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The Nexus between Energy and Democracy/Governance

Activity: The Nexus between Energy and Democracy/ Governance
Program Area: Energy Sector Governance
Implementers: Advanced Engineering Associates International and PA Consulting Group
Geographic Focus: Global
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Project Background

Since the late 1980s, most developing and transition countries have worked to reform their power sector. In a survey of 115 countries, the World Bank found that all but 24 had initiated some level of reform. Achievement of reform, however, has been much slower than expected. Reform has helped reduce the most severe energy shortages, but many systems remain financially inefficient and politically unsustainable. While much of this reform has tried to introduce market forces or at least independent management into the sector, only a handful of countries can be said to have transferred operations of the sector from the state to the private sector. In some countries, reforms are at risk of being rolled back.

The reason for the limited progress of reform most often cited by the development community is the lack of good governance of the sector: lack of stable political support, lack of rule of law, weak institutions, and corruption—in short, lack of an environment that enables the market or good public administration practice to function. Widespread public opposition to reform has arisen that has

delayed or blocked reform in many countries. But even though problems of governance have been clearly identified, the literature and knowledge base that helps guide the energy development community is weak. This is especially true of political aspects of the energy sector. Governance is considered by some as secondary to technical and economic considerations and democratic governance is viewed as peripheral or external—a set of obstacles to reform that need to be overcome before the real design of the reform effort can begin.

- Parallel to energy sector reform is reform of democratic governance itself. There are obvious and important links between these two reform movements. Political processes, especially public involvement, broadly defined, have played a large, albeit to date negative, role in energy sector reform efforts.
- Lack of public involvement from the earliest stages of the reform process has often led to destructive failure and has discouraged potential investors in a restructured energy industry.

- Civil society and public involvement in emerging democracies are important and often necessary elements both in the shaping of basic laws and institutions—including energy laws and energy regulatory agencies—and in shaping the responsiveness of those entities to the needs of the public.
- More effective public involvement mechanisms need to be adopted to help assure that difficult reform measures are designed and implemented for the benefit of the economy and in the public interest.
- Constructive and meaningful public involvement is a possible means to meet three difficult challenges facing energy sector reform: achieving politically realistic and sustainable reforms, providing equity in access to energy by rural users and by the poor, and providing effective and honest government regulation of the sector.
- Public opposition to energy sector reform in some countries has destabilized democratically elected governments.

Development Objective

- The objective of this study is to explore the links between democratic governance reform and energy sector reform in developing and transitioning countries. In particular it focuses on the role that involvement of the public and

civil society plays in those reform processes. The study is intended to help energy sector reform practitioners and those who are seeking reform of governance in developing develop well-founded and practical development assistance programs.

Approach

Analyses and conclusions in this report have been developed using primarily three sources:

- A survey of the literature dealing with governance in general and sector governance in particular, as well as a survey of the power sector reform literature;
- A series of three workshops involving practitioners and experts in the field of energy sector reform representing diverse ideas about governance and approaches to policy reform, sector reform, constitutional liberalism, democracy and democratic governance.
- Case studies of energy sector reform.

Project Partners

AEAI and PA Consulting Group

Project Activities

- Define relevant terms and parameters, including, but not limited to the terms “democracy,” “governance,” “democratic governance,” “reform,” “restructuring,” and “participation.”



- Examine the drivers for energy sector reform and how those drivers relate to democratic governance.
- Analyze the essentials of energy sector reform and how those elements relate to democratic governance.
- Analyze how energy sector reforms relate to society at large as well as to the place of individuals and groups within that society. This examination included issues of public participation in the reform process, willingness and ability of consumers to pay, and expectations of the public as a result of the restructuring process.
- Examine illustrative governmental responses to public reactions to energy sector reform. This examination will focus on best practices.
- Help propose a framework for incorporating issues of democracy and good governance into energy sector reforms.
- Deliver a publishable, professional journal-quality study.
- Prepare case histories of situations demonstrating the links between energy and democracy/governance in countries or regions in which USAID works.
- Organize four seminars on topics relating energy to democracy and governance issues.

Lessons Learned

- While technical and economic issues are necessary elements of energy sector reform, they are not sufficient. Political issues can be as important. Experience with energy sector reform to date dictates that good national governance—rule of law, transparency, accountability etc.—is clearly critical to achieve sustainable energy sector reform.
- Technical and economic factors are always included in reform because they are inherent to the process; democratic governance is often not considered because reform practitioners think that they can put it off or avoid it. It is considered too “messy” and it is too sensitive, uncontrollable and time consuming.
- The role that democratic aspects of governance—voice, participation etc.—play in power sector reform is complex and has not been systematically studied.
- Participation can be a problem or a solution. It is a problem when it is disorderly or is captured by special interests; it is a solution when it helps replace conflict with social dialogue in reaching negotiated solutions to energy sector issues.
- The history of energy sector reform is marked by opposition to reform—both by the public and by special interest groups—which delays or blocks needed reforms and hinders political, social and economic development.

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- Public and civil society involvement, if properly sought and managed, can reduce conflict and achieve negotiated and sustainable policy reform. But this principle has not really been tested in the power sector.
 - The efficacy of such involvement in building sustainable reform depends on other governance factors, especially those termed “the liberal freedoms”. Without the basic building blocks (constitutional liberalism) of good democratic governance, reform is difficult if not impossible. Full sector reform and broader economic and political reform are interdependent.
 - Civil society participation in providing energy services—so called “co-production”—can build self-financing and sustainable power systems.
 - In the ongoing work to develop energy regulators in developing countries, attention has focused on technical and economic matters (such as tariffs, licenses and codes). More attention is needed on the demand side - customer relations, demand forecasting, and receiving customer complaints.
 - In some countries, energy sector professional associations, environmental groups, consumer groups and other organized civil society groups are emerging. Energy service providers and regulators need to be open to input from these groups.
 - In most USAID-assisted countries, there is a portion of the public that does not have access to electricity services. In Africa, this represents the majority. As electrification proceeds to address this shortage, special efforts need to be made to ensure fairness. While it’s easy to say that economic and technical considerations should take priority, it is nevertheless a fact of life that electrification buys votes, and hence the politics of system expansion need to be carefully considered.

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