



## A Christian Aid briefing paper

October 2007

# **Power and poverty**

World Bank energy reforms and poor people

## Introduction

*'Given the catastrophic outcomes of some of its policies in the energy sectors of poorer countries, the World Bank should reform urgently its approach so that it's based on what works for poor people and not on the assumption that the market has all the answers.'*

**Gonzalo Salgado, National Consumer Defence Network, Nicaragua**

Forty per cent of the world's population, some 2.4 billion people, do not have secure supplies of fuel for cooking and heating. About 1.6 billion people, 75 per cent of them living in rural areas, lack access to electricity.<sup>1</sup> This lack of energy is a major factor perpetuating the suffering of the world's poorest people. Without a reliable source of energy to cook, heat, cool, light, pump water and power productivity in small businesses, development and poverty reduction is merely an aspiration.

Climate change is increasingly being seen as the greatest long-term threat to human development. An unstable global climate will affect the poorest communities most dramatically as their dependence on the natural environment and their lack of protection in disaster situations is profound. Development gains made over recent decades are under threat from an increase in extreme climatic events.

The World Bank Group's *Investment Framework for Clean Energy and Development* (CEIF), due for further discussion at the Bank's annual meetings in Washington DC, 19-22 October 2007, recognises these twin threats to development. It has initiated various schemes to enhance investment in energy access, renewable energy, energy efficiency and adaptation to the impact of climate change. Using the examples of Nicaragua and Nigeria, this briefing argues that in spite of the CEIF, for the most part, the World Bank continues to focus on a pro-forma approach to reforming countries' energy sectors and on the funding of large-scale energy systems.

Since the end of the 1980s, the energy model preferred by the World Bank has been a privatised, large-scale, centralised model. As with most privatisation reforms, the hypothesis is that state-owned electricity companies are inefficient (and in some cases corrupt) and that the private sector will bring efficiency and transparency. This should then result in increasing electricity provision, better-quality services, a reduction in tariffs and an overall benefit to all users of the service.

However, as this briefing indicates using two examples, this is not always the experience in countries in which the Bank has influence. Although privatisation has been heavily promoted for the electricity sector, too little attention has been paid to complementary reforms related to regulation and competition, and the relative timing of these reforms. This is unfortunate, given the fact that there is growing, credible evidence that privatisation alone is insufficient and, in some cases, inappropriate to stimulate improvements in performance, especially in public utilities and the provision of these services affordably to poor people.<sup>2</sup>

The focus on privatisation in the World Bank's approach to energy sector reforms in developing economies is arguably antithetical to the approach needed to achieve the goals of the CEIF. This has not escaped the notice of World Bank researchers and policy makers.<sup>3</sup> And yet liberalisation in power sectors in general and state divestiture in particular continues often in advance of full impact assessments and essential preparatory work on regulation. This threatens to perpetuate energy poverty and lock in high-carbon energy infrastructure.

Energy sector privatisation in Nicaragua – a case that can only be described as a monumental failure – has reduced poor people's access to energy through increased tariffs. The process has also further hampered supply and has locked the country into oil imports and high carbon emissions in its power generation.

While the Nicaragua story illustrates some of the mistakes made in the past, this briefing also looks at the experience of Nigeria where energy sector privatisation is currently being pursued. It is alarming that there seem to be few lessons learned from the disastrous experience in Nicaragua. Instead, the World Bank is continuing to rely on a pro-forma approach to privatisation and is focusing on funding large-scale energy systems at the expense of those living in energy poverty.

In Nigeria a process of reform has been underway for more than eight years and has already cost many billions of dollars. Yet poor people's access to energy has not improved and an already erratic power supply appears to have worsened. The reform process is now reaching its most critical phase, with the privatisation of a series of state companies imminent. Christian Aid argues that while the recent past further illustrates the need for reform, many of the same mistakes may well be about to be made in the process.

This briefing suggests that, if it is to achieve the goals of the CEIF, the World Bank must consider a wide range of options that offer the most pro-poor solutions to energy sector reform. These include changing the focus from top-down to bottom-up energy systems. Where the energy requirements of poor people are addressed directly, it is clear there are very considerable social and economic benefits.<sup>4</sup>

The reality of climate change must also be faced in the Bank's approach to reforming the energy sector. Many of its client countries are currently very low emitters of greenhouse gases and are unlikely in the short term to be required to take on any commitments in international climate change agreements. But the global carbon budget is now so constrained that setting them on a development path through significantly increasing these emissions is not only incompatible with action on climate change but economically increasingly undesirable.

In lieu of an international agreement, the Bank could helpfully assist countries in defining a carbon budget – perhaps based on an existing, equitable 'fair shares' model – that would help define the extent of likely future constraint in emissions. Christian Aid favours an approach to allocating the global carbon budget that recognises the historical responsibility of rich countries to the stock of greenhouse gases and their current high levels of wealth.<sup>5</sup>

Privatisation, or greater participation by a well-regulated private sector,<sup>6</sup> may well play a part in reforms along pro-poor and pro-climate lines. But the starting point should be 'what will address energy poverty?' and 'what carbon budget might a country have at its disposal?' and not 'privatise first' and then, post ante, build in mechanisms to address these twin issues.

There is unlikely to be a single solution. But Christian Aid believes that an approach is required that is focused on developing pro-poor, low-carbon energy systems that provide power at the scale poor people need to engage in the process of development. This will facilitate and help drive growth in sectors of poorer nations' economies that bring direct, rather than trickle-down, benefits to poor people. It may also propagate the spread of low-carbon technology and so assist in the 'cleaning up' of the process of ending poverty.

## **Privatisation and economic conditions**

*The main tool for energy sector reform in the World Bank's toolbox*

The World Bank has been supporting privatisation-based reforms in the power sectors of developing countries for almost two decades. The theory behind the privatisation of public services, such as electricity, is that state-run services are inefficient, poorly managed and often corrupt, whereas the private sector will bring efficiency and transparency. This should bring the benefit of increased coverage, reduced tariffs and better-quality services overall.

Market disciplines can offer important benefits, providing incentives for improved efficiency and recovery of costs. However, the private sector tends to lack other important drivers – such as the need to provide a universal, affordable service - unless the state is in a position to impose these, for example through regulation.

Also while state failures are well-documented, they are not inevitable. State-run enterprises can equally be exposed to market disciplines or run in such a way as to recover costs. Rather than treat privatisation as a panacea, a better approach is to examine the problems experienced in the sector – whether these be corruption, inefficiency, or other – and provide an impartial assessment of how they can be resolved, including through privatisation.

For several decades the World Bank's energy lending, International Monetary Fund (IMF) policy advice, and loan, aid and debt relief conditionality in most recipient countries has focused on centralised, large-scale, grid-based fossil fuel and hydropower projects, as well as the privatisation of public power and electric utilities.<sup>7</sup> This was reinforced in the Bank's Private Sector Development (PSD) Strategy of 2002.

However, internal evaluations from the World Bank itself have been critical of its over-optimistic approach to privatisation. These cite evidence that all but one of the economically best-performing countries 'have not implemented large-scale privatisations and have borrowed less than the other countries for privatisation'.<sup>8</sup>

Similarly, despite promises to 'green' its energy lending over the past 15 years, and its current *Investment Framework For Clean Energy and Development* initiated in 2005 and due for completion in 2008, the Bank's energy portfolio still fails to reap the double dividend of renewable energy technologies that would fight both energy poverty and climate change.<sup>9</sup>

Furthermore, a high-level review of World Bank studies found that infrastructure was significantly under-researched at the Bank. The study also found that research plans and promotion was guided to a large extent by the organisation's broader policy agenda, and there was a tendency for research to 'self reference [Bank research] to the point of parody'.<sup>10</sup>

It is now manifestly clear from much of the literature that prescribing policies of privatisation does not inherently achieve the goal of poverty reduction. Moreover, there is no inherent link between privatisation and liberalisation of energy sectors and low-carbon development.

Perhaps most significantly, Christian Aid's detailed examination of the example of Nicaragua concludes that its electricity sector is not commercially viable. This means that without state support the service can only deteriorate as private companies are

faced with a Hobson's choice; either increase tariffs or reduce costs (ie renege on commitments to extend service provision or to improve efficiency) to maintain their profits. The privatisation model in Nicaragua has failed to achieve its stated purpose.

In Nigeria, many of the reforms have yet to be or are in the process of being enacted. It is too early to draw firm conclusions, and while some lessons appear to have been learnt, no exhaustive studies of the likely impact on poor people or on the country's carbon budget have been conducted. At best, the level of probability that reforms will benefit poor people and yield a progressive energy system fit for a low-carbon global economy is unknown.

The model that has been pursued by the World Bank for some years and that was recently reinforced as a key ingredient in the process of approval for Nigeria's Paris Club debt relief, is worryingly familiar. While it is hard to see how it can make matters worse – the state enterprises have not performed well – it is equally unclear how it will bring energy to the 60 per cent of Nigerians who do not have access to power for cooking, lighting or to run their businesses.

These two cases illustrate a continued adherence by the Bank to the practice of economic condition setting. In 2005 the World Bank committed to improve the way it sets its conditions, largely due to pressure from the UK government. However, recent research has showed that one in three of 16 countries surveyed have faced conditions related to the participation of private companies in electricity sectors since 2005.<sup>11</sup> As a result, Christian Aid is asking the UK and other European governments to redirect funding away from or to delay disbursement to the World Bank until such condition setting is ended.

## **Electricity privatisation in Nicaragua: from bad to worse<sup>12</sup>**

*'We were told that with privatisation energy would become efficient, viable, cheaper and accessible for all. But in Nicaragua none of this has resulted.'*

**Gonzalo Salgado, Coordinator of the National Consumer Defence Network**

Privatisation of the electricity sector in Nicaragua took place as a result of conditions set by the IMF and World Bank and was supported by the Inter-American Development Bank (IDB). The process, which took two years, was completed in 2000. It is unclear why the process was rushed but what is clear is that there are many failings in the results of the process.

### **From state monopoly to private monopoly**

A key feature of the privatisation process in Nicaragua was the sale of the state's distribution companies to the Spanish multinational Unión Fenosa. In a process that was far from transparent, the company was the only bidder and it therefore gained a monopoly over electricity distribution. During the process the price for the distribution company assets was reduced by almost 50 per cent. Monopolistic control over power distribution has had serious consequences for consumers.

Unión Fenosa has made no significant investment in the distribution system. Nor has there been any improvement in the efficiency of the service. Meanwhile, the Nicaraguan government has continued to require loans to cover the necessary investments in electricity infrastructure. Therefore, the state is shouldering the costs through increased debt while the benefits are passed to Unión Fenosa, the new owner of the assets with new clients to bill. Coverage has stagnated, with only 50 per cent of the population receiving power. The poor who do have access are spending a much greater proportion of their income on their electricity bill.

### **Decreased service, increased tariffs**

Since 2006, a severe increase in power cuts has caused chaos and economic decline, yet consumers have had to pay much higher bills. Estimates of average bill increases range from 100 to 400 per cent. These significant increases include the electricity tariff, as well as arbitrary charging practices and customers being charged for services – such as street lighting – which are not being provided, plus charges for periods of blackout. The blackouts have caused many small businesses to close amid spiralling costs.

### **Inadequate regulation of the process and result**

Regulation of the sector has not been adequately designed to ensure efficiency, control private companies, nor champion the interests of consumers. It seems that there was precious little planning for managing this complex reform and it was rushed through in a fraction of the time necessary, resulting in a powerless regulator unable to renegotiate terms that are extremely favourable to the companies.

The International Financial Institutions (IFIs) still maintain that higher tariffs will somehow resolve the crisis, while all the evidence suggests that without significant subsidy the power sector in Nicaragua is simply not commercially viable. Unión Fenosa's investment is guaranteed by MIGA.<sup>13</sup> Therefore, in the increasingly likely event of it having to pull out, the state once again could be saddled with further debt.

### **A false promise**

In Nicaragua's case every promise of privatisation has failed to deliver. The system is less efficient, coverage has not improved and tariffs have increased. Many of the documents pertaining to the terms set between generators and the distributor are not

public – implying no increase in transparency. It is certainly not clear that corruption has decreased and there are serious grounds to suspect the situation has worsened in this respect. There is now a national debate on whether the sector should be taken back into state hands.

### **Lack of focus on clean energy a key factor**

Another startling factor in the Nicaragua case is the exclusive focus of the process on increasing Nicaragua's dependence on oil imports. This made the country vulnerable to the instability of oil prices and has contributed to the spiralling costs of energy for consumers.

This exclusive focus on thermal generation has been economically devastating for Nicaragua. It was made at a time of low oil prices and perhaps seemed to be economically sensible under those circumstances. However, the current run of high oil prices is not a new phenomenon and such dependence should have been seen as risky.

Nicaragua has significant theoretical potential for hydro-power and geothermal development. Studies carried out in the 1970s put hydroelectric potential in Nicaragua at just under 4000MW and geothermal at 300MW.<sup>14</sup> This is not to mention the potential of new renewable technologies such as solar, wind, biomass and tidal. In comparison, the total installed capacity in 2005 was 627MW, 20 per cent of which comes from hydro or geothermal sources.

The Bank is now supporting off-grid solar and mini-hydro with about 4,700 connections to date. It is also giving technical assistance in assessing the potential for new, larger hydro plants. This has come about because of the impact of higher oil prices. This is a welcome development, even though it is seen by some in Nicaragua as too little, too late. But were it scaled up and given the sort of emphasis and support the Bank gave to the earlier, disastrous reform process, it might well bring about some significant changes for the better.

### **The illuminating case of Costa Rica**

Nicaragua's neighbour, Costa Rica, is an illuminating example of how things could be done differently.<sup>15</sup> On the face of it Costa Rica has many problems, being a small country with few resources to invest in sophisticated technology and capital-intensive renewable energy projects. In addition it ranks only 25th in the world for hydroelectric potential. However, Costa Rica has become a world leader in renewable energy and in 2004, 98.6 per cent of its electricity came from renewable sources including 81.5 per cent from hydropower, 15.3 per cent from geothermal, 2.7 per cent from wind and 0.5 per cent from biomass.

The secret to Costa Rica's success with renewable energy lies in the country's public energy policy. The Costa Rican Institute of Energy (ICE) is a public, not-for-profit institution. This, combined with its resistance to privatisation are both major factors in its ability to remain autonomous from short-term profit motives and keep a long-term, sustainable strategy intact.

Comparing Costa Rica's energy policy and level of renewable energy with that of its neighbours drives the point home. While many Central American countries either completely or largely privatised their state-owned energy companies, only limited liberalisation took place in Costa Rica. There, lawmakers ensured that the process carried with it the essential regulation that all privately generated electricity (which now accounts for ten per cent of the country's total) had to come from renewable sources of energy. In Costa Rica, resistance to privatisation and continuing high

levels of state participation in the sector are closely linked to a high percentage of renewable electricity.

Not only has Costa Rica been able to provide its citizens with nearly 100 per cent clean, renewable energy, but the country also maintains the lowest electricity prices and highest electricity coverage rate in the whole of Central America. While it is true that such success in the energy sector may be easier to achieve in a small country like Costa Rica than in larger developing countries, the relationship between state institutions and society in Costa Rica's electricity sector is a model that merits closer examination for lesson learning by other governments and international donors.

## **Power sector reform in Nigeria: a looming disaster?**

*'I thought privatisation would change things, but the only thing that has changed is the name. Things are even getting worse.'*<sup>16</sup>

**Shop owner, Jos, Christian Aid interview, 8 August 2007**

Conservative estimates suggest that about 60 per cent (more than 80 million people) of Nigeria's population are denied access to electricity for their basic needs<sup>17</sup> with only a fifth of rural households covered.<sup>18</sup> The UN Human Development Programme's 2006 Human Development Index ranked Nigeria 159 out of 177 countries and the World Bank itself estimates that about two-thirds of the population live on less than US\$1 (50 pence) a day.

In 2005 the World Bank also estimated that to increase energy access to 75 per cent of the population would require more than US\$10 billion in investments.<sup>19</sup> At his inauguration in 1999, former President Obasanjo promised that the constant black outs experienced across the country would cease. Despite investments of more than US\$4 billion made by the federal government to revive the sector during his time in office, there has been no tangible improvement. Many consumers assert that the situation has in fact worsened.

Against this backdrop, it is clear that merely maintaining the status quo is not an option. It is also clear from the importance of oil exploitation in Nigeria's future as a country that debates about 'clean development' find less favour in government circles; although significantly there are initiatives in some of Nigeria's 26 states to increase the use of renewable energy. That said, with more than 124 million people, Nigeria is the most populous country in Africa and, according to the UN, the tenth most populous in the world. Nigeria's model of development and the extent to which its greenhouse gas emissions increase is important not only to its poor communities but also to the rest of the world.

### **The reforms recommended by the World Bank (and IMF)**

Reform of the energy sector, including of its ailing oil refineries, as well as power generation and supply, has long been part of agreements between the government of Nigeria and the IFIs. When former president Obasanjo came to power in 1999, under the tutelage of the IMF, World Bank and other donor organisations, he undertook to enact a programme of economic reforms, including the privatisation of the telecommunications and electricity sectors.<sup>20</sup> Since 2001, the World Bank has agreed in excess of US\$300 million to support the reform process.

In 2005, as part of its Paris Club debt cancellation package, for which it needed IMF approval, the government agreed a Policy Support Instrument (PSI)<sup>21</sup> with the Fund. A key ingredient of PSI included the completion of the break up of the state-owned electricity company, the National Electric Power Authority (NEPA), into generation, distribution and supply companies under a new authority called the Power Holding Company of Nigeria (PHCN).

A new Power Sector Act was passed in March 2005. The 'unbundling' process is now complete and private management contracts for 18 successor companies (11 distribution business units, six generation units and a transmission business unit) will soon be agreed. In a separate process, the new electricity regulatory body, the Nigerian Electricity Regulation Commission (NERC), has licensed 21 new companies (19 for generation and two for distribution), which it is hoped will add some 8,237 MW to the power stock when they become fully operational. However, most of them are still under development.

Statistics on electricity access and grid capacity and output vary greatly. Nigeria's own poverty assessment, NEEDS-2, cites installed generation capacity at 6,000MW, but with available energy output at only 3,000MW, less than 30 per cent of the demand, currently estimated to be at 10,000MW.<sup>22</sup>

NEEDS-2 projects that the optimal fuel mix by 2011 will consist of 74.9 per cent gas, coal at 11.5 per cent, hydro, wind and solar at 13.2 per cent and oil-fired at 0.4 per cent. While renewable energy is part of this mix, fossil fuels – which, unlike Nicaragua, Nigeria has in abundance – clearly make up the overwhelming majority, with a potential for a significant increase in Nigeria's greenhouse gas emissions.

### **Lack of transparency, weak regulation and potential corruption**

There are signs in the Nigerian process that the World Bank has learnt from some of its past mistakes. The break up of the national electricity company into 18 separate companies eliminates the potential for federal-level monopoly. Part of the Bank's lending for reform includes technical assistance to help develop regulation of the sector under the NERC.<sup>23</sup> The NERC itself has clearly stated its intention to take strong action.

However, while the NERC has been in existence for some two years it is not clear whether it has yet benefited from World Bank technical assistance. In the meantime, the sector itself has been divided and is ready for its privatisation. While the state electricity company was by no means free of corruption, it is clear that in a country and sector with a known history of corruption, private sector operators, if left to their own devices, are unlikely to avoid corrupt practices.

While there is a clear need for robust regulation of the newly privatised sector, there are parallel concerns about the lack of transparency, monitoring and public consultation around the reform process itself. Christian Aid and Nigerian NGOs have found it extremely difficult to get information on the latest round of tenders and licensing. While the NERC is said to have issued the first batch of power generation licences to private developers, we have been unable to get access to further information about these contracts.

Concerns have also been voiced by the National Union of Electricity Employees (NUEE), the main union representing workers in the electricity sector, about underpricing of the assets being sold. When Egbin power station near Lagos, the country's largest facility, was recently sold, NUEE alleged that its members were not adequately consulted and that it was sold too cheaply. The union is currently blockading the facility, refusing to allow its new owners, Korea Power Corporation and Energy Resources Limited, access.

Given the huge potential problems that can arise from large-scale privatisations of this kind – and the poor results such privatisations have brought in the past – it seems reasonable to call for the most rigorous standards of transparency, public consultation and accountability. The burden is now clearly on the World Bank and IMF, along with the government of Nigeria, to show that such standards will be upheld in Nigeria as the process continues. However the current signals, with allegations of cronyism circulating, significant delays in the process and the great difficulties faced in obtaining information, are not encouraging.

### **Tariffs and cost recovery**

The fundamental problem with the privatisation model in a context such as Nigeria's electricity sector is that the companies that bid for its various contracts and

concessions are likely to have to operate on the basis of 'full cost recovery' and profit. While the precise market conditions under which private bidders will be operating is as yet undecided, this is the logic of privatisation that has typified the Bank's approach hitherto.

The NERC has already requested that the government subsidises the sector, as it expects tariffs to rise beyond the means of most ordinary Nigerians. However, in its *Public Financing of a Power Sector in Transformation* document, the World Bank appears to rule out state intervention of this nature. Instead it suggests that rising receipts from customers – either through increased tariffs or a greater volume of power being sold, or both – would fund development of the sector. Moreover, the Bank also states that the current average tariff is around 30 per cent below that which is commercially viable.<sup>24</sup> Price hikes appear likely.

The World Bank does however appear to acknowledge the need for either a government-funded 'lifeline' tariff or a cross subsidy. In its *Joint Staff Advisory Note* on the progress report for NEEDS-2, June 2007, it states: 'To improve the financial situation of the power sector, it will be important to establish electricity tariffs which allow cost recovery, while introducing adequate measures to protect vulnerable groups'.<sup>25</sup>

It is also of great concern that the Nigerian electricity system currently suffers from an extremely high rate of losses. These are technical, due to the poor state of much of the infrastructure and are also related to the high incidence of theft from the national grid. Christian Aid's Nicaragua research found that it is mainly the inability of the distributor to claw back the cost of such losses that is a key reason the system has proven to be commercially unviable. This finding comes before even factoring in the costs of the necessary infrastructure upgrading and investment that has yet to occur in Nicaragua – a cost which would also have to be passed on to the consumer in a full-cost recovery system.

There are certainly good reasons to be concerned about the potential commercial viability of a privatised electricity system in a country with Nigeria's degraded infrastructure, minimal grid coverage and electricity loss challenges.

### **Rural electrification and renewable energy**

The worst excesses of Nigeria's energy poverty are in rural areas, where perhaps as few as one in five people have access to electricity. This is where reforms in the existing power grid will make little difference because it serves few rural communities and where investment in off-grid, renewable energy can bring about significant human and economic development.

But there appears a very real danger that focus on large-scale power generation and on fully commercial, cost-recovery models for operating the sector – the kinds of technologies that might bring power to poor, rural communities rapidly – are being crowded out. In both poverty and climate change terms, this appears to be a lose-lose scenario.

The *Renewable Electricity Policy Guidelines*, prepared for the government by the International Centre for Energy, Environment and Development (ICEED), identify a number of barriers to the financing of and investment in renewable energy in Nigeria. These include: perceived risk by bankers who still prefer high reward, large-scale conventional electricity investments; absence of Nigeria's manufacturing for components of renewable-energy technologies such as turbines; and supply chain

constraints such as high import tariffs, bottle-necks in customs clearing goods, and corruption.<sup>26</sup>

The Rural Electrification Agency (REA) and Rural Electrification Fund were set up in 2006. Publicly there is little evidence of any progress so far, save the intention to set up some pilot projects, although according to a report in the Nigerian newspaper, *the Guardian*, the REA has 23.3 billion Naira (US\$187 million) for various capital projects under its mandate.<sup>27</sup>

The World Bank admits that progress in rural electrification has been slow, yet it continues to focus largely on grid-based gas-fired projects leaving little scope for small-scale, decentralised renewables such as solar, wind, small hydro or cogeneration. As the Nigerian government's *Renewable Electricity Policy Guidelines* point out, 'grid power extensions over long distance to serve low load densities are usually technical and financially a poorer option than decentralised renewable electricity'.

### **The focus on large-scale power generation means heavy use of fossil fuels**

Reform in Nigeria's energy sector hinges almost entirely on the use of gas, of which the country has about one-third of the proven reserves of the whole of the African continent. Although gas is less polluting than oil and coal, by focusing on adding further, large power plants to the grid, Nigeria is building itself a high-emitting future at the same time as many of the world's big economies have to contemplate decarbonisation.

It is hard to argue that a country such as Nigeria should not use its own gas supplies to fill its significant power gap, but its choice of infrastructure is a decision with which it will have to live for several decades. The security of supply while the Niger Delta region of the country remains in turmoil is a key concern, even for other regions of Nigeria. Thus, building this energy strategy, four-fifths of which is based on a supply of cheap gas, may be both unwise and short-sighted.

Nevertheless, gas is likely to play a part in Nigeria's energy mix. It has proven reserves of almost 5000 billion cubic metres<sup>28</sup>. But Nigeria could also harness the massive quantity of 'associated gas' – that which is driven out of the ground during oil extraction – which is currently largely flared, creating significant CO<sub>2</sub> emissions with no energy gain.

More gas is flared in Nigeria than anywhere else in the world. Over the past 40 years gas flaring has subjected communities in the Niger Delta to severe health risks and damage to livelihoods, and made Nigeria the biggest emitter of greenhouse gases in the whole of sub-Saharan Africa.<sup>29</sup>

It is a stated aim and key objective of the Bank supported strategic gas plan for Nigeria to eliminate harmful gas flaring by 2008. However, it is increasingly clear that flaring will not cease within this timescale. It has also proven difficult for Christian Aid to obtain clear information on what proportion of gas used to power the country's electricity sector will be from associated or non-associated sources.

## Recommendations

*'[DFID must]... work towards the phasing out of support for all fossil fuel extraction projects and an increase in access to energy in the developing world through the promotion of decentralised and low carbon forms of energy and energy efficiency projects.'*

### **The report of the Conservative Party's Quality of Life Challenge Group<sup>30</sup>**

This briefing is focused on World Bank policies of economic condition-setting, energy sector reform and the favour it shows to large-scale, fossil fuel-driven models for powering up poorer countries. The example of Nicaragua shows just how catastrophic such a model can prove; the case of Nigeria suggests that while some lessons have been learnt, others may have not been.

Christian Aid is not against the involvement of the private sector. It is our belief that business – in particular that owned domestically – is critical to a country's development. But this briefing indicates that it is wrong for the Bank to start at the large-scale end of power generation and to begin with the logic that, whatever else happens, the first stage must be to privatise.

The Bank should support governments to look at all the options for reform (as the status quo is often unacceptable) and should begin with the twin aims of tackling the lack of energy for the poorest communities and keeping carbon emissions within a finite budget. The first step should be an impact assessment that shows the potential impacts of different policy options.

Ultimately, however, the World Bank is an instrument of its shareholders and the rich nations must take responsibility for the actions of their lending institution. Christian Aid has welcomed the UK government's recent willingness to withhold funding from the Bank while economic condition setting prevailed. We are now challenging the UK and other European governments to make a further stand against economic conditions and the continued high reliance on fossil fuels in the Bank's energy portfolio.

### **Condition setting and the energy sector:**

- The UK and other European governments should link International Development Association 15 (the latest block of development funding that will be given to the World Bank's concessional lending arm) funding to a phasing out of the use of World Bank economic policy conditions and funding for fossil-fuel-emitting projects.
- The UK and other European governments should push the Bank to ensure its policy advice always assesses the potential impact on poor people and supports developing country governments and other stakeholders to evaluate the range of policy options available.
- The UK and other European governments should critically evaluate the Bank's model of development and how far it is compatible with pro-poor development in a world where greenhouse gas emissions must now be severely restricted. The Bank should consider how a future climate change agreement might restrict emissions and help countries budget for carbon as well as financially.

- The UK and other European governments should push the Bank to adopt new criteria for energy sector reform projects. The two main criteria should be tackling energy and not exacerbating climate change (ie operating within a finite carbon budget).
- The UK and other European governments should ensure that the Bank's environmental impact assessment for development projects evaluates potential CO<sub>2</sub> emissions, particularly in the energy sector. For policy reforms, the Bank should expand the Poverty and Social Impact Assessment (PSIA) tool to consider climate change implications and energy poverty.

**Basic service privatisations:**

- The UK and other European governments should ensure that the World Bank's agreements with and advice to the governments of developing countries consider a wide range of options and not only privatisation.
- The UK and other European governments should also work much harder with the Bank to ensure that policy advice on privatisations – particularly of basic services – are improved. Privatisation implies complex reforms and must be planned and managed carefully over time – not rushed (or forced) through in short time periods.
- The UK and other European governments should work with the Bank to ensure its policy advice and technical assistance includes proper debate on the arrangements under a privatised model. Full-cost recovery models are unlikely to deliver a good-quality, affordable service to a large number of poor users, especially those formerly excluded from the services.

## Endnotes

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- <sup>1</sup> UN, *The Energy Challenge for Achieving the Millennium Development Goals*, 2007. See [www.un.org/News/Press/docs/2005/dev2529.doc.htm](http://www.un.org/News/Press/docs/2005/dev2529.doc.htm)
- <sup>2</sup> For a review of the literature see, Zhang, Parker and Kirkpatrick, *Competition, Regulation and Privatisation of Electricity Generation in Developing Countries: Does the sequencing of the reforms matter?*, September 2004.
- <sup>3</sup> See for example, J E Besant-Jones, 'Reforming Power Markets in Developing Countries: What Have We Learned?', World Bank Group, Energy and Mining Sector Board Discussion Paper No19, September 2006.
- <sup>4</sup> See Christian Aid, *The Climate of Poverty*, 2006.
- <sup>5</sup> Ecoequity, *The right to development in a climate constrained world*, 2007.
- <sup>6</sup> Importantly, this may well be a domestic rather than international private sector, although other World Bank-driven reforms, such as the pressure on governments to enact procurement legislation that gives national and international competitors equal treatment, can undermine the development of indigenous industry that is capable of leading infrastructural development.
- <sup>7</sup> Ian Tellam, *Fuel for Change: World Bank Energy Policy, Rhetoric vs. Reality*, Zed Books 2000.
- <sup>8</sup> Bretton Woods Project, *OED Slates Bank Development Effectiveness*, November 2005.
- <sup>9</sup> Bretton Woods Project et al, 2006.
- <sup>10</sup> Deaton et al, *An Evaluation of World Bank Research 1998-2005*, World Bank, January 2007.
- <sup>11</sup> Eurodad analysis of a sample of 16 countries from the World Bank conditionality database – forthcoming.
- <sup>12</sup> This section draws entirely from, Claire McGuigan, 'The Impact of World Bank and IMF conditionality: An investigation into electricity privatisation in Nicaragua', Christian Aid, July 2007.
- <sup>13</sup> Multilateral Insurance Guarantee Agency.
- <sup>14</sup> Ruth Selma Herrera Montoya, *Crisis del sector energético: Nicaragua apagándose*, Red Nacional de Defensa de los Consumidores, November 2005.
- <sup>15</sup> See Joseph Wilde-Ramsing, *An Unlikely Leader: Renewable Energy and State-Society Relations in Costa Rica*, Tulane University, May 2004.
- <sup>16</sup> Interview with small shop owner, Jos, 8 August 2007.
- <sup>17</sup> ICEED, *Renewable Electricity Policy Guidelines*, December 2006.
- <sup>18</sup> *Nigeria Energy Development Project*, World Bank 2005
- <sup>19</sup> *Nigeria Energy Development Project*, World Bank 2005
- <sup>20</sup> Just as one-size-fits-all privatisation has often failed, an ideological objection to private sector involvement is also unwise. Telecommunications sectors have often improved dramatically as a result of government-run monopolies being broken up and, where regulation is appropriately strong, new and often pro-poor mobile networks have sprung up.
- <sup>21</sup> PSIs are non-financial agreements with the IMF, signed by countries that no longer require loans from the Fund.
- <sup>22</sup> *Physical Infrastructure: Energy*, Chapter 17, page 210, [www.ng.undp.org/modules2a2a.html?name=News](http://www.ng.undp.org/modules2a2a.html?name=News)
- <sup>23</sup> Nigerian Energy Development Project, World Bank 2005.
- <sup>24</sup> *Public financing of a power sector in transformation*, page 151, World Bank.
- <sup>25</sup> *Joint staff advisory note on the progress report for NEEDS*, 13 June 2007, page 7.
- <sup>26</sup> ICEED, *Renewable Electricity Policy Guidelines*, Federal Ministry of Power and Steel, December 2006, page 6.
- <sup>27</sup> 'Reforms: What happened in the sectors', *The Guardian*, 29 July 2007.
- <sup>28</sup> ICEED, *Renewable Electricity Policy Guidelines*, 2006, page 4
- <sup>29</sup> Nigeria Strategic Gas Plan, UNDP/World Bank Energy Sector Management Assistance Programme (ESMAP), February 2004, page 13
- <sup>30</sup> Page 391 of the Conservatives' *Blueprint for a Green Economy*, the report of the Quality of Life Policy Group, chaired by John Gummer MP, September 2007.