



TECHNICAL BRIEF

Energy Governance in Developing Countries — A New Approach

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About This Brief

Global efforts to improve energy access and quality and to tackle climate change need a different approach to addressing poor energy governance in developing countries. Energy projects should be designed to “think and work politically.”

Introduction

In 2015, leaders from around the world agreed to 17 Sustainable Development Goals (SDGs) to be achieved by 2030. The seventh goal (SDG7) is: “Ensure access to affordable, reliable, sustainable and modern energy for all.” In the same year, the world’s leaders concluded the Paris Agreement to tackle climate change, which will require a global transition in the energy sector away from the use of fossil fuels. Yet, despite growing investments in clean energy in many developing countries, the transition is happening much more slowly than needed. The central reason for this is poor energy governance.

This technical brief shows how poor energy governance damages energy access and efforts to improve the quality and reliability of power. It explains the political reasons why energy governance is so bad in many countries and contrasts this with the current system of procuring technical assistance, which largely ignores the energy governance challenge. It shows that a new approach to tackling energy governance is emerging that is better matched to the nature of the problems faced and provides recommendations on how to implement it.¹

Electricity Access and Quality Are Improving — Project Performance Is Mixed

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In 2018, there were still an estimated 789 million people without access to electricity, most in sub-Saharan Africa. Even for those who do have access, reliability remains poor. The International Finance Corporation estimates that more than 1 billion people suffer from blackouts for more than 1,000 hours a year. The consequences of low access rates and unreliable supply are highly damaging for growth and development and disrupt the provision of essential services, such as hospitals and schools. All major multilateral and bilateral funders have significant programs on energy, but the performance of programs for reforming the power sector in developing countries has been mixed.

¹ For a more comprehensive analysis of the issues in this technical brief, see the Chemonics/TPP white paper “Why Tackling Energy Governance in Developing Countries Needs a Different Approach” at <https://chemonics.com/resource/energy-governance-white-paper>.

The Core Reason for Poor Performance Is Poor Energy Sector Governance

One factor, above all, explains why some countries have power sectors that perform poorly: ineffective energy governance. The table on the next page shows what good power sector governance looks like — and also how energy governance fails in many countries. See the white paper for more illustrations.

In **Ghana**, the combined effect of drought and insufficient gas-fired generation in the mid-2010s forced load-shedding. The government had kept tariffs below cost, leaving the national utility dependent on subsidies and suffering chronic financial weakness. However, after attracting investment in new gas-fired capacity, supplemented by expensive barge-mounted emergency power, the country shifted to having unaffordable excess capacity. In areas not served by the grid, the government has insisted that the national power sector companies control any mini-grid development, making it hard to expand access to the 5.4 million Ghanaians still lacking access to the grid.

IDEAL ENERGY GOVERNANCE – AND THE REALITY IN MANY COUNTRIES		
Aspect of Energy Governance	The ideal is but too often the reality is ...
Planning	Planning is designed to minimize long-run costs of energy generation, transmission, and distribution	Planning is often not based on reliable data or models and is biased by political considerations
Procurement	Procurement of generation capacity and transmission infrastructure is undertaken through transparent and competitive tenders	Procurement is non-transparent allowing preferred bidders to win lucrative contracts and raising the long-term cost of electricity
Dispatch	Power is taken from the lowest cost sources first (merit-order dispatch)	Dispatch is influenced by the desire to pay for existing investments through “take or pay” contracts
Human Resources	Employment in utilities is based on merit and is effectively managed	Jobs in utilities are provided to supporters of the government, resulting in overstaffing and inefficiency
Metering, Billing, and Collection	All customers are metered; billing and bills are collected in a timely and efficient way	Many customers are not metered; electricity is stolen; billing or collection omits politically connected customers (e.g., government, military)
Tariffs	Tariffs are independently set to recover costs, encourage efficiency, and promote equitable access; rates are adjusted regularly as needed	Tariffs are kept low for some customers for political reasons, while others are charged a high rate; rate adjustment is highly political and infrequent

Aspect of Energy Governance	The ideal is but too often the reality is ...
Policy	Policies, legislation, and regulations are put in place to encourage energy efficiency and demand management	Politics, legislation and regulations are incomplete, inconsistent or simply ignored; energy efficiency is not encouraged or incentivized through the tariff regime

In **Sri Lanka**, the government has prevented any tariff increase since 2014 despite rising generation costs at power stations using imported coal and fuel oil. Although the costs of solar and wind generation are lower than those of fossil fuel-based generation, utility planners have resisted a government renewable energy generation target because of concerns about the grid's capacity to absorb more wind and solar generation. In early 2021, the national utility issued a tender for a privately financed natural gas import terminal, which would lock it into levels of generation that would prevent the achievement of the renewable energy generation target.²

These kinds of problems would be solved if countries created effective independent regulators, ensured cost-reflective tariffs, used transparency in planning and procurement, and utilities were efficiently managed. Yet, despite much external assistance, many countries do not implement such reforms or cannot implement them fully. To understand why, it is necessary to delve into the complex political economy of power sector reform.

Why Is Energy Governance Bad in Many Developing Countries?

Consider the following model of the political economy of power supply in many countries. A country's political elite want to provide power to their people, but they also wish to remain popular. They therefore:

- Keep the electricity price as low as possible, particularly in the run-up to elections (low energy prices are often seen as part of the social contract)
- Award jobs in the public utility to supporters

² See Chemonics/The Policy Practice 2021 White Paper "[Why tackling energy governance in developing countries needs a different approach](#)" for more examples.

- Ensure that power remains reliable in areas that support them
- Skew the planning process to maximize access to electricity for their supporters

The elite also need to fund their political machine. The power sector is an important source of “economic rent.” Private sector backers will often expect “repayment” through winning large capital or maintenance contracts, including those for power generation and transmission. For this reason, elites may have little interest in transparency and accountability in public procurement.

The consequence of the above set of incentives is that the utility may be required to sell electricity below its cost of supply. This damages the utility’s finances and makes it difficult for it to invest, since it must rely on capital from central government. The Treasury, in turn, attempts to minimize the subsidies it provides, resulting in a build-up of debt in the utility, further worsening its financial sustainability. The utility sometimes responds by failing to pay its electricity suppliers in full; electricity suppliers then delay payments to fuel suppliers, creating a cascade of debt through the supply chain often known as “circular debt.”

In such a context, reform is extremely difficult. What is possible will depend on the precise constellation of stakeholders and their interests, which varies from country to country. Having a detailed understanding of the underlying political economy of each country — and how it relates to each country’s power sector — is vital to appreciate the kinds of reforms that are more, or less, likely to succeed.

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Donors’ Approaches Pay Too Little Attention to Political Economy

A review of recent indefinite delivery, indefinite quantity (IDIQ) contract requests for proposals from USAID in a wide variety of countries shows two common features. First, requests for proposals (RFPs) are generally well-crafted, displaying a detailed knowledge of the sector and the challenges that it faces in the selected country. Second, RFPs are almost always focused on addressing the technical challenges facing the sector and do not address the political economy obstacles to making progress. The same approach is true of other bilateral and multilateral funders. The focuses are on providing technical assistance, financing, and

capacity development and on maintaining good relations with the governments of the countries with which they work. Taking actions which might disturb the political equilibrium in the sector may be seen as sensitive and could damage broader bilateral or multilateral relationships. As a result, development programs tend to shy away from addressing political economy factors directly, treating them as a risk to be navigated, rather than central to the nature of the challenge being addressed.

However, the evidence of the last 30 years is that such factors are central to the success, or failure, of such support programs. Technical assistance is only of value if the systems, processes, and procedures designed will actually be implemented; concessional finance may only be effective if reforms are undertaken; and capacity building may not make a difference if a lack of capacity is not the real constraint in implementing reforms. In short, such interventions are effective when they address a binding constraint to improving sector performance; when the binding constraints are primarily of a political nature, a different approach may be needed.

A New Way of Thinking About Tackling Problems of Energy Sector Governance

A new approach to development programming has arisen, which has come to be known as “thinking and working politically” (TWP). It recognizes that political economy considerations often lie at the root of the most difficult development challenges and that development projects frequently have relatively little influence on the deep-rooted, informal rules that determine how change happens in any given country. Many development agencies have embraced political economy analysis (PEA) as a means of understanding the underlying factors that block progress and the potential coalitions of support that might promote it. More recently, donors have recognised a need to go beyond analysis, or to “work politically,” by designing programs to reflect the nature of the local politics and incorporating flexibility and adaptability into program design and implementation.³

³ See further thinking on this here: https://abtassocgovernancesoapbox.files.wordpress.com/2021/04/abt-associates_adaptive-management_a-frontline-effort_digital-1.pdf

Adopting a TWP approach to power sector reform entails a different way of working than traditional energy sector programs. It involves undertaking regular applied PEA within projects to understand the underlying political economy challenges and provide honest assessments of which aspects of governance are amenable to change and which are not. It requires analyzing the nature of the specific failings in the sector to tailor interventions to the local context. And it often entails working with a wider range of stakeholders, not only policymakers, legislators, government utilities, and regulators, but also consumer groups, civil society organizations, lawyers, professional associations, and international and local businesses. A political economy “lens” can help to identify where there are opportunities for reform and can help to inform donors’ approaches to interventions, including identifying which actors to engage and how best to sequence activities.

THINKING AND WORKING POLITICALLY IN THE POWER SECTOR

In Zambia, a PEA changed the World Bank’s approach to power sector reform. After years of unsuccessfully advocating a break-up and privatization of the state-owned utility, a PEA showed the Bank that this was politically impossible. However, the PEA identified that the mining sector was interested in paying the full cost of electricity if supply could be increased. This allowed the World Bank to leverage this desire for new investment to achieve viable reforms.

In Bangladesh, subsidized finance from international financial institutions as well as access to government land encouraged competition and investment in the power sector. However, supposed “best-practice” subsidy reforms removed these without analyzing the political economy consequences. The resulting collapse in investment led the government to move to closed-door negotiations with investors, leading to much higher costs in the sector.

In Lebanon, the electricity system is dysfunctional and corrupt, leading to frequent blackouts. However, one city, Zahle, has been able to deliver 24/7 power by exploiting a mechanism that was consistent with the country’s complex sectarian political system.

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The Current Structure of Energy RFPs Makes It Difficult to Use TWP Approaches in the Energy Sector

Implementing organizations such as Chemonics, RTI, Abt Associates, DAI, OPM, Palladium and others have built significant capacity in implementing a TWP approach in programming in health, education, and governance. This has been stimulated by donor agencies explicitly demanding such capabilities in RFPs. However, the approach is still rarely applied in energy sector programming, because energy sector projects are seen as technical interventions. However, the problems in energy project performance often arise as much from political economy challenges as they do from gaps in technical capacity or financing; this suggests a need to use a more politically savvy approach, but donors frequently shy away from efforts that might give rise to political push-back.

Recommendations

FOR IMPLEMENTORS	FOR FUNDERS
Do PEA and use the results	
<p>Many energy programs still adopt an overwhelmingly technical approach. Doing PEA can help to show how seemingly “neutral” technical approaches may fail and help programs to navigate around obstacles. But doing PEA is not enough; it is important to sequence PEAs to enable serious consideration of the implications of the findings for programming.</p>	<p>Explicitly recognize the political economy challenges of reform in requests for proposals. Insist that programs do PEA, both at inception and throughout, and that management processes use the results.</p>
Nurture demand for change as well as its supply	
<p>Achieving politically sensitive improvements in the governance of the sector requires the support of a broad set of stakeholders, including households, small and medium enterprises, unions, women’s groups, and other parts of civil society. Programs should facilitate neutral, evidence-based dialogue with diverse stakeholders and ensure that their voices are heard in policy circles.</p>	<p>Ensure that building demand for reform is a key component of energy sector support programs.</p>

Embed TWP into the way programs work	
Ensure programs continuously “think and work politically,” including by having a portfolio of activities to spread risk and a monitoring and evaluation system that values intangible progress (such as changes in mindsets or emerging reform coalitions), as highly as the value of disbursement.	Produce flexible designs that allow interventions to be altered — and budgets reallocated — as circumstances change. Insist on a robust, but flexible approach to the measurement of results.

CONTACTS

Founded in 1975, Chemonics is an international development consulting firm. In more than 70 countries around the globe, our network of approximately 5,000 specialists shares a simple belief: that the challenges we face today are best solved through the right partnerships – sharing knowledge, expertise, and experience to deliver results. Where Chemonics works, development works. Follow us on [Facebook](#) and [Twitter](#) or visit us at www.chemonics.com.

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