

# The Political Economy of Aid for Power Sector Reform

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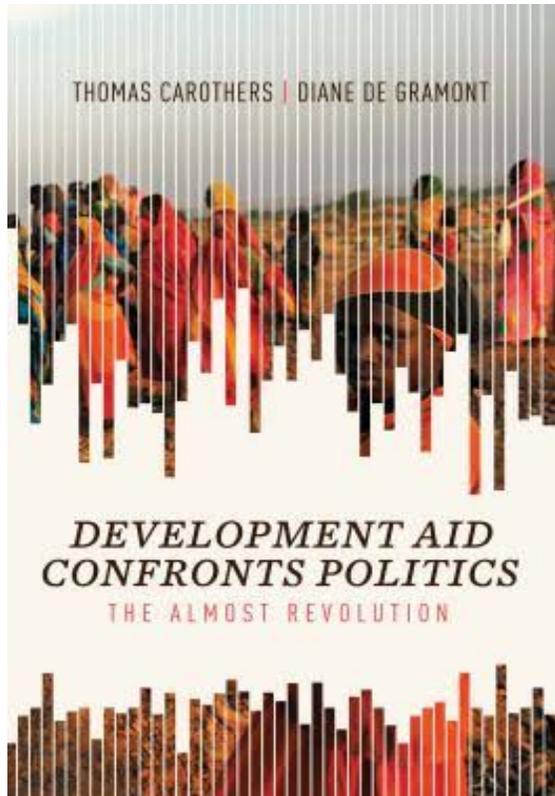
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# Background

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Aid is political ...



... and achieving a developmental objective requires a deep understanding of the politics



# Power sector reform is particularly “political”

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1. It is a natural monopoly (due to economies of scale)
2. It is a key part of the developmental narrative of many countries
3. It provides a centralised, easy and large opportunity for both rent extraction and patronage



# The questions and the answers

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## The Questions

1. How have donors taken politics into account in designing and implementing power sector reform programmes in Sub-Saharan Africa and South Asia?
2. What can be done to improve the way in which power sector projects are implemented?

## The Answers

1. Remarkably little
2. A lot ... but it would require changes in the way in which donors operate and projects are designed

# Approach

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## 1. Literature Review

- What does the literature tell us about how donors have managed the politics of power sector reform?

## 2. Review of Project Documentation

- Collected project documentation from the major donors to the sector in Tanzania and Orissa

## 3. Interviews with senior donor officials

- Focussed on officials with knowledge of power sector reforms in Tanzania and Orissa.

# Literature Review

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**Donors have played a major role as architects of reform in the power sector in developing countries** (Bacon and Besant-Jones, 2002; Wamukonya, 2003; Dornan, 2014)

**Until the early 2000s, donors pushed the “standard model” of reform** (corporatisation, commercialisation, legislation, regulation, restructuring, privatisation and competition) – there was a belief that “one size fits all”. (Gratwick and Eberhard 2008; Joskow, 2006; Littlechild, 2006; Hunt, 2002)

**There were a variety of motives for the approach donors took** – ideological, technical, commercial (Bacon, 1995; Thompson and Bazilian, 2014)

**The standard model has yielded rather limited results, often because it failed to take account of the underlying political constraints** (Eberhard, 2004; Dubash and Rajan, 2001)

**Donors have attempted to move away from “cookbook” solutions** (Besant-Jones, 2006; Levy 2007; Fritz et al. 2014) – **but have struggled to change their approach** (Naqvi, 2016)

# The Tanzania story

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Dominated by TANESCO – a state-owned utility. It has struggled financially for years resulting in low investment and very poor quality service

Donor driven reforms in 1990s applied the standard model – but never successfully implemented

Management contract tried from 2002-2006, but was terminated

New Act creates EWURA and REA in 2008

Emergency Power Producer contracts led to a corruption scandal and very high costs

Difficult relationship with key donors



# The Orissa story

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State government initiated reform in early 1990s, supported by DFID and World Bank

Aim was to unbundle the transmission and distribution functions and privatise them

New distribution companies failed to provide significant new investment, increase collections, or reduce T&D losses ... in part because of the refusal by the state government to correctly acknowledge losses

So the private sector withdrew and the distribution companies went back in public hands

# Key lessons from our interviews

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## **Analysing the underlying politics of change in a country is valuable – but only if used**

Very few donors conducted any kind of political economy analysis prior to the initiation of their programmes. Even when this was done, it was a separate exercise with little bearing on the substance of the proposed project.

## **Flexibility is important – but it is difficult**

Much has been made of flexible and adaptive approaches to project management. But making contracts flexible is complex; and allowing a slower and more experimental approach runs against the need for “results”

## **Dialogue, trust and personal relationships are of critical importance for reform**

But rotation of staff and the burden of process compliance reduces the ability to build trust.

## **Mental models matter**

Many international consultants still apply the “standard model” because they are unaware of, or find it harder to deal with the “messy” hybrid models that have evolved.

## **There may be an opportunity to build domestic demand for reform**

Donors place very little effort on building a broader coalition for reform with civil society and the private sector

# What we know and what we don't know

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## WHAT WE KNOW

- Power sector reform projects have a particularly bad record of failure because they are particularly prone to clashing with local political constraints
- Donors are keenly aware of these political issues, but have struggled to modify their approach to take them into account

## WHAT WE DON'T KNOW

- The underlying contexts and political factors that make success more or less likely
- Why donors don't significantly adapt their programmes when they know the political problems
- Why power sector reform is successful when it is – and what the role of external actors has been in this
- What sorts of communication can build wider support for power sector reform

# How EEG research can fill these gaps

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## **1. Explore how power sector reform options link to the underlying political settlement**

There is extensive literature on political settlements now – but very little work has explored its (major) implications for power sector reform work

## **2. Assess how donors incorporate PEA into programming in the power sector**

Understanding why it is so difficult for donors to incorporate political economy analysis into programming in the power sector

## **3. Case studies of successful power sector reforms**

Examine the approach was taken in each case: what was the influence of external factors and actors?; how did the government build support for reform?; what obstacles were faced and how did they overcome them?

## **4. Survey what people think about power sector reform**

Implement a survey experiment to test how ideas about reform shift with new information. This could provide policy recommendations about the messages most likely to build support for reform.