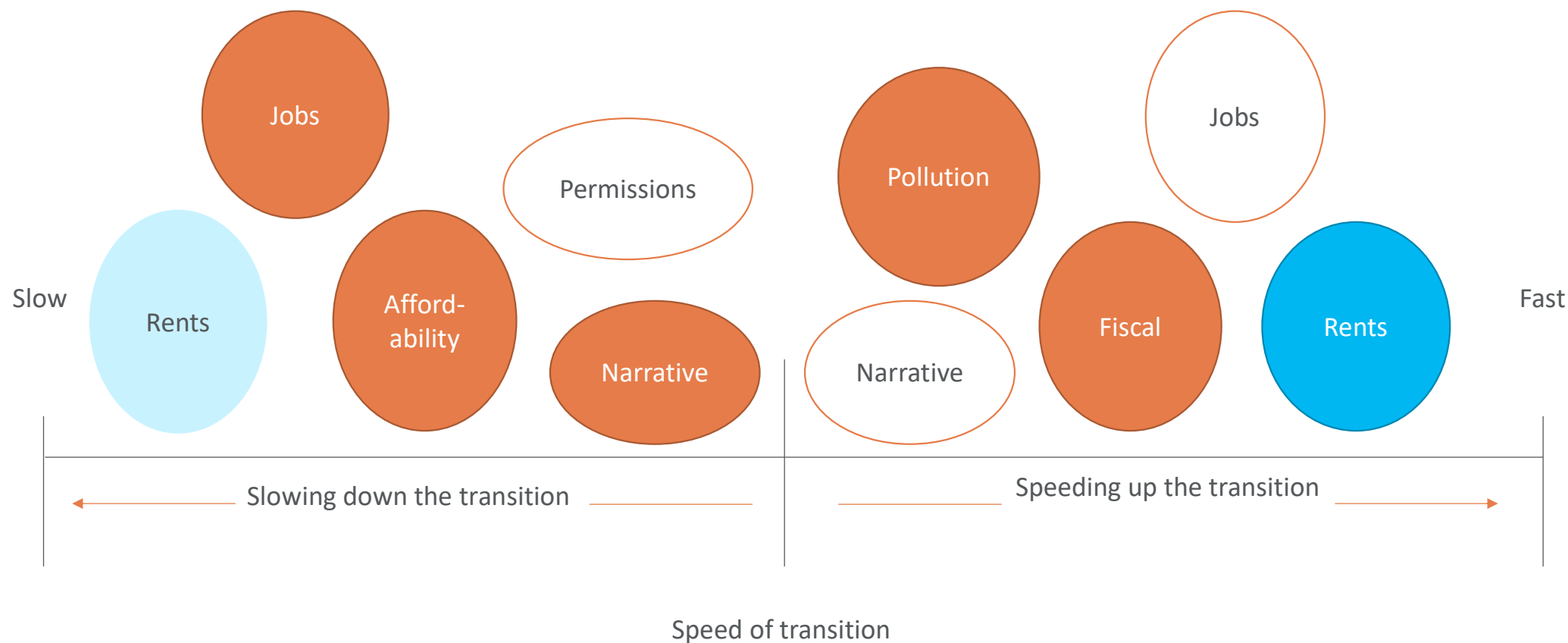
Two power shifts *might* take place:

1. Changing incumbents
2. From centralized to decentralized

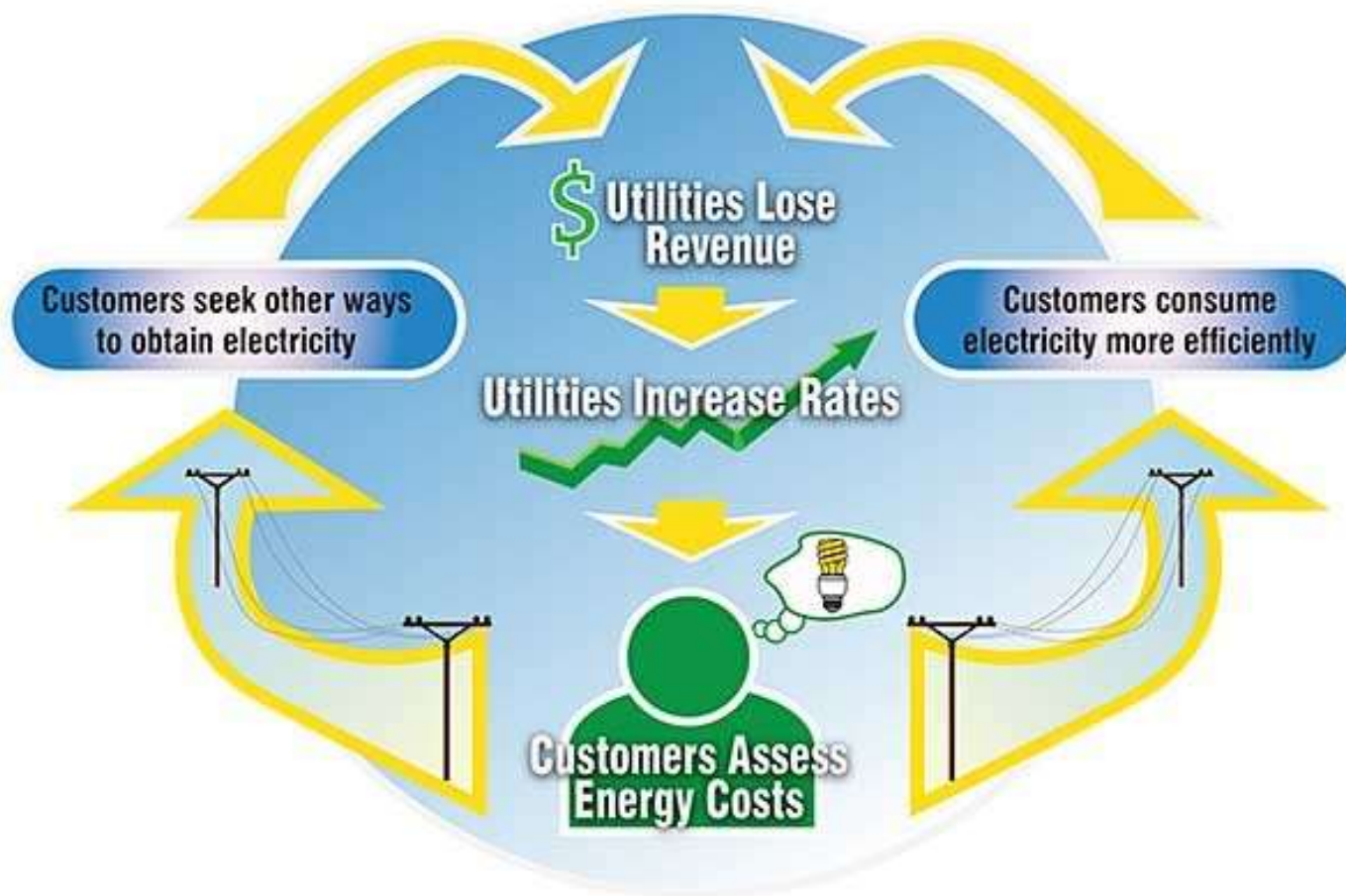
Incumbents changing – capturing the new



Changing incumbents – displacing the old



Death spiral or stairway to heaven?



Political elites take two approaches to the 'death spiral' problem

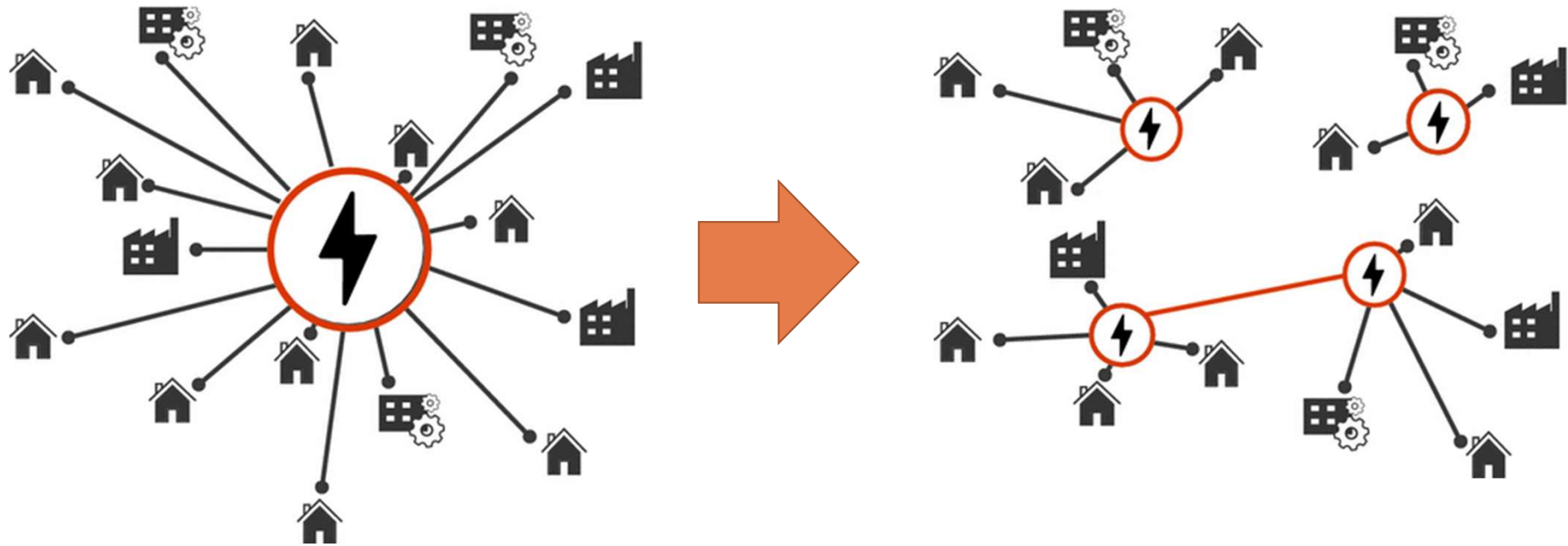
1. Stopping defection

- Prohibit moving
- Making it costly
- Artificially reducing FF costs

2. Investing in RE

- Heavy investments in RE lowers utility costs
- Only possible if can tackle existing asset base

From centralised to decentralised



Political actors in regions, cities, towns and firms may become more powerful ... but central actors are likely to push back

What are the implications for the way in which donor funded projects should be managed?

There is a new way of tackling energy governance

Thinking and Working Politically means:

- Political Economy Analysis to **understand the context**
- Identifying and supporting the reform agenda of **local actors**
- Working on the **demand side**, as well as the supply side:
 - Facilitating dialogue
 - Engaging parliament, media, CSOs
 - Building coalitions
- **Adapting** the approach as the context changes
- Being **flexible** on resource allocation



Conclusions

1. The Energy Transition will **happen quite differently in different countries** because of their different endowments, geography, demographics and institutions – it is important not to assume that ‘one size fits all’.
2. Analysing the **ideas, interests and influence** of all the key actors can help to understand why the transition happens in the way it does (or not)
3. There are **five political issues** that will affect the speed of transition: rents, jobs, affordability/fiscal, pollution/permission and the narrative
4. The energy transition may have a profound impact on the **political settlement** of the country ... so expect fights
5. **Thinking and working politically** can help projects to navigate the context and support more successful transitions.

Thank you



Four questions

1. How do **foundational and institutional factors** in South Africa/Lebanon/Sri Lanka affect the approach to the energy transition?
2. How do the **ideas, interests and influence of key actors** affect the energy transition?
3. How might the **energy transition affect the nature of the political settlement** in the country?
4. What are the implications for the way in which **donor funded projects** should be managed?