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POLICY ALTERNATIVES IN REFORMING POWER UTILITIES IN DEVELOPING COUNTRIES: A CRITICAL SURVEY

Alberto Gabriele

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DISCUSSION PAPERS

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Abstract

This paper examines the policy alternatives faced by developing countries in their endeavours to preserve and develop their electricity and gas systems, two service-oriented industries that – along with oil and coal – provide the bulk of the energy supply in both developed and developing countries. Even in very poor countries, industrially generated energy is indispensable for carrying out most economic activities. Therefore, Governments traditionally recognize that the supply of gas and electricity entails a fundamental public service dimension. Chapter I presents and defines the issues of liberalization, deregulation and privatization of energy utilities, and it attempts to locate energy reforms in a broader historical framework in which developing countries' Governments have faced increasing financial hardship. Chapter II reviews some experiences in energy sector reforms, focusing on some of the largest semi-industrialized countries in Latin America and Asia. A few remarks on the advisability of a flexible approach to reforming energy regimes in developing countries conclude the paper.

INTRODUCTION

This paper examines some aspects of the policy alternatives faced by developing countries in their endeavours to develop and enhance their energy systems, keeping in mind the ongoing multilateral trade negotiations. The focus is on electricity and gas, which, along with oil and coal, provide the bulk of the industrially generated energy supply to enterprises and households in both developed and developing countries. It is well known that the vast majority of the population in least developed countries (LDCs), and hundreds of millions of poor inhabitants of non-LDC developing countries do not have access to industrially generated energy, especially in rural areas. Even in very poor developing countries, the few existing export-oriented economic activities, such as tourism or the production and transportation of agricultural or mining commodities, cannot function without a minimum supply of industrially generated energy. Therefore, industrially generated energy is indispensable for carrying out virtually all "modern"[1] productive and consumption activities, especially tradeable ones.[2] Governments have traditionally recognized that, because of its crucial enabling function, the supply of gas and electricity has a fundamental public-service dimension, quite independently from the property regime and market structure in which the energy utilities operate.

Chapter I presents and defines the issues of liberalization, deregulation and privatization of energy utilities, and it attempts to locate the reforms in a broader historical framework characterized by an increasing inability on the part of developing countries' Governments to meet the financing needs involved in the maintenance and expansion of domestic energy supplies.

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[1] The term "modern" is used in contrast with traditional economic activities such as subsistence agriculture and petty industry and trade.

[2] Electricity and gas are the most widely used technologies employed worldwide to supply energy in nationwide or local power networks. However, the observations made in the text apply to other technologies – such as nuclear and renewable energies – frequently utilized as alternative means of producing electrical power. Oil is also an input for the production of thermal energy. Yet the oil industry as such is chiefly geared towards the production and transportation of a tradeable commodity, and thus has characteristics quite different from those of the basically service-oriented industries that are the object of this study.

Chapter II reviews some experiences in energy sector reforms, focusing on some of the largest semi-industrialized countries in Latin America and Asia. A few remarks on the advisability of a flexible approach to reforming energy regimes in developing countries conclude the paper.

I. OPENING ENERGY UTILITIES TO THE PRIVATE SECTOR: OPPORTUNITIES AND CHALLENGES

1. Liberalization, deregulation and privatization

The worldwide trend in favour of trade openness, market regulation, and the retreat of the State from economic activities, which peaked in the 1990s[3] and still informs the reform programs of many developing countries and the agenda of international financial institutions, did not leave out energy utilities.

Liberalization of a sector of economic activity strongly intervened and regulated by the Government consists, broadly speaking, in shifting it towards market regulation, guided by the principles of free competition. Deregulation, de-statization and privatization are techniques or instruments utilized for this purpose. Deregulation is a change from interventionist regulation to pro-libertate regulation, taking of course into account that once certain norms are abolished, they must to some extent be replaced by others, with the object of guaranteeing the effective functioning of the market. (For this reason, some analysts prefer to use the more neutral term "re-regulation".) De-statization of economic activities means that those parts of economic activity that used to be considered a public service, and therefore were left to the State, are open to the intervention of private operators.[4] Finally, privatization means transfer of the ownership of a public enterprise so as to transform it into a private enterprise. Privatization sometimes requires the "atomization" (i.e., unbundling) of the enterprise.

The most widespread argument in favour of these reforms is that state-owned enterprises are intrinsically inefficient and are bound to be mismanaged, and that therefore a change of property rights will in itself lead to improved performance.[5] In a complementary fashion, liberalization is seen as a tool aimed at the creation of markets through the promotion of free competition (Trillo-Figueroa, 1993).

Notwithstanding the partial validity of these theoretical arguments, empirical evidence on the comparative performance of publicly and privately owned enterprises (especially in the case of