**Power sector reforms: time for a model recall**

Dr Shahid Rahim January 23, 2020

“There you have it-reform on unprepared ground, and copied from foreign institutions as well-nothing but harm.”

Fyodor Dostoesky (The Brothers Karamazov)

During the early part of the 1990s, a new paradigm was imposed on the [power](https://dailytimes.com.pk/543704/putin-speeds-up-russian-political-shake-up-details-new-power-centre/) sectors of many developing countries, including Pakistan, largely with the support of World Bank Group. It aimed at improving the performance of state-controlled power utilities in these countries to ensure reliable power supply, attract private investment, promote competition, and curtail the state’s role from direct management to only regulation of the restructured setup. Three decades later, only a few developing countries have been able to fully implement this model. For most of them, it just didn’t fit the local conditions; for many others, it faced serious political and institutional challenges-something the proponents of the model did not anticipate.

The above is a paraphrased excerpt from the Foreword of a fresh World Bank report titled, “Rethinking Power Sector Reform in the Developing World.” The report compiles the results and lessons learned from a monumental effort the Bank undertook recently to revisit the approaches that were applied for power sector reform in many developing countries during the early 1990s. Twenty-five years later, the Bank thought that it was high time to revisit the power sector landscape of these countries and see how successful its model has been in delivering the intended results. The findings of the exercise are truly revealing as aptly captured by Dostoesky in his above quote.

This new study from World Bank Group relies on evidence-based data and information from the past 25 years from its own databases and that from a few other prominent agencies including, the International Energy Agency (IEA) and the US Energy Information Administration (EIA). It also draws from the in-depth case studies from 15 developing countries that were specifically carried out by the Bank for this purpose. The 15 countries included Colombia, Dominican Republic, the Arab Republic of Egypt, India, Kenya, Morocco, Pakistan, Peru, the Philippines, Senegal, Tajikistan, Tanzania, Uganda, Ukraine, and Vietnam.

This study concludes that even though regulation was widely adopted in most developing countries, practices often fell short of theory, and cost recovery goals also remained largely elusive. The private sector did finance a substantial expansion of generation projects, but its contribution to network parts of the industry has been much more limited, with efficiency levels that barely matched with those of well-governed public utilities. Restructuring and liberalizing, though have been beneficial in a few of the larger and comparatively better-off countries, these also proved too complex for most of these countries to implement.

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The study reveals some critical and thought-provoking facts. Some of these are briefly listed below: the uptake of reforms did not follow the prescribed model exactly and gained traction only if these were compatible with the country’s political and ideological settings; private sector’s contribution was restricted to generation only; wholesale power markets helped improve efficiency in a few countries only; good business and managerial practices in the host country helped significantly in achieving better performance; regulatory frameworks were widely adopted, but fell short on implementation; cost recovery proved difficult; the outcomes were heavily influenced by the starting conditions; and good outcomes were achieved by adopting a variety of institutional patterns, and were not restricted to any rigid setup.

Based on the key finding of the study, the report also points to a number of important policy implications, especially by bringing the reform strategies into future perspective that is expected to be dominated by pressure to substitute unsustainable power supplies with cleaner, renewable, and distributed alternatives to minimize the environmental footprint of energy and power sector practices. The recommendation made with respect to each of the 4 building blocks of the original approach, regulation, restructuring, private sector participation, and competition, are revealing as well as thought-provoking, and, therefore, are reproduced below verbatim (from page 24 and 25 of the report):

“Regulation: Critical at this juncture is to adopt a transparent and well-founded tariff-setting methodology and to apply it each year. This could be done by a regulatory agency or, at this stage, by a competent unit within the Ministry of Energy or the Ministry of Finance. An adequate initial aspiration for tariff-setting would be to ensure financial viability through recovery of enough capital costs to service and repay existing debt. Equally important would be for the Ministry of Energy to lay the foundations for monitoring the quality of service. The process of tariff and quality regulation should be integrated with other processes for overseeing state-owned enterprises (relating, for example, to performance contracts or fiscal transfers).

Restructuring: This is unlikely to be a high priority at this stage. A vertically integrated power system may be easiest to manage while putting in place strong foundations for the sector. However, the entry of the private sector into generation-through supply contracts with the utility-can play a valuable role in expanding capacity.

Private sector participation: It may be best at this stage to limit private involvement to generation. For the distribution segment, the emphasis should be on building good governance and managerial practices, particularly with respect to financial discipline and human resource management.

Competition: The only relevant form of competition at this stage is likely to be competition for the right to build new generation plants. Particularly critical is the development of the technical capacity required to conduct least cost planning to determine what plants to build, with mandatory links to a competitive procurement process. Furthermore, some of the benefits of a competitive market can be mimicked through the administrative practice of economic dispatch.”

This new report from World Bank group comes timely as the energy markets around the world are in flux-and so is the power sector. The principles that motivated and guided the power sector reform 30 years back still remain relevant even today. Financial and environmental sustainability, good governance, and effective and dynamic institutional management are still just as critical. The role and scope of private sector in the power sector is destined to increase further. Environmental concerns and technological disruptive forces are reshaping the power supply business and make competition the critical enabling platform for the future.

It’s, therefore, critical that the ongoing reforms in the power sector in Pakistan are also reviewed, reevaluated, and modified accordingly to reflect the useful knowledge that has accrued over the past three decades. There is a wealth of information and recommendations in this report from the World Bank Group that can guide our policy- and decision-makers in adjusting the ongoing efforts in the power sector and setting it on the right course.

*The writer is a freelance consultant specializing in sustainable energy system planning and development*