

# Political considerations relevant to Energy and Economic Growth



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## Report Summary

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The Purpose of this document is to “To undertake a rapid desk based study to identify evidence on institutional/political considerations linking large scale energy investments and economic growth to inform a DFID research project”.

This review is based on DFID’s draft Business Proposition: Energy and Economic Growth in Low Income Countries (EEG), and is intended to inform the preparation of a more detailed Business Case. Specific comments on the business proposition have been made available in a separate document.

The review finds a huge literature on the topic political economy and energy. The relative dearth of “academic literature” on some of these issues is amply made up with the literature from “practitioners”. The conventional wisdom now frequently explains the relative lack of progress in the world of energy sector reform, the rationalisation of prices and subsidies, and the desired shift to low carbon energy in terms of the constraints of ‘political economy’ rather than due to other more traditional explanations. All energy systems, whether predominantly in the public or private sector, need some form of regulation and are subject to important tax and subsidy regimes, all of which are associated with lobbying, rent seeking and winners and losers.

The literature is reviewed covering:

- political economy and fossil fuels, (including oil and the “resource curse”, coal, and fossil fuel subsidies),
- the political economy of power sector reform (including feed in tariffs, and power pools),
- the political economy analysis of low carbon growth,
- the energy mix and the shift to renewables, and
- the political economy of energy “access” and the distribution of energy services (including energy and gender).

The energy sector does not appear to present particular challenges for political economy analysis methods, even so valuable research could be undertaken to push the methodological frontier in the application of political economy analysis and related methods.

Despite the criticism, it appears that considerable progress can be made by the simple application of largely descriptive methods to identify who the stakeholders are, and to understand what they believe are the incentives and disincentives that they face. In such work, context is everything. Location specific research is required that builds on utilising deep local knowledge so as to understand the precise configuration of political forces and interest groups, and what motivates them. It is likely that this type of research needs to be informed by an historical perspective which provides insight into how the energy system operates.

The document ends with a bibliography (not all of which have been read or cited in the text).



# SECTION 1

## Introduction

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The Purpose of this document is to “*To undertake a rapid desk based study to identify evidence on institutional/political considerations linking large-scale energy investments and economic growth to inform a DFID research project*”.

This review is based on DFID’s draft Business Proposition: Energy and Economic Growth in Low Income Countries (EEG), and is intended to inform the development of the more detailed Business Case.

The method of the review has been to draw heavily on the material produced by the author when reviewing the political economy literature related to the energy sector in Africa for the EPSRC research project on Agro-Industries and Cleaner Energy (AGRICEN) Project<sup>1</sup>. While no attempt has been made at a “systematic” review it should be noted that there is a relative dearth of “academic literature” on some of these issues. But this is amply made up with the literature from “practitioners” such as The World Bank (especially from ESMAP) and consultants’ reports.

### What is Political Economy Analysis and why is it needed?

The terms of reference note that “*recent consultations have flagged the importance of political economy considerations in the area of energy and economic growth research*”. The development community has certainly begun to focus on why so many good ideas and technically competent plans associated with international development are often inadequately implemented. This concern has led a number of agencies to examine the political processes by which aid policies are implemented. To quote one of the key initial papers associated with the revival of this perspective, “*DFID and other donors find it easier to say “what” needs to be done to reduce poverty than “how” to make it happen. ... We tend to see the obstacles as being ‘lack of political will’, or vested interests against reform, or lack of capacity and resources to implement policy. But are other factors at work? ... Where are the levers, and the obstacles? What historically has driven the process in other countries, and is that experience replicable? ... We need to be able to look beyond the current policy environment and to take a longer term view of the underlying factors which shape the incentives and capacities for pro-poor change*”<sup>2</sup>.


This view led DFID to refer to this ‘new’ approach as the Drivers of Change. But this approach is now more widely known under its new label of the ‘new political economy analysis’ and it has flourished. It is now described as a multi-disciplinary field of enquiry which seeks to combine the insights of the older political economy with the ‘new institutional economics’ and the study of social processes, cultural norms and ethnicity.

Even in the world of electricity system reform and the desired shift to low carbon energy, the conventional wisdom now frequently explains the relative lack of progress in terms of the

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<sup>1</sup> <http://www.surrey.ac.uk/features/could-agro-industries-help-answer-africa%E2%80%99s-energy-problem>

<sup>2</sup> “Understanding Pro-Poor Change: A Discussion Paper”, by Sue Unsworth, DFID, Sept 2001.



constraints of 'political economy' rather than due to other more traditional constraints such as the lack of capital or technical capacity alone.

Political economy has a long history since the early 19<sup>th</sup> Century and is associated with the work of Adam Smith, David Ricardo, and Karl Marx. But if this review is restricted to what might be called the 'new political economy analysis', and what DFID describes as the Drivers of Change, the essence of the approach has been summarised in two central propositions:

- In order to understand how policies favourable to development can be put in place it is essential to analyse the incentives that influence the decisions of governing elites, other powerful interest groups and change agents in civil society, the private sector and the government bureaucracy. The nature of incentives and interests, both formal and informal, provides a large part of the explanation of why many governments pursue policies that are damaging to development. This approach can help to identify conditions that make it more likely that governments will adopt policies and programmes in favour of broad-based economic growth and poverty reduction rather than to pursue policies that continue to benefit predominantly the narrow interests of the governing elite and their supporters.
- These incentives result from the pursuit of economic interests and the restraints of formal institutions. They are also heavily dependent on the informal social rules that govern behaviour, define the social hierarchy, create and perpetuate embedded power structures and generate reciprocal social obligations, often shaped and perpetuated by historical, cultural and ethnic influences. These are often described as the 'rules of the game'.

An annotated bibliography of these and many other papers on the political economy perspective are available from the Policy Practice Library<sup>3</sup>.

Monica Beuran and her colleagues at the World Bank provide a similar succinct summary<sup>4</sup>. For them "*in its modern form, political economy studies refer to the study of the relations between political and economic processes which involve several factors such as incentives, relationships, and the distribution of power between various interest groups in society, all of whom have an impact on development outcomes. The fundamental idea is that to understand economic (development) performance, there is a need to understand first the politics that shapes it. ....Political Economy studies attempt to understand how political constraints (which arise from the need to make collective choice while dealing with conflicting and heterogeneous interests, and opportunistic behaviours) may explain the choice of economic policies (which are different from optimal policies) and how they affect the economic outcomes*".

In their view "*PE analysis attempts to understand the reasons why certain essential policies or programs are not being implemented, hence not resulting in desired development outcomes. The reluctance to implement such policies and programs is generally not based*

<sup>3</sup> See [www.thepolicypractice.com](http://www.thepolicypractice.com) Much of this literature is summarised in:

- DFID, 2009, Political Economy Analysis How to Note, A Practice Paper, Department for International Development, London
- Williams, G, Duncan, D., Landell-Mills, P. and Unsworth, S. (2008) Politics and Growth, Development Policy Review 29(s1)299-321
- Unsworth, S. and Williams, G. (2011) Using Political Economy Analysis to Improve Development Effectiveness, A DEVCO Concept Paper
- Fritz, V., Kaiser, K. and Levy, B. (2009) Problem-driven governance and political economy analysis: Good practice framework, World Bank

<sup>4</sup> Monica Beuran, Gaël Raballand, and Kapil Kapoor "Political Economy Studies: Are they Actionable, Lessons from Zambia", World Bank WPS 5656 May 2011.





*on economic considerations but is influenced largely by political considerations. Such political considerations could include the desire of policymakers to stay in power; to enrich themselves financially; to prevent political opponents from gaining power; and to dispense favours to supporters by preventing the introduction of new technologies, or improvements in the property rights of workers or competitors”.*

But these simple views are inevitably subject to criticism, particularly by ‘real political scientists’ who see a need for greater rigour and complexity. One of the most important reviews of this kind is Hudson and Leftwich and came out in June 2014<sup>5</sup>. This paper provides a most valuable and well-informed critique of the political economy approach to date. While they are highly praising of some aspects of the current work that *“pulled down the wall between development and politics”* (p19), they argue that much of it neglects some key elements of political science, is conceptually ill-defined and massively over simplifies the real and messy world of politics”. In particular they argue *“that existing political economy approaches lack the analytical tools needed to grasp the inner politics of development. Political economy has come to be seen narrowly as the economics of politics – the way incentives shape behaviour. Much recent political economy work therefore misses what is distinctively political about politics – power, interests, agency, ideas, the subtleties of building and sustaining coalitions, and the role of contingency”* (p5).

For them *“Politics, not capital or knowledge, is the binding constraint”* (p29). *“The tools failed to deliver operationally relevant recommendations for how to bring about successful political reform. Their analysis and conclusions were too general, and did not provide practical guidance to donors for how to work politically”* (p27).

At the centre of their analysis and the conceptual tools they use *“is a relentless focus on power”*.... *“Power is embedded in structures; it shapes and is framed by institutions; and institutions can also both strengthen and ‘tame’ it. It constrains what agents can do, but it also can be generated, used and mobilised by them to shape and change both institutions and the structures of power”* (p105).

Political analysis digs *“down to the level of messy, everyday politics”* (p6). *“This is where there are competing ideas, interests, values and preferences; where specific groups and interests struggle over the control, production, use and distribution of resources; where conflict is negotiated; where bargains are struck; and where formal and informal political settlements, alliances and coalitions are made and broken. Here politics collapses and violent conflict can break out; institutions are contested, shaped, implemented, avoided, undermined or amended; contingency, critical junctures and windows of opportunity disturb old patterns or open up new possibilities and – crucially – here the different players use different sources, forms, expressions and degrees of both de jure and de facto power”* (p6).

They believe that the stress on ‘incentives’, such as that provided by the two sources at the start of this paper, *“almost entirely evades the issue of power, which is so central to how politics happens”* (p47) and presents *“incentives and institutions as rather technical innovations or interventions”*. And they draw particular attention to the importance of “contingency” in the sense of future events or circumstances which are possible but cannot be predicted with certainty. *“Emphasising the contingent nature of ‘political realities’ helps us to rethink the nature of political feasibility – which is of course central to political economy..... Whatever the ‘level of development’ or the sector or the issue, there is always room for manoeuvre”* (p101).

<sup>5</sup> David Hudson and Adrian Leftwich, From Political Economy to Political Analysis, Developmental Leadership Program, Research Paper 25, June 2014, School of Government and Society, University of Birmingham, [www.dlprog.org](http://www.dlprog.org) .



They summarise their approach as follows:

- *“The key concepts of political economy - structure, institutions, and agency - need to be disaggregated to capture the different forms and ways in which they matter.*
- *New key concepts need to be added, such as power, ideas, and contingency, to analyse the interaction between agents and their structural and institutional context.*
- *Politics is characterised, above all else, by the operation of power. ‘Structure’, ‘institutions’ and ‘power’ are treated as very closely related phenomena in all areas of the social world. In short, any given structure – whether economic, social or political – is constituted by its two core elements of institutions and power.*
- *A political theory of change revolves around the interaction of agents and the institutional or structural context they act within, whether society, region, sector or issue. Institutions are shaped, maintained or undermined by human agents; agents are empowered and constrained by institutions, structures, power, and ideas. Politics occurs in the interstices of this interaction. Outcomes are uncertain” (p72).*

But the fundamental question remains what level of analysis is valuable and indeed possible in the real world where time and other resources are scarce. Much of the literature described as new political economy analysis might be described as being common sense and the sorts of things that good development practitioners have been doing for ages. Such thoughts were well summarise by Hudson and Leftwich in a quotation from Mick Moore in his assessment of Sida’s Power Analysis in which he imagines the reaction of a Sida staffer ‘(a) ‘It was interesting, but I knew a lot of that already’; (b) ‘This is not very different from what one can find in standard diplomatic country reports or in-depth journalism’; and (c) ‘But it does not really help me at all in deciding what to do’. (Sida, 2005: 7-8)<sup>6</sup>. All effective development practitioners try to identify who might support their work, who might oppose it, and how to communicate to the interested parties to see if they can form a progressive alliance for change. Such approaches were routinely used by the UK Civil Service<sup>7</sup>.

A number of conclusions emerge at this stage. First there is now a substantial literature establishing that many of the constraints to the effective implementation of ‘development’ are associated with what is described as the ‘political economy’. Second, as we suggested in the next section, such issues apply with considerable force to developments in large energy investments and change. And third that while a relatively superficial analysis of incentives and interest groups provides considerable insight into policy interventions that work, there remains a question as to how ‘deep’ the analysis has to be to be useful.


But it is also important to end this section by noting that, in addition to political economy analyses of particular sectors, there is also an expanding literature on the fundamentals of African politics. And it must be accepted that the over-arching political environment in Africa may not be conducive to change. For instance, the work of David Booth and others at ODI warns that *“EAC countries must be expected to exhibit, .... ‘limited access orders’. That is, the relationship between political and economic power will be close and strongly shaped by*

<sup>6</sup> Quoted by Hudson and Leftwich, page 28).

<sup>7</sup> Strategy Survival Guide, Prime Minister’s Strategy Unit, cabinet Office, 2004. See for instance Stakeholder Engagement Plan Matrix, page 128:

Stakeholder	Assessment			Action Plan			
	Key issues, concerns, perspective	How supportive?	How affected?	How influential?	How will we engage them?	When will we engage them?	Who is responsible?





*the generation and allocation of various kinds of economic rent”. And that in countries such as Kenya “pockets of crony capitalist success are set to get larger and more dynamic”<sup>8</sup>.*

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<sup>8</sup> East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania and Uganda , David Booth, Brian Cooksey, Frederick Golooba-Mutebi and Karuti Kanyinga, ODI May 2014



# SECTION 2

## Political economy analysis and big energy

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The focus of this paper is on the Political Economy of Large Energy Investments. But it is important to note in passing that the literature on the political economy and growth has been subject to much useful review and synthesis<sup>9</sup>. Similarly much is already documented in terms of the relationships between growth and infrastructure projects<sup>10</sup>, between infrastructure and poverty<sup>11</sup>, and between the impacts of electricity on poverty reduction.<sup>12</sup>

There has been a trend in recent political economy analysis towards what has been called “problem focussed” political economy analysis, to distinguish it from macro level or national level political economy. The PEA of Modern Energy Service forms one vibrant sub-set of this literature.

The modern energy sector appears to be an ideal candidate for such analysis: progress in regulatory reform has been modest; large oil, gas and electricity systems are characterised by huge financial flows and the concentration of decision making in relatively few hands; and they are sub-sectors that have long histories opacity and dirty dealing. Furthermore all energy systems, whether predominantly in the public or private sector, need some form of regulation and are subject to important tax and subsidy regimes, all of which are associated with lobbying, rent seeking and winners and losers.

### Corruption and the energy sector

Perhaps the starting point for political economy analysis in the energy sector is the recognition that it is a sector that has always been highly politicised. Even in colonial times the power sector, for instance, was known as the most corrupt institution in the empire (large contracts, opaque contract awarding systems, the use of aid to win sales for Northern suppliers). Furthermore the location of distribution and transmission lines were often decided by politicians wishing to win votes rather than according to where the greatest demand was or would be. Tariffs were also kept low (below cost) because raising tariffs were seen as politically unattractive. Utilities became large employers and utility posts became part of the patronage system.

All this conspired to produce very large and largely unplanned financial losses for the utility which had to be covered by government revenues, and ultimately formed a huge part of government expenditure. As financial losses rose so maintenance was cut back and spares


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<sup>9</sup> For instance in Politics and Growth Politics and Growth An Analytical Framework April 2008, Gareth Williams, Alex Duncan, Gareth Williams, Alex Duncan, Pierre Landell-Mills, Sue Unsworth, <http://thepolicypractice.com/papers/13.pdf> paper for DFID .

<sup>10</sup> DFID (2007) Growth and Infrastructure Policy Paper and Making Connections: Infrastructure for poverty reduction, Consultation document, August 2002. See also Michael Greenstone (MIT and IGC) Energy, Growth, and Development, Evidence Paper International Growth Centre, December, 2013

<sup>11</sup> Infrastructure & Poverty Linkages: A Literature Review, Adam Brenneman ([abrenneman@worldbank.org](mailto:abrenneman@worldbank.org)) & Michel Kerf ([mkerf@worldbank.org](mailto:mkerf@worldbank.org)) December 18, 2002.

<sup>12</sup> Poverty impact of electricity. The Poverty Impact of Electricity: what have we learned? Andrew Barnett, October 2012 (including minor revisions July 2014). <http://thepolicypractice.com/policybriefs.asp>.



could not be bought. This added to the downward spiral of poor service provision. As demand exceeded supply, planned and unplanned supply outages (and "brown outs") became increasingly common (reducing further people's willingness to pay for a rubbish service)<sup>13</sup>.

In a few countries tariffs have risen to levels that cover costs (as in Kenya). But this has had the effect of passing the cost of inefficiency (and huge profit taking from emergency power suppliers) to consumers. This in turn choked off demand, and reduced the impact that electricity could have on development.

Corruption has also been alleged in the international energy companies, both in the oil sector but also in the supply of generation and other equipment. Various efforts have been put in place to avoid the worst excesses including the transparency of tendering insisted upon by the World Bank, but also in legislation such as the UK The Bribery Act 2010 which has almost universal jurisdiction, allowing for the prosecution of an individual or company with links to the United Kingdom, regardless of where the crime occurred.

While very few sources could be found that specifically addressed the political economy of corruption in the energy sector<sup>14</sup>, there is a considerable literature in general, which is likely to address issues in the energy sector.

There is a large literature on corruption in industrialised and developing countries, including such activities as Transparency international's annual report of the Corruption Perception Index (CPI)<sup>15</sup>; the World Bank Cost of Doing Business<sup>16</sup>; the annual report from the Commission to the Council and the European Parliament, EU Anti-Corruption Report Brussels, 3.2.2014 COM(2014) 38 final<sup>17</sup>; and Towards A Framework for Extractive Industries Governance Assessment (FEIGA) Report to the World Bank Institute<sup>18</sup>.

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<sup>13</sup> There are many possible sources for these statements, but see for instance: Africa Infrastructure Country Diagnostic: Background Paper 6 Africa Infrastructure, Country Diagnostic Underpowered: The State of the Power Sector in Sub-Saharan Africa, Anton Eberhard, Vivien Foster, Cecilia Briceño Garmendia, Fatimata Ouedraogo, Daniel Camos, and Maria Shkaratan, May 2008.

<sup>14</sup> There is Lovei, L. and McKechnie, A. 'The Costs of Corruption for the Poor' Energy and Development Report, 2000: Energy Services for the World's Poor, ESMAP, World Bank, Washington DC, 2000.

And an example of political economy and corruption in the power sector by K. P. Kannan and N. Vijayamohan Pillai, who sought to understand the political economy of power utilities in Kerala, in South India in 2001. Much of the research sets out to document the "corruption channels" and to quantify the level of theft in many parts of the Indian power sector. They attach great importance to "a vigilant civil society, fully conscious of and committed to its duties and rights, to act as a watchdog in the common interest. However, the emergence of such a civil society cannot be spontaneous, but has to be striven for by conscious public praxis in toto. Although we recognise the exertion of such public praxis by a few concerned citizens and their organisations, the challenge is so enormous that it calls for much greater intensification of efforts so as to eliminate, at the least, the scope for rent seeking".

The Political Economy Of Public Utilities, A Study of the Indian Power Sector, Working Paper No. 316 June 2001. Centre For Development Studies, Kerala, India (found on the IDS website).

<sup>15</sup> <http://cpi.transparency.org/cpi2013/>

<sup>16</sup> <http://www.doingbusiness.org/>

<sup>17</sup> This later report notes, inter alia:

- At European level, three quarters of respondents (76%) think that corruption is widespread in their own country. The countries where respondents are most likely to think



But more recently there has been a burgeoning of papers that apply the political economy perspective to the energy sector. Given the importance attached to these issues by both The World Bank, DFID and other donors many more can be expected in the coming months. Each of the themes identified in the “framing” above have been viewed through the ‘political economy lens’ perspective generating ‘key literature’ and using ‘recognised methodologies’.

## Political economy and Fossil Fuels

### Oil and the “resource curse”

A particularly important area of this analysis has focussed on the political economy of gas, oil and extractive minerals more generally. This has had a long history and has been frequently summarised in terms of the so-called ‘Resource Curse’, in Nigeria and elsewhere in which countries appear poorer on many indices after finding oil and gas than before. This area of analysis has also gained new impetus with the finds of solid, liquid and gaseous fossil fuels in Ghana, Uganda, Ethiopia/Kenya, Tanzania and elsewhere<sup>19</sup>). Even for those agencies that focus on low carbon find that fossil fuels often represent the base case, against which low carbon options have to be compared<sup>20</sup>.

There is a great deal of literature on this topic that is too large to review here, ranging from technical manuals on best practice how countries should ideally cope with the potentially large financial flows from new finds of oil and gas, through the huge effort of The Extractive Industries Transparency Initiative (EITI)<sup>21</sup>, through to political economy analyses of the consequences of fossil fuel income flows.

Typical of this perspective is contained in the recent IEA report on energy in Africa which noted that in Nigeria, “*The wide-ranging Petroleum Industry Bill (PIB), which was first drafted*

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corruption is widespread are Greece (99%), Italy (97%), Lithuania, Spain and the Czech Republic (95% in each).


- A 2013 study on identifying and reducing corruption in public procurement in the EU concluded that in 2010 the overall direct costs of corruption in public procurement for only five sectors (i.e. road and rail; water and waste; urban/utility construction; training; research and development) in eight Member States<sup>25</sup> ranged from EUR 1.4 billion up to EUR 2.2 billion
- Construction, energy, transport, defence and healthcare sectors appear to be most vulnerable to corruption in public procurement.

<sup>18</sup> William Kingsmill and Gareth Williams, April 2013, <http://thepolicypractice.com/papers/21.pdf>.

<sup>19</sup> The Plundered Planet, Paul Collier, Oxford, 2010. The Oil Curse, Michael Ross, Princeton, 2012 See also Towards A Framework for Extractive Industries Governance Assessment (FEIGA), Report to the World Bank Institute, William Kingsmill and Gareth Williams, April 2013, <http://thepolicypractice.com/papers/21.pdf>.

<sup>20</sup> See for instance the World Bank ESMAP report on a Model for Electricity Technology Assessments(META): Chubu Electric Power Company & Economic Consulting Associates Ltd, User Manual, July 2012 <http://esmap.org/node/add/tool-download-meta>.

<sup>21</sup> Launched in 2002 to improve transparency and accountability in countries rich in oil, gas, and mineral resources, EITI has been guided by a set of principles and criteria that provides a framework and monitoring mechanism under which resource-rich countries can ensure the transparency of revenue flows from their natural resource sectors. At the global level, the EITI is a coalition of Governments, companies, civil society, institutional investors and international organizations. At the level of a participating country, its key organs are an implementation leader (often from Government) and a multi-stakeholder committee that comprises the Government, locally operating companies and civil society; the committee may also include parliamentarians and the media.



in 2008, aims to resolve two key – and intensely political – questions for the oil and gas sector:

- How the government can maximise its benefits from hydrocarbon resource development, while still encouraging efficient private investment.
- How revenue from the sector will be distributed and used among the various layers of government and administration. It has a particular focus on measures necessary to increase domestic gas supply”.

“All stakeholders agree that sweeping fiscal and non-fiscal reforms are sorely needed, but finding the right balance in a comprehensive and detailed piece of legislation has made its progress into law very slow and difficult. The provisions for revenue distribution between the 36 states and 774 local governments in Nigeria are particularly contentious”. IEA 2014, p140.

Similarly a seminar organised by the African Development Bank to consider how Uganda might deal with its oil finds stated that “Oil and gas companies often have adequate information about the resource being extracted, but are not transparent and do not share this with the broader public. When the governance of a country is not in the interest of the people, companies tend to collude with politicians to deny the citizens (especially the poor) some benefits from the natural resources being exploited. One major way to address this matter is for host Governments to require oil companies to publish all information”<sup>22</sup>.

Deborah Braughtigham’s classic work on the role of the Chinese in Africa<sup>23</sup>, provides a fascinating insight into the role of western donors efforts to ‘reform’ Angola after the civil war. A stand-off between the Government and western donors’ loan conditionality was broken by the intervention of the Chinese who offered an infrastructure loan in 2004 through the Chinese ExIm Bank at the very cheap non-conditions asked rate of 2.55% above Libor (P273).

But there is also a new strand of work using political economy analysis to consider oil developments in Africa that might constitute an intellectual break from the resource curse approach. This sees oil as merely an ‘idiom for doing politics...inserted into an already existing political landscape of forces, identities, and forms of power’ (Watts 2004: 76). An example of this new approach is provided by *Sovereignty, the ‘resource curse’ and the limits of good governance: a political economy of oil access in Ghana*, by Jon Phillips, Eleanor Hailwood, and Andrew Brooks, Review of African Political Economy forthcoming 2014<sup>24</sup>.

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<sup>22</sup> Managing Oil Revenue in Uganda, A Policy Note March 2009, OREA Knowledge Series: No. 1 by Sarah Ssewanyana, and Lawrence Bategeka, both of EPRC and Julius Kiiza, Department of Political Science, Makerere University.

<sup>23</sup> The Dragon’s Gift: The real story of China in Africa, OUP, 2019.

<sup>24</sup> Although not read by this author, Jon Phillips provided examples of the literature in this area: Bush, R. 2008. Scrambling to the Bottom? Mining, Resources & Underdevelopment. Review of African Political Economy 35(117):361-366. Ferguson, J. 2006. Global Shadows: Africa in the Neoliberal World Order. Durham: Duke University Press. Frynas, J. G. 1998. Political instability and business: focus on Shell in Nigeria. Third World Quarterly 19(3): 457-478. Harrison, G. 2004. The World Bank and Africa: The Construction of Governance States. London: Routledge. Karl, T. L. 1997. The Paradox of Plenty: Oil Booms and Petro States. Berkeley, CA: University of California Press. Kopiński, D., Polus, A., and Tycholiz, W. 2013. Resource Curse or Resource Disease? Oil in Ghana. African Affairs, 112(449):583-601. Massey, S. and May, R. 2005. Dallas to Doba: Oil and Chad, external controls and internal politics. Journal of Contemporary African Studies 23(2):253-276. McCaskie, T. C. 2008. The United States, Ghana and oil: Global and local perspectives. African Affairs 107(428):313-332. Nwajiaku-Dahou, K. 2012. The political economy of oil and ‘rebellion’ in Nigeria’s Niger Delta. Review of African Political Economy 39(132):295-313. Obi, C. 2010. Oil as a ‘curse’ of conflict in Africa: peering through the smoke and mirrors, Review of African Political Economy





## Coal

Despite a great deal of political activity by donors to foster low carbon strategies, political realities on the ground tell a somewhat different story. The IEA states that coal remains the second largest commercial fuel in Africa (after oil). But while “*South Africa, the dominant player in African coal, is seeking to diversify its power mix*”, ... “*coal’s relatively low cost remains an asset in societies concerned about the affordability of electricity*”. “*Coking coal from Mozambique [is] the only major new international [coal related] export flow*”. (IEA, op cit, 2014, P 15).

The political economy effect of cheap South African coal on other parts of Africa is profound and widespread. Not least of the reasons for this is the trade-off between low carbon and low cost electricity services. This can be illustrated by the case of the Chinese private company that supplies electricity to the grid in Ghana. The Sunon Asogli Power Ghana Ltd (SAPGL), currently supplies 180 megawatts of electricity to the Ghana grid using gas from the West African Gas Pipeline, which in 2003 was 14 per cent of the power distributed by the utility to consumers. But the company has plans to construct a 700 megawatt coal fired plant, as coal is “said to be far cheaper than gas”, and producing “a 10 per cent return rate per annum”<sup>25</sup>.

Similarly a recent piece in The Nairobi Business Monthly presented coal as the next big thing in Kenya. The article says that “*the coal deposits in Kitui are billed to be the best alternative source of cheaper energy to drive Vision 2030, the long term development blueprint which aims to make Kenya an industrialised country. It will also be a huge revenue earner for the government*”<sup>26</sup>.

## Politics of the fossil fuel subsidies.

Perhaps the most archetypal issue of energy and political economy relates to fossil fuel subsidies. There is widespread agreement that they are harmful to the economy and to the environment, and it is accepted that for reasons of political economy they are very difficult to remove.

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37(126):483-495. Ross, M.L. 1999. The political economy of the resource curse, *World Politics*, 51(2):297-322. Rosser, A. 2006. Escaping the resource curse. *New Political Economy* 11(4):557-570. Sachs, J and Warner, A. 1999. The big push, natural resource booms and growth. *Journal of Development Economics*, 59:43-79 Tan-Mullins, M., Mohan, G., and Power, M. 2010. Redefining ‘aid’ in the China–Africa Context. *Development and Change* 41(5):857-881 Van Alstine, J. 2014. Transparency in resource governance: The pitfalls and potential of “New Oil” in Sub-Saharan Africa, *Global Environmental Politics* 15(1):20-39 Watts, M. 2007. Petro-insurgency or Criminal Syndicate? *Conflict and Violence in the Niger Delta*, *Review of African Political Economy* 114:637-660 Whitfield, L. 2011. Competitive clientelism, easy financing and weak capitalists: The contemporary political settlement in Ghana. DIIS Working Paper 2011:27. Copenhagen: Danish Institute for International Studies Williams, D. 2010. Making a liberal state: ‘good governance’ in Ghana. *Review of African Political Economy* 37(126):403-419 World Bank. 2013. *Energizing Economic Growth in Ghana: Making the Power and Petroleum Sectors Rise to the Challenge*, Energy Group, Africa Region, World Bank.

<sup>25</sup> Source: Daily Graphic, [graphic.com.gh/.../8015-gas-flows-from-west-african-gas-pipeline-to-sunon-asogli-plant.html](http://graphic.com.gh/.../8015-gas-flows-from-west-african-gas-pipeline-to-sunon-asogli-plant.html), 22 JUL 2013.

<sup>26</sup> This article was brought to my attention by Dr Ana Pueyo (IDS) . The article also notes that “The coal project has been dogged by controversies since the concession was awarded two years ago with numerous court cases filed by the local community demanding to be involved in negotiations. Kitui Governor Dr Julius Malombe says his government will take a lead role in facilitating dialogue among all players to ensure that they get the best deals while safeguarding the environment”. Posted on September 1, 2014 by Zadock Malika, <http://nairobibusinessmonthly.com/coal-war-kitui-mines>



An IMF study estimated global fossil fuel subsidies were \$1.9 trillion a year, equivalent to 2.5 percent of global GDP. This included some \$488 billion—roughly a quarter—in “direct” or consumer subsidies, those provided mostly in developing countries to hold down consumer prices. The far larger share, however, was so-called “indirect” subsidies—the lack of taxation on emissions corresponding to the damage that they were inflicting. The IMF included in these damages *“the effects of energy consumption on global warming; on public health through the adverse effects on local pollution; on traffic congestion and accidents; and on road damage.”* These the IMF estimated to be \$1.4 trillion per year<sup>27</sup>.

Indonesia represents an example where energy subsidies are the central issue of energy policy. Subsidies are paid both on fuel and electricity tariffs, such that liquid fuel prices in Indonesia are approximately a third the price in countries such as China, Thailand and the Philippines. Even though subsidies are no longer paid on fuel to industries, the amounts involved are still huge. 2012 spending on fuel subsidies totalled (USD17.08bn). This was more than the central government’s capital spending and social spending combined. It was three times the central government’s expenditure on infrastructure<sup>28</sup>. Many efforts have been made to curb subsidies but the efforts are largely ad hoc and are hotly contested, such that, for instance, the plans to reduce the subsidy in 2011-12 had to be reversed.

The distortions resulting from the large subsidies are also well documented and widely known<sup>29</sup>. But subsidy reform usually requires some form of compensation, particularly for the poorest people who are affected. But in many countries, including Indonesia the general population are said to have little faith in cash transfers which are easily diverted. In Indonesia the current subsidies are captured by households with the highest consumption. Less than 1% of the subsidies go to the poorest 10%. Current forms of regulation are said to send conflicting messages to PLN from MEMR on one side and the Ministry of Finance on the other. The current mechanism of regulation does not incentivise PLN to engage in grid extension in the remoter areas<sup>30</sup>.

Again there is a vast literature on this topic, and much of it has a political economy perspective which identifies groups of winners and losers. Much of this literature has been reviewed, summarised or generated by the Global Subsidies Initiative (GSI) in Switzerland, established in 2005 by the International Institute for Sustainable Development (IISD)<sup>31</sup>.

<sup>27</sup> International Monetary Fund, “Energy Subsidy Reform: Lessons and Implications,” policy paper, January 2013, <http://www.imf.org/external/np/pp/eng/2013/012813.pdf>.

<sup>28</sup> Ndiame Diop, World Bank, EIU report January 2014, page 17.

<sup>29</sup> See The Ministry of Finance Green Paper, and reports by IISD, BPPT, EIU, World Bank briefs.

<sup>30</sup> IISD, March 2012, Indonesia’s Fuel Subsidies: Action Plan for reform, Braithwaite, et al, <http://www.iisd.org/gsi/about-gsi>. The GSI’s goal is to encourage individual governments to undertake unilateral reforms on subsidy policy where these would deliver clear economic, environmental and social benefits and to generate a consensus in the World Trade Organization and in other forums on the need to take resolute, ongoing and systematic action to reduce or eliminate subsidies that are both trade-distorting and undermine sustainable development. The GSI has received project funding from numerous governments, United Nations agencies, and foundations. The GSI’s current research into fossil-fuel subsidies is supported by the governments of Denmark, Norway, New Zealand, Switzerland and the United Kingdom. The GSI has also been contracted for specific projects by Greenpeace, Nestle, the OECD, OPEC, UNEP, and the Swiss National Centre of Competence in Research on Trade (NCCR). The William and Flora Hewlett Foundation also contributes funding for research and communications activities.



## The Political Economy of Power sector reform

In the electrical power sector, 'sector reform' has rightly been the major focus of attention for over twenty years, and represents another archetypal example of political economy. The problems are well known, and the need for reform widely accepted, but the difficulty of achieving reform has proven very difficult and highly political.

In the late 1980's it became clear to the donors that official development assistance was not sufficient to fund the total volume of capital required for an effective electrification programme in most developing countries. Attracting private capital was therefore seen primarily a tactical necessity. But it also rapidly became an ideological necessity. Thus this 'new' tactical necessity coincided with the Reagan/Thatcher era, and sector reform efforts to make power utilities attractive to private capital often became highly ideological and were often confused with wholesale efforts to 'privatise' the power sector.

The World Bank took the position that it would not provide more funds for capital investment until power sector reform had been implemented. While the World Bank never provided more than a small percentage of the total capital for power sector investment (estimated to be between 4 and 10 % in the 1980's), it was hugely influential in power sector planning and project preparation. Most donors would only invest in electricity schemes that the Bank approved. Therefore the change in Bank policy effectively cut off official development assistance to new build (the exception was the Asian Development Bank which under Japanese influence continued to support direct public investment).


The direct result of this technical and political decision was a massive under investment in the power sector in Africa – the so-called “lost decades”<sup>32</sup>. Reform was inadequate and the response from the foreign private sector was very disappointing<sup>33</sup>. So while there has been some progress in power sector reform it has not yet been sufficient to attract anything like the required levels of private investment; its primary objective. Indeed sector reform in Africa may never be sufficient to attract the required level of investment from the international private sector (who clearly have more profitable and safer investment possibilities elsewhere).

This context draws attention to the important but under studied political economy of donor behaviour in the energy sector. Donors represent a huge political force in the energy sector, not only in switching emphasis from construction of plant to sector reform, but also switching from energy related to poverty reduction to low carbon development. Furthermore the role of

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<sup>32</sup> Whether or not this was a sensible strategy in theory, it proved unfortunate in practice. Unfortunately the World Bank adopted a very particular form of privatisation, based largely on the UK model, involving unbundling of the system in order to promote competition between generators. This model involves many generators, many distributors and a single transmission company (often owned by the state). Often this model was resisted in Africa because it did not make sense in the smaller systems of Africa where their generation capacities were too small to divide up so as to obtain the necessary degree of competition. Unusually for the World Bank they apologised for their inappropriate “one-size-fits-all” approach to power sector reform and recommended a more nuanced approach that was less ideological and more pragmatic to using a mix of public and private capital in the power sector. The changed Bank policy was reflected in an operational guidance note to staff: Public and Private Sector Roles in the Supply of Electricity Services: Operational Guidance for Bank Group Staff, January 2004.

<sup>33</sup> The private investment that did occur in the power sector mostly occurred in South East Asia, and the exploitative terms of some early private sector investments (particularly associated with ENRON) also did not help the argument for private suppliers of capital. In Kenya some of the initial investors have had to reduce their excessive prices overtime.



China both as an official government agency, but also as a new breed of entrepreneurs alters the political power balance of the energy sector.

Hudson and Leftwich draw attention to the important fact that the World Bank's mandate was specifically non-political, and this may well have hindered recognition of the role of political processes in development. *“Though there has been much debate about what the relevant Article meant, it has been interpreted to mean that the Bank was precluded from using ‘political’ criteria in its lending decisions, and that it was not permitted to base lending decisions on political issues such as the nature of a country’s political regime, its human rights record or indeed corruption. The influence of this non-political or a-political position has been enormous – even to the extent of precluding use of the word ‘politics’ or ‘political’ in much of the Bank’s earlier work, though that is not so much the case today. But it did mean that, until relatively recently, the Bank undertook no serious political analysis. And, when it did, it was in the form of a focus on ‘governance’, building the organisations and capacities of an ‘effective state’ (World Bank, 1997) and on ‘public sector management’ issues. Indeed, in some respects, politics was treated as something that got in the way of better development, and the aim was somehow to remove the ‘distortionary policies introduced by politicians’ (Boone, 1996: 322)”. (p14)*

The centrality of political economy in power sector reform is made very forcefully in recent paper by Griff Thompson and others<sup>34</sup> that explicitly explores the links between ‘governance’ and ‘energy access’. This paper may be considered particularly important in that Thompson is a high ranking official in the US State Department and has a long experience of energy policy in developing countries<sup>35</sup>. The argument advanced in this brief essay is that the widespread failure of power sector reform in many countries can be put down to the fact that such reforms rarely took place with a deep understanding of the political realities: *“power sector reform efforts do not take place in a societal vacuum, but rather are directly affected by the surrounding political environment within which they are expected to take root”.*(p 128). For them the success of *“a theological adherence to market reform and liberalization”..was “abysmal” .. “as it fundamentally did not align with the needs of the countries, nor the state of their human and institutional capacity. “Architects of these reforms – especially when located thousands of miles away – abstract the problem from its broader socio-political context and view the problem primarily if not solely through a techno-economic lens, thereby misinterpreting the constitutive and essential institutional elements inherent in the system. (p 129). “The technical assistance and capacity building activities, while important in many cases, do not address the fundamental political issue of who wields political power and how that power is wielded”<sup>36</sup>.*


Many other authors comment on the centrality of political economy analysis in relation to energy policy in general and power sector reform in particular. The great authority on African power sector regulation, Professor Anton Eberhard, remarks that in South Africa *“The process of reform of the distribution sector has been slow and frustrated by the complex web*

<sup>34</sup> Democratization, Energy Poverty, and the Pursuit of Symmetry, Global Policy, Volume 5. Issue 1 . February 2014, by Griffin Thompson, Georgetown University, Morgan Bazilian, Columbia University.

<sup>35</sup> Griffin M. Thompson, Ph.D, is Branch Chief, Senior Climate Change Program Manager, Bureau of Oceans, Environment and Science, U.S. Department of State. Dr Thompson “represents the Bureau on all energy matters regarding the environmental impacts of energy production and use, with primary emphasis on the intersection between energy and climate change”. Previously Dr Thompson served as Director of the Office of Energy at the U.S. Agency for International Development (USAID) and before that, as Senior Policy Analyst at the National Renewable Energy Laboratory (NREL)

<sup>36</sup> DFID had huge experience of the difficulties of power sector reform, particularly in Orissa, India. No lesson learning documentation of this experience has been found so far, but probably exists within DFID.





*of political interests at the local level and the fear of loss of control of an important infrastructure service and large income streams. Nevertheless, the process of restructuring continues and government is intent on creating a more efficient industry in the form of new, commercially run, public corporations*<sup>37</sup>. Eberhard argues that “Eskom is still seen as an important instrument of government policy, an apparently well-performing infrastructure industry that supports government’s economic and social program. Current low prices create a false complacency. And government faces serious resistance from organized labour, which has picked issues around Eskom reform as the battleground against privatization. In the next years, it could be the interests of the new black economic elite, interested in a share of privatization rents that maintain the momentum for reform”.

Similar views are repeated by the Energy Governance Initiative at the World Resources Institute when it says that “*Decisions made in the electricity sector have repercussions with fundamental impacts on the public and their interests. Closed political processes and politically powerful groups often give limited attention to sustainable development objectives and public interest in decision making, particularly during sector reform processes*”<sup>38</sup>.

It is now clear that some of the determinants of successful electricity sector reform must include that the model of reform is “sensible” in relation to local conditions, that there is sufficient technical competence (within both the regulator and the utilities to implement reform) and an ability to maintain independence between the regulator and the regulated. But in addition to all these arguments resistance to change can also be attributed to long standing vested interests, and because many countries lacked the capacity to undertake the reforms and to regulate the new market. The early regulators were often seconded from the utility and saw their future within the utility. This posed an immediate conflict of interest and increased the risk of regulatory capture.

This shortage of electricity supply and under investment has had a number of consequences which frame the political economy of current policy and investment options. First, it has resulted in a massive investment in highly inefficient and hugely expensive small “self generation” or emergency supply units, ranging from large plant at factory level down to small petrol engines at the level of rich households and enterprises. One particular beneficiary of this situation has been the highly profitable UK company called Aggreko. The huge extent and high cost of their investment in Africa is set out on their website. The IEA (and the Africa Infrastructure Country Diagnostic) have carried out special studies showing the huge proportion of power supplies that are currently provided by these very high-cost “emergency” supplies in Africa<sup>39</sup>.

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<sup>37</sup> Anton Eberhard , chapter 6: The political economy of power sector reform in South Africa, in *The Experiences of Five Major Developing Countries*, Edited by David G. Victor, Stanford University, California, and Thomas C. Heller, Stanford University, California, January 2009 Cambridge University Press, ISBN 9780521100700

<sup>38</sup> EGI Assessment Toolkit, Benchmarking Best Practice & Promoting Accountability in the Electricity Sector, Shantanu Dixit, Navroz K. Dubash, Crescencia Maurer, Smita Nakhoda, WRI June 2007. The Electricity Governance Initiative (EGI) is a global network of civil society organizations dedicated to promoting transparent, inclusive, and accountable decision-making in the electricity sector. EGI facilitates collaboration of civil society, policymakers, regulators, and other electricity sector actors to ensure that sector decisions reflect public interest. <http://www.wri.org/our-work/project/electricity-governance-initiative>. The Electricity Governance Initiative (EGI) has been supported by the C. S. Mott Foundation, the Netherlands, Ministry of Foreign Affairs, the Renewable Energy and Energy Efficiency Partnership and the U. K. Foreign and Commonwealth Office, the U.S. Agency for International Development, and the Wallace Global Fund.

<sup>39</sup> See Eberhard et al footnote 13 above.





The new direction to power sector reform has resulted from the application of political economy analysis. The World Bank has led this development of a more nuanced and politically smart approach. This is exemplified by the pioneering research by Brian Levy in Zambia where a political economy approach was used to negotiate sector reform<sup>40</sup>. This experience led directly to the World Bank changing its strategy at least in the power sector of Zambia by applying a more nuanced 'politically smart' approach in 2007. When this strategy was later subject to a World Bank review some years later they found that the new policy had indeed successfully broken the log-jam of power sector reform<sup>41</sup>.

Levy uses a political economy perspective to describe the changes in the Zambia infrastructure including electricity, water and telecommunications. From a situation of considerable power surplus, the situation deteriorated over time, with no new capacity being added to the system, and the numbers of staff rose drastically as did their salaries (forming some 50% of the utility, costs). Beginning in the mid-1990s until 2003, the World Bank tried to negotiate its standard power sector reform package, with little success. In 2003 the Government rejected the World Bank standard package of power sector reform (unbundling), terminated negotiations with a foreign independent power producer, and started negotiations with the Chinese for a 35 MW plant producing power at an estimated 30 US cents per kWh cost, while not seeking to raise the consumer tariff from the traditional 3 cents/kWh.

Levy found that the regulatory authorities have become increasingly competent technically, but the *“political rules of the game [did not] give that competence space to act professionally”*. He also found that the realignment of residential tariffs would be politically difficult as was any means of reducing ZESCO [the Zambian power utility] staff costs. Therefore a formidable constituency against change was created. He argues that *“With weak institutions, Zambia’s political leaders are likely to rapidly retreat from any actions that provoke strong countervailing reaction. And the reactions that matter most will be those from other parts of the political and social elites”*.


He argues that in order to *“contend with political economy realities, a reform agenda must take the interests of stakeholders into account. The requisite analysis has both ‘critical’ and ‘constructive’ dimensions. The critical analysis aims to clarify what are the political constraints to proceeding with the ‘optimal’ reform agenda; this will be explored immediately below. The constructive analysis aims to explore what might be the sources of support for reform”*.

Levy’s great insight was to argue that *“optimal solutions are unachievable, [but] workable ways forward may nonetheless be found. Two analytical steps are key to finding them. The first step is to shift from a ‘cookie-cutter’ mindset of the optimal solution and to focus instead on specific, concrete, potential developmental goals relative to the status quo”*.

He sought *“Stakeholders with the incentive and influence to press for improved performance”*, identifying the copper companies who already consumed 50% of the power and were able to pay for new capacity. And he also sought out *“Top-level political decision-makers”* and explored *“the options for shaping the benefits and costs of the political calculus so that decision-makers on the margin will opt for ‘pro-development options”*.

<sup>40</sup> Brian Levy, “The political economy of infrastructure reform in Zambia”, University of Cape Town Business School, mimeo 2007..

<sup>41</sup> Monica Beuran, Gaël Raballand, and Kapil Kapoor “Political Economy Studies: Are they Actionable, Lessons from Zambia”, World Bank WPS 5656 May 2011.



The policy implication was clear: *“move rapidly to lock in new generating capacity on the basis of full-cost pricing for the increment by mining companies. Do not hold such investment hostage to a broader reform of the pricing regime”*.

Some years later Monica Beuran and her colleagues’ reviewed what happened on the ground in response to what Levy had proposed. They sought to explore what, if any, “actionable” lessons could be learned from this experience and other more nuanced approaches that attempted to understand the political economy of the situation and to be more relevant to local conditions .

The Beuran review of the Zambian experience concluded that the insights gained from the application of the new political economy had been highly successful: this *“approach enabled the government to obtain the political support needed for increasing tariffs significantly: a series of major tariff increases were implemented in 2009 and 2010 (27% in January 2009, 35% in August 2009 and 25.6% in August 2010). These tariff increases have allowed Zesco to improve its financial performance, put the company on the path to financial sustainability, while at the same time increasing the number of people connected to the electricity grid”* but in addition *“During the past three years, the energy sector has attracted upwards of US\$2 billion in foreign direct investment and electricity generated in the country is projected to double over the next five years, as a result”*.

This approach has now been elaborated built into the World Bank’s “Problem-Driven Governance and Political Economy Analysis: Good Practice Framework. This is discussed in more detail in the section on Methods, below.

### **The Political Economy of Feed in Tariffs (FIT)**

A sub-set of issues of power sector reform has been the development of incentives to encourage private investment in electricity service generation and delivery. This is in some way the converse of fossil fuel subsidies mentioned earlier. Subsidies are provided for two main reasons: to enable poor people to use modern energy services (without the ability to pay the full cost of electricity services); and to encourage renewable sources of energy which are produced at higher cost than fossil options. This latter arrangement is usually described as Feed In Tariffs (FIT).

Subsidies are political in that they essentially transfer resources from one part of the economy to another (e.g. from rich to poor, from urban to rural, or from conventional suppliers to suppliers of renewables)<sup>42</sup>. This issue is elaborated below on page 22The political economy of energy “access” and the distribution of energy services

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<sup>42</sup> Tanenbaum et al note that ““Tanzania’s Rural Electrification Authority (which has received funding from the World Bank and other donors; see <http://www.rea.go.tz>) currently offers grants of \$500 to Small Power Producers for each new rural customer that is connected by suppliers (isolated or connected mini-grid operators) other than the national utility. These grants are typically disbursed in tranches: 40 percent on signing the grant agreement, 40 percent on delivery of the connection materials to the village, and the remaining 20 percent on verification of the actual connections. Because the REA’s goal is to maximize new customer connections, it does not distinguish between different sources of generation in giving these grants. In other words, the REA grants are provided on a per connection basis regardless of whether the electricity supplied comes from a renewable generator, a diesel generator, or a hybrid generating system. A similar arrangement exists in Mali” (p131)”.



A recent publication from the World Bank addresses the specific issue of energy subsidies from a political economy perspective<sup>43</sup>. This report by Masami Kojima, Robert Bacon, and Chris Trimble has a promising title and sets out to cover “*approaches to political economy analysis, tools available, and methodological issues*” (p4). It provides an excellent review of the evidence about the economic reasons for energy subsidies which in “*Sub-Saharan Africa are substantial and highly regressive*” (p4). And it notes that “*While subsidies can be quick, easy, and politically expedient to implement, they are equally quick to take root and challenging to remove. Optimal policies that are technically sound and welfare enhancing over the long run have nevertheless been found difficult to launch and even more challenging to sustain. Of the barriers to reform, those associated with political economy are among the most powerful, yet their analysis is often lacking due consideration in the reform design process*” (p4).

But the report comes to conclusion that “While there are a fair number of papers chronicling subsidy reform episodes and drawing lessons or analysing the distributional effects of power subsidy reform, there are fewer papers explicitly addressing the political economy of subsidy reform” (p7). The authors argue that “*the perceptions, activities, motivations, and impact of public officials deserve more systematic analytic attention than they have been given*”(p 26).

From the point of view of political economy, they come to the very important conclusion that there is widespread ignorance of the nature and consequences of existing subsidies at this level. This suggests that research can determine the factual basis of people’s concerns and enable different coalitions for change to be created. For this reason they also stress the need to analyse the distributional effects of subsidies on different stakeholder groups at the micro level (p25).

Overall the study is important in that it confirms the view within the World Bank that political economy analysis is necessary, and implies that the Bank will generate many such studies in future. They stress that local organisations are crucial both in collecting and analysing the necessary data, but also in ensuring there is sufficient internal discussion between stakeholders about Poverty and Social Impact Analysis (PSIA) as an important tool in understanding these distributional effects of policy change.

On the question of feed in tariffs, there are also many analyses of their economics<sup>44</sup>, but there is also a growing recognition that the setting of the appropriate rates is highly political, and whether or not FIT meet the need, is largely a political question<sup>45</sup>.

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<sup>43</sup> Political Economy of Power Sector Subsidies: A Review with Reference to Sub-Saharan Africa , Masami Kojima, Robert Bacon, Chris Trimble, July 2014 , World Bank document 89547

<sup>44</sup> In the UK FiT were introduced on 1st April 2010 to promote low carbon renewable. The Department for Energy and Climate Change (DECC) makes key decisions on FiT related policy and OFGEM as regulator administers the scheme. The technologies that qualify for the scheme include – Solar, Wind Turbines, Hydro, Anaerobic Digesters, Micro Combined Heat and Power (CHP). The FiT rate varies depending on – Technology, System Size, Date of Installation, and Installers. See also Identifying trends in the deployment of domestic solar PV under the FiT scheme. DECC. Jun 2011; Helm, Dieter. Energy, the State and the Market: British Energy Policy since 1979. Oxford University Press. Feb 2013; Pollit, Michael G. UK Renewable Energy Policy since Privatisation. Electricity Policy Research Group. University of Cambridge. Jan 2010

<sup>45</sup> See also Couture, Toby, Karlynn Cory, Claire Kreycik, and Emily Williams. 2010. Policymaker’s Guide to Feed-in Tariff Policy Design. Technical Report, National Renewable Energy Laboratory. <http://www.nrel.gov/docs/fy10osti/44849.pdf>.



Perhaps one of the most thorough treatments of FIT has been produced by the World Bank, specifically in relation to so-called electricity mini-grids<sup>46</sup>. Tanenbaum and his colleagues note that regulations (including FIT) inevitably and “*significantly affect the economic interests of national utilities, existing or proposed Small Power Producers (SPPs), and the customers of both. They also affect the political fortunes of numerous politicians. So it should not be a surprise that regulators are always subject to political pressures, whether open or hidden*” (p23). *While there is a technical basis for the determination of feed in tariffs (either avoided cost or the standardized, cost-reflective, technology specific method p 180), the actual rates are subject to political lobbying both from suppliers but also from different ministries within government*<sup>47</sup>.

Tanenbaum draws attention to “*Sub-Saharan Africa [having] a bad reputation for its regulation of businesses. In the World Bank’s annual worldwide survey of general business regulation, Sub-Saharan African countries have consistently ranked near the bottom for ease of getting regulatory approvals. In 2009 the average ranking of 38 surveyed Sub-Saharan countries was 138 out of 181 (World Bank 2008, 1). When compared to other developing countries, the existing regulatory procedures for starting and operating a small business in most African countries involve too many steps and take too long. If Africa’s poor regulatory practices are repeated in its regulation of SPPs, the SPP programs, no matter how well intentioned, will fail*” (p86).

An interesting indirect consequence of the relative failure of power sector reform is the development of new energy service provision outside the regulatory authority. Thus it might be argued that the relative success of Photo Voltaic systems in Kenya is an index of the utility to meet the needs of people through grid extension

It should also be noted in passing that the issues concerning the regulatory framework necessary for private sector service providers applies a fortiori to the whole process of

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ECA (Economic Consulting Associates), and Ramboll Management Consulting. 2012. Feed-In Tariff Policy: Application and Implementation Guidelines. Government of Kenya, Ministry of Energy.

Powering Africa through Feed-in Tariffs Advancing renewable energy to meet the continent’s electricity needs February 2013 A Study for the World Future Council (WFC), the Heinrich Böll Stiftung (HBS) and Friends of the Earth England, Wales & Northern Ireland (FoE-EWNI). Authored by: Renewable Energy Ventures (K) Ltd., Nairobi, Kenya: Joseph Nganga, Marc Wohler, Matt Woods Meister Consultants Group Inc., Boston, USA: Christina Becker-Birch, Summer Jackson, Wilson Rickerson


<sup>46</sup> Tenenbaum, Bernard, Chris Greacen, Tilak Siyambalapatiya, and James Knuckles. From the Bottom up: How Small Power Producers and Mini-Grids Can Deliver Electrification and Renewable Energy in Africa. The World Bank, 10 January 2014.

<http://documents.worldbank.org/curated/en/2014/01/18812270/bottom-up-small-power-producers-mini-grids-can-deliver-electrification-renewable-energy-africa>.

<sup>47</sup> Connection charges also provide good example of the political economy of perverse incentives: the World Bank study states that “the usually cited reasons for high connection charges in rural Sub-Saharan Africa are costly engineering and construction standards, poor or corrupt procurement practices, and overpriced contracts with equipment suppliers. While these are true, national utilities may intentionally charge high connection fees to rural customers as a way to avoid compliance with government mandates on rural electrification (p128).

An insight into the realities of feed in tariffs is provided in a recent comprehensive statement about the terms and conditions of feed-in tariffs in Africa is provided by the World Future Council (WFC), . This provides details for many African countries in a standard easily comparable format. (see annex 3 below for an example of Tanzania).





innovation. A balance has to be struck between providing some form of time-bound protection to infant innovations, and ensuring that such protection is not just another mechanism for rent-seeking behaviour.

## The Political Economy of Power Pools

According to many sources<sup>48</sup>, the least cost and probably least carbon electricity options for sub-Saharan Africa would be to use electricity generated by hydro from large dams in neighbouring countries that have surpluses or large un-tapped hydro potential.

While such operations are technically complex and expensive in terms of initial capital investment, the major barriers are widely recognised to be 'political'. *"The politicians' instinct for equating the location of domestic generation on national territory with energy security is understandable, but it can have cost implications which prejudice other development objectives"* (p7).

But in addition there are the *"Seldom acknowledged political costs, such as providing an excuse for internal political oppression along the route of the line, providing one country with political power over another, involving countries in each others' internal affairs (for example, by creating exposure to instability in a neighbour), creating opportunities for corruption (which can in turn affect the political balance of power within the country), creating political costs in protecting the line (where the line presents a hostage to be used in extortion by local groups), and creating political costs in the process of tariff rationalization (UN-DESA, 2005). Depending on how these costs are managed they can present barriers to integration, as for example when costs would be borne by politically powerful interest groups"* (p8).

This topic is currently the subject of a World Bank (ESMAP) flagship review to be undertaken in 2015. This study identifies "Political Economy" as one of the major barriers to development and will endeavour to summarise evidence to this effect. The proposal states that *"Energy security is a concern in almost every country, meaning governments are thinking even more 'nationally' about generation. This impedes the ability to plan and prioritize projects with a regional lens e.g. regional least cost power development plans. Very often, governments are quick to fall back on national least cost power development plans"*.

## The Political Economy Analysis of Low Carbon Growth

This is probably the area of greatest growth in the political economy of energy in recent months. At one level the issue can be simplified to question driving political economy analysis as: who obstructs/drives the adoption of specific sustainable energy policies in specific countries (see footnote 58).

But a review of the literature suggests that analytically there are at least four subdivisions of political economy work in this area. The first two are probably outside the scope of this review and will no doubt be being dealt with under DFID's environmental department:

- *International Macro level*: this covers the general issues of the political economy of the climate change negotiations<sup>49</sup>.

<sup>48</sup> The Potential of Regional Power Sector Integration: Literature Review Regional Power Sector Integration: Lessons From Global Case Studies And A Literature Review ESMAP Briefing Note 004/10 | June 2010

<sup>49</sup> There is considerable literature on this question and is exemplified by Newell, Peter and Paterson, Matthew (2010) Climate capitalism: global warming and the transformation of the global economy. Cambridge University Press, New York. ISBN 9780521127288, plus Human





- *Inter-generational distribution* of costs and benefits , covering issues both of climate change over long periods of time, and the political issue of GHG “legacy” of those countries that are now rich because of profligate use of fossil fuels and those that feel they are prevented from low cost growth due to new GHG targets.

The focus here will be on the second two sub-divisions, namely:

- The political economy of the energy mix and the shift to renewables.
- The political economy of energy “access” and the distribution of modern energy services between different groups with an economy.

### The political economy of the energy mix and the shift to renewables

There would appear to be two levels of political economy issues: first is the trade-off between low carbon energy and energy at the least financial cost. As one African regulator observed to the World Bank, “*Look, we have so many rural communities that don’t have any electricity at all. We don’t have the luxury of saying that electrification should only be done with green electricity. Our villages are desperate for electricity—they don’t care whether the electrons are green, purple, or black.*” Tanenbaum: p22. This issue will be dealt with in the next section on “access”.

The second issue of political economy concerns the political forces in favour and against low carbon options on the supply side. This has been subject to a number of excellent studies in recent months.

Perhaps the most useful is by Peter Newell and his colleagues who have applied a political economy perspective to Low Carbon Energy in Kenya<sup>50</sup>. This very competent analysis can be said to meet some of the challenges set out by Hudson and Leftwich (referred to in footnote 5 above). In particular they sought to explore key political questions about the role of actors, interests and institutions in what they call a “*just transition to a lower carbon economy that delivers poverty reduction and climate resilience at the same time*” and by explicitly examining the issues of political power.


The authors draw on the macro level diagnosis of the Kenya context offered by the Kenyan Drivers of Change paper for DFID by Ng’ethe, Katumanga, and Williams, in 2004<sup>51</sup> that suggests that “*the political elite have been able to capture public institutions and resources to serve their private interests*” and that the “*key challenge will be to strengthen the voice and organisation of all citizens, the poor in particular to exert pressure on the elite*” (quoted on page 10). But they go on to open up the complexity of competing objectives in the energy and related sectors, the changing aims and aspirations of different interest groups over time, and the powerful effects of incumbency (who “*fiercely resist change*”p20), path-dependency and the “contingent” nature of the political process in which the ‘unexpected’ discovery of fossil fuels “*potentially re-shapes the balance of power between donors and the Kenyan state*” (p 30).

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Development Research Paper 2011/03 Pursuing Clean Energy Equitably Peter Newell, Jon Phillips, and Dustin Mulvaney

<sup>50</sup> The Political economy of Low Carbon Energy in Kenya, IDS Working Paper Volume 2014 No 445, by Peter Newell, John Phillips and Ana Pueyo, with Edith Kirumba, Nicholas Ozor and Keven Urama, June 2014.

<sup>51</sup> Ng’ethe, N.; Katumanga, M. and Williams, G. (2004) Strengthening the Incentives for Pro-Poor Policy Change: An Analysis of Drivers of Change in Kenya, London: Department for International Development. (this document can be found on the Policy Practice Website: <http://thepolicypractice.com/people/details.asp?code=9>).



They add to the complexity of the analysis by disaggregating the idea of “power”, into at least three types: discursive power (“who gets to define what is clean, green and affordable” p11), institutional power (“where does power lie within and across government and is it reinforced or undermined by actors beyond the state, especially donors” p11) and material power (“who controls the finance, technology and means of producing ‘clean energy’”). They also use the idea that there are different “pathways” through which objectives can be achieved and how *“the winners and losers from different pathways and on whose terms and how the trade-offs between competing policy objectives are resolved”* p3).

But central to the whole analysis is the central focus on the trade-off between different objectives, particularly poverty reduction, economic growth and environmentally sustainable development. Each objective has its advocates and opponents. For instance, they conjecture that *“fossil fuels might come to be preferred by commercial and state elites for their ability to service broader growth objectives through the scale of generation capacity. There may also be a rent-seeking dimension in terms of the ability of government officials to maintain control over access to sites, infrastructures and profits flowing from fossil fuels more easily. This could explain part of the appeal of geothermal: its ease of control by state elites”* p15. Similarly they note (p 30) that *“The drivers of policy have not, on the whole, been concerns for pro-poor energy access, but rather concerns around energy security and the competitiveness of industry in Kenya”* and this goes some way to explain the finding that *“the new government’s statements around energy rarely refer to energy access for the poor”* (p17). Indeed they draw attention to *“the widespread perception that the low carbon energy access agenda is a very donor driven one”* (p30).


The research provides many insights into the messy and complex nature of the political economy of energy in Kenya. It notes for instance the development and subsequent rejection by the President of the Climate Change Authority Bill (p24) and a similar effort to remove VAT from imported Photovoltaic systems which was again reversed in a larger (and more powerful) reform of the tax system (page 28). And underlines *“the importance of understanding and engaging ‘turf-wars’ over authority and resources between different parts of government. These are sometimes prompted by interventions on climate change which touch upon core state interests such as energy and where entrenched interests compete to secure control over an issue which relates to and potentially threatens their ways of working and position of power. It underscores the importance of processes which are seen to be transparent, inclusive and legitimate in terms of deriving from being driven by domestic policy priorities. It also highlights the importance of engaging business actors...”* (p25). They also believe that recent efforts at devolution provide a new political space in which political forces can be realigned and policies changed (p25).

Other researchers have addressed the political forces at work in the introduction of renewable energy through the lens of political economy. Much of this analysis has concentrated on South Africa. For instance, Lucy Baker examines this question in the context of South Africa, where electricity is embedded in a traditionally coal-dominated sector<sup>52</sup>. The paper is important for showing just how far analysts can go in gaining insights into the complex world of the political economy of energy policy through a largely narrative approach.

Baker argues that the governance of South Africa’s electricity is inextricably bound up with the country’s historical dependence on cheap coal for export-oriented industry and complex political and economic legacy which has shaped its minerals-energy complex. *“... South Africa’s electricity policy is at a crossroads. Its historical dependence on cheap coal for*

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<sup>52</sup> The Governance of Clean Development Working Paper Series, Governing electricity in South Africa: wind, coal and power struggles Lucy Baker The Governance of Clean Development Working Paper 015 – July 2011. University of East Anglia



approximately 90 per cent of its electricity generation is under threat from a variety of factors.... power dynamics in the electricity sector are shifting with the potential introduction of private renewable energy generation into the energy mix. ....while vested interests in the country's coal-based industrial trajectory are still very influential, they are simultaneously challenged with rising coal costs, imminent national electricity supply shortages and increasing tariffs, a funding crisis of the electricity utility, the demands of climate change mitigation and emerging stakeholders in renewable generation". She attempts to demystify the complexities of South Africa's energy policy, which she argues is "an enormous challenge ....in a context of constantly moving goal posts and a multitude of processes"(p53). But she concludes that "emerging actors in private renewable energy generation pose a challenge to the entrenched interests of the minerals-energy complex, a structure already under threat from rising coal costs, electricity supply issues, rising tariffs and a utility struggling to hold onto its monopoly".

A more fundamental (Marxist) approach has also been taken to address the same question in South Africa by Bram Buscher<sup>54</sup>. This paper is highly critical of the current liberal approach. "Indeed, much energy literature dealing with energy inequality and sustainability focuses on the 'technical solutions' to the '(socio-) economics of the energy transition', without an accompanying critical analysis of the wider political-economic context in which this transition is taking place. The mantra seems to be that South African energy in general and rural energy users in particular need to be brought into neoliberal modernity, and quick".

For Buscher it is important to adopt a 'critical political economy' approach which he contrasts with the more usual problem-solving social science". He cites Ford who says that "a critical approach distinguishes critical theory from problem solving theory, where the latter takes for granted the framework of existing power relations and institutions and is concerned with the smooth functioning of the system. By contrast, critical theory calls the very framework into question and seeks to analyse how it is maintained and changed."<sup>55</sup>


Political economy should in his view start with a critique of contemporary neoliberal capitalism. By this he means the "political-economic complex of contemporary (hyper-) capitalism in the era of neoliberal hegemony. Hence, this includes both the political – economic system of capitalist production and social relations, as well as the political-ideological framework that supports and legitimates it" (p3954). "As such, a critical political economy approach must provide a sounder analytical basis for discussing the real

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<sup>53</sup> "While the activities of the electricity sector are mainly governed by the 2006 Electricity Regulation Act it is not always clear how and where policy is being made. This research has found that while the DoE is responsible for setting energy policy and planning, in reality formal and informal influence over many decisions made in the DoE's name is exerted by national entities such as Eskom, Treasury, Department of Public Enterprises, metropolitan and municipal governments, and the Inter-Ministerial Committee on energy. Less publicly, other stakeholders such as the Energy Intensive User's Group which consumes around 40 per cent of the electricity sold in South Africa ....and Eskom's coal-suppliers appear to be incredibly influential .... The DoE often delegates to Eskom on matters of planning, as it did with the IRP 2010. The Department of Public Enterprises meanwhile has oversight responsibility for Eskom, while NERSA though unable to make decisions outside of the IRP, determines electricity tariffs, sets the conditions under which electricity may be sold in the country, approves licenses for generation, distribution and transmission, and oversees the import, export and trading of electricity".

<sup>54</sup> *Connecting political economies of energy in South Africa*, Bram Buscher, Institute of Social Studies, Kortenaerkade 12, 2518 AX The Hague, The Netherlands and the Department of Geography, Environmental Management & Energy Studies, University of Johannesburg, South Africa, Energy Policy. Energy Policy 37 (2009) 3951–3958

<sup>55</sup> Ford, L., 2003. *Challenging global environmental governance: social movement agency and global civil society*. *Global Environmental Politics* 3 (2), 120–134. p. 121.



determinants of the current ‘axes of the energy debate’ (energy inequality and energy sustainability)” (p3957).

He recognises that *“this might sound awkward to some observers who feel that we need to be more practical and ‘problem-solving’ in overcoming the ‘energy crisis’ and certainly not critical, which to many connotes with merely being ‘negative’. Yet, I contend that a critical approach has nothing to do with negativity. The opposite is true: critical thinking is thinking about possibilities beyond the current status quo, and therefore also about the more ‘radical transformations’ that will ultimately be necessary to deal with the “social and environmental inequities of the MEC (Mineral–Energy Complex) in South Africa” (p3957).*

Buscher’s main objective is to counter the *“the strong technical, quantitative bias and sometimes rather simplistic ideas about policy within the current energy debate in South Africa. What is needed in this debate, .on the political economy of energy: the political–economic power structures that strongly influence South African energy policies and the realities of energy poverty and sustainability”*. He also charts some directions for the further conceptualisation of a political economy of energy in South Africa, drawing particular attention to the contradictions of the (currently favoured) neoliberal approach and the ways in which this approach (de)politicises energy policies and technicalities.

These issues of changing the energy mix were also addressed in relation to renewable energy projects implemented by the UNDP with GEF funds in two Asian countries, namely Malaysia and the Philippines. Adam Burke used a pragmatic political economy analysis approach and summarised the results of these two studies in a policy paper<sup>56</sup>. This perspective produced a number of important conclusions that are grounded in the reality of these two countries and explains why current *“incentive and power structures scaling up renewable energy in these countries will be limited”*.

Burke found that *“transparency and good governance remain challenges under market-led or state-led approaches. Government laws and regulation often conflict each other”* and *“a strong desire for economic growth and energy security predominates”* meaning that there is *“little domestic demand pushing for climate change [in the two countries studied]”*. He concludes that in circumstances where *“Fossil fuel interests still have a strong economic case”* and *“while politicians often promote Renewable Energy in international forums, domestic policy making rarely gives it much priority”*.

A number of other studies are underway which take a political economy perspective as a result of the recent call for proposals from The UK Research Councils’ Energy Programme, the Department for International Development (DFID) and the Department for Energy and Climate Change (DECC) on “Understanding Sustainable Energy Solutions in Developing Countries”. This sought research proposals among other things on *“the technical, business, socio-economic and **political economy aspects** of ‘what works’ in scaling access for poor people to clean, wealth creating, modern energy services”*.(emphasis added).


At least two research programmes under this call address issues of the political economy of low carbon growth and the energy mix in African electricity services. The first based at Surrey University considers the political economy constraints to producing electricity from agro-industrial waste, such as sugar bagasse in East Africa<sup>57</sup>. The second is based at the Institute of Development Studies at Sussex University which is taking a political economy

<sup>56</sup> Adam Burke, The Political Economy of Renewable Energy, UNDP Energy and Environment Discussion Paper, December 2011,

<http://thepolicypractice.com/papers/PoliticalEconomyRenewableEnergyFeb2012.pdf>

<sup>57</sup> See footnote 1





perspective on adapting the “growth diagnostics” approach of the World Bank to the renewable energy strategy in Kenya and Ghana<sup>58</sup>.

Reviewing these literatures suggests that political economy analysis offers both an explanation of the difficulties of implementing a low carbon strategy, but it also offers insights as to how these barriers might be dealt with. In particular it would seem that disaggregating the problem in terms of the different actors might offer a new perspective in forming alliances for change. In particular, distinguishing between those people who are already heavy producers of greenhouse gases, but have the funds and capacity to change their behaviour and invest in new technology, and those (such as poor people) who do not and have not contributed significantly to global emissions, but have little capacity to change their behaviour or pay for more expensive renewable energy.

It would also appear that the world has experience about what constitutes research in the area of low carbon development. The huge synthesis of experience that has been brought together in the Green Growth Best Practice<sup>59</sup> suggests for instance that it is more persuasive to analyse the full range of options and being transparent about assumptions and data. *“A second common mistake by green growth advocates has been to only highlight the messages that they themselves consider pertinent, such as environmental or social benefits, without considering the mindset of less receptive audiences. In practice, successful communication strategies deliver information on a wide range of impacts in order to facilitate a more holistic social debate. Different benefits can then be brought to the fore to engage different audiences or venues. According to social psychologist Dan Kahn the best approach is: “To remove what makes it threatening to other people. It is about framing it in a way that does not antagonize or come across as an assault on one side.”* (p97).

### **The political economy of energy “access” and the distribution of energy services**

Many of the issues of the political economy of energy poverty have been touched upon in earlier sections. Clearly the level of energy subsidy for both fossil fuels and renewables affects poor people, as does power sector reform and the failure of utilities to extend the grid on a financially viable basis.

Furthermore the fundamental truth is that poor people do not have access to modern energy services because they are poor. And we can therefore expect that the forces in society that keep people poor will be among the same forces that prevent poor people gaining access to modern energy services.


But there have been great successes, probably none more so than in China (but many countries of South and South East Asia have substantially reduced energy poverty in the past 20 years). China achieved this by massive transfer of resources from East to West. And it is likely that cross subsidies within power utilities will be required to enable poor people to increase their use of modern energy services: that is that richer elements in society and private sector consumers will have to pay slightly more for their grid electricity, so that an effective service can be provided to poorer people.

Decentralised energy solutions (both with diesels and renewables) offer possibilities in remote locations, or where the utility is dysfunctional. But it is unlikely that these systems can provide connections to electrical power (rather than milliamps for lighting and mobile phones) unless through effective grid extension.

<sup>58</sup> <http://www.ids.ac.uk/project/green-growth-diagnostics-for-africa>

<sup>59</sup> <http://www.aqbp.org/report/green-growth-practice-lessons-country-experiences>.





Whatever approach is taken, it is likely that reform of the regulatory systems remains at the heart of an effective response. A strong case for this proposition is contained in the recent World Bank publication on mini-grids<sup>60</sup>. This report draws on a huge amount of experience of attempts to bring electricity to people through small power systems and notes that small power producers and distributors are “*unlikely to invest unless regulations and policies are clear and credible*”(p1). But such regulation (or in its absence natural monopolies) gives opportunities for certain players to gain excessive economic ‘rents’, defined as abnormal profits in excess of the price required for a producer to be willing to produce. Mechanisms are required to keep this rent in control and to provide orderly and harmonised operation of the system. These mechanisms involve both formal and informal mechanisms, and their effective implantation. In addition to formal legal and regulatory rules of operation, there are also more informal “rules of the game” that determine how the systems operate in the real world.

## Energy and gender

An important sub-set of the political economy of energy access is provided by those many people who have focussed their attention on energy and gender. While little of this work has had a specific political economy focus, a great deal more is expected in the coming months when a major DFID funded programme gets fully underway<sup>61</sup>. It is clear from the work so far that the impact of efforts to increase energy access are determined in large part by the choice of end-use technology (maize milling machines have a different impact to a TV) and this in turn often varies between men and women<sup>62</sup>.

## Methods

It does not appear that “energy” represents a particularly difficult or methodologically complex sector in which to apply the ‘political economy perspective’.

The review of the literature shows that considerable progress can be made through ‘mere’ description: identifying who the key actors are and asking them about their interests and their perception of the ‘rules of the game’. The case study of power sector reform in Zambia also showed what progress can be made through a clear understanding of the actors involved, and the formation of progressing coalitions of interest.

But the literature also shows that there are many dimensions to the concept of ‘depth’. The Marxists see depth in exploring the fundamental forces of capitalist development (as with Bram Buscher<sup>63</sup> and Kannan and Pillai<sup>64</sup>. But Thornton et al<sup>65</sup> show that depth can also be

<sup>60</sup> Tenenbaum, Bernard, Chris Greacen, Tilak Siyambalapatiya, and James Knuckles. From the Bottom up : How Small Power Producers and Mini-Grids Can Deliver Electrification and Renewable Energy in Africa. The World Bank, 10 January 2014.

<http://documents.worldbank.org/curated/en/2014/01/18812270/bottom-up-small-power-producers-mini-grids-can-deliver-electrification-renewable-energy-africa>.

<sup>61</sup> See the website of the International energy and gender NGO Energia.


[http://www.energia.org/what-we-do/news/article/?tx\\_ttnews%5Btt\\_news%5D=105&cHash=17f95e451f4f4aa9d0d6bc0c1bd3846f](http://www.energia.org/what-we-do/news/article/?tx_ttnews%5Btt_news%5D=105&cHash=17f95e451f4f4aa9d0d6bc0c1bd3846f)

<sup>62</sup> This literature and related arguments are summarised in Energy, Poverty, and Gender: A Review of the Evidence and Case Studies in Rural China, Henry Lucas, Andrew Barnett, Ding Shijun (Field team leader) et al, The Institute of Development Studies, The University of Sussex, U.K. 2003 for The World Bank.

<sup>63</sup> See footnote 54.

<sup>64</sup> See footnote 14.

<sup>65</sup> Nigel Thornton, Gemma Norrington-Davies (2011), Political Economy and Drivers of Change Analysis of Climate Change in Kenya DRAFT report for DFID, Agulhas Applied Knowledge.



achieved through detailed description and the identification and naming of particular individuals who play a powerful role in the development of a particular sector in a neo-Patrimonial state (though their report was judged so sensitive that it has not been published).

Many of the manuals and approaches to PEA try to address this problem of depth even if their efforts to do so can be criticised as de-politicising the process<sup>66</sup>. One extreme but effective approach to this problem is put forward by Professor Hubert Schmitz with his practical suggestions for carrying out Political Economy Analysis of Climate Change Policies - the PEACH project<sup>67</sup>. In looking at who drives/obstructs climate change policies in the rising powers of China and India he sees the main problem is dealing with complexity. *“There are many different types of actors: they come from Government, Business and Civil Society; they operate at different levels: local, national and global. They have different priorities: climate change mitigation, energy security, competitiveness or job creation. There are competing narratives”* (p1).

He adopts an approach that is very similar to that cited above from the UK Cabinet Office. This goes through a sequence of making an inventory of existing policies and stakeholders, mapping of stakeholders according to priority sectors and according to their influence, with the objective of identifying coalitions for change. Within this process, he suggests overlaying the various narratives of the actors that *“compete for attention. Narratives play a big role to capture why some actors are keen to advance certain policies as opposed to others. Whether actors are interested in climate change for the sake of preserving their environmental legacy or to preserve their competitive edge vis-à-vis other actors, they are likely to frame their policy choices around specific narratives. Narratives can be complementary or openly conflictive with policy priorities; narratives can bring together different actors or split similar ones”*. Schmitz then summarises the results in a diagram that locates each of the actors in a space formed by the degree of influence and the priority issues: carbon emissions, energy security, job creation and competitiveness. From this, possible coalitions for change might be identified.

From amongst the large number of so-called ‘how to’ manuals suggesting how political economy analysis might be carried out, it would appear that the leading methodological contender for “problem focussed PE analysis” is provided by Fritz, V., K. Kaiser, and B. Levy. 2009. “Problem-Driven Governance and Political Economy Analysis: Good Practice Framework”, Washington DC: World Bank.


## Conclusions

Providing modern energy services required for economic growth, the reduction of poverty, and do so in ways that are less polluting is clearly a complex and expensive task. Progress to date, particularly in Africa, has been far more modest than anticipated, and far less effective than required to meet the need.

It is now widely accepted that many of the constraints to the effective implementation of energy investments are associated with what is described as the ‘political economy’. This is not to diminish the roles played by lack of capacities, and the inadequate working of capital and other markets. But it does point to an area of neglect. It seems likely that more effective policy and action can be informed by more and deeper research on the political economy of the areas listed in this paper. Indeed success has been demonstrated to require

<sup>66</sup> See The Policy Practice Library ([www.thepolicypracticelibrary.com/](http://www.thepolicypracticelibrary.com/)) and their distance learning course on the new political economy (forthcoming 2014).

<sup>67</sup> The PEACH – Methodology, Hubert Schmitz, mimeo, Institute of Development Studies, 28 November 2012



‘politically smart and locally led approaches’<sup>68</sup>. Such research should complement rather than replace other important research into the financial, technical and economic issues.

Despite the criticism, it appears that considerable progress can be made by the simple application of largely descriptive methods to identify who the stakeholders are, and to understand what they believe are the incentives and disincentives that they face. In such work, context is everything. Location specific research is required that builds on utilising deep local knowledge so as to understand the precise configuration of political forces and interest groups, and what motivates them. It is likely that this type of research needs to be informed by an historical perspective which provides insight into how the system operates. Even so valuable research could be undertaken to push the methodological frontier in the application of political economy analysis and related methods<sup>69</sup>.

Subsidies for fossil fuels will need to be removed, while subsidies to enable poor people to gain access to modern energy services (and possibly to encourage low carbon development) are likely to have to increase. These processes are intensely political, with clear winners and losers.

The literature also suggests that research into the underlying ‘factual basis’ of each interest group’s position is useful to determine whether the actors’ perceptions of the impacts of change (for instance in relation to subsidies or low carbon growth) are valid and to feed in such information into the process of building coalitions for change.

In this context the World Bank makes an important suggestion that more research is needed to understand the distributional effect of policy change (see footnote 43 above). Similarly research is needed to develop effective compensation mechanisms, given that current mechanisms appear to be widely captured by the elite.

But in case this summary produces too optimistic a picture, it must be accepted that the over-arching political environment in Africa may not be conducive to change.

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<sup>68</sup> This phrase comes from Sue Unsworth, Politically smart, locally led development: main findings from a workshop on 18<sup>th</sup> February 2014 sponsored by the Policy Practice and IDL Group, October Gallery London.

The main findings of a recent workshop on reviewing six potential success stories of political economy analysis suggests that there were common themes in programmes where policy makers accepted that development is a political process and is primarily locally driven. These common factors included:

- Local leadership
- Discovering and brokering common interests
- Investing in relationships
- [there was] no ‘rush to spend’
- [they involved an] iterative design
- [they adopted a] learning culture
- [And there was] politically smart management” p5.

This politically smart project management usually involved some form continuing political economy analysis, which was “embedded in project thinking and contributed to politically smart ways of working” p 5

<sup>69</sup> “To date, the literature relying on new institutional economics to examine power sector reform has been thin and relatively weak. It seems to suffer from shortcomings in theory, data, and/or methodology” p22, see reference 43).




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