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Reform despite politics? The political economy of power sector reform in Fiji, 1996–2013

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HIGHLIGHTS

- This is the first study of power sector reform in Fiji or other Small Island Developing States (SIDS) of the Pacific.
- The clientelist nature of politics in Fiji is found to have both driven and shaped reform efforts.
- There has been modest success in recent years despite these obstacles, with Fiji now considered a model for other SIDS.
- The experience demonstrates that reform is possible within difficult political environments, but it is challenging, takes time and is not guaranteed.

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ABSTRACT

Attempts to reform the electricity sector in developing countries have achieved mixed results, despite the implementation of similar reforms in many developed countries, and concerted effort by donors to transfer reform models. In many cases, political obstacles have prevented full and effective implementation of donor-promoted reforms. This paper examines the political economy of power sector reform in Fiji from 1996 to 2013. Reform has been pursued with political motives in a context of clientelism. Policy inconsistency and reversal is explained by the political instability of ethnic-based politics in Fiji. Modest success has been achieved in recent years despite these challenges, with Fiji now considered a model of power sector reform for other Small Islands Developing States (SIDS) in the Pacific. The experience demonstrates that reform is possible within difficult political environments, but it is challenging, takes time and is not guaranteed. The way in which political motives have driven and shaped reform efforts also highlights the need for studies of power sector reform to direct greater attention toward political drivers behind reform.

1. Introduction

Attempts to reform the electricity sector in developing countries have achieved mixed results, despite the concerted efforts of donors (such as the World Bank) to transfer reform models to developing countries. Studies of power sector reform in developing countries acknowledge the significant political obstacles that have prevented full and effective implementation of donor-promoted reforms. An important focus of these studies is the vested interests of groups that oppose reform, and the political challenges of ensuring electricity prices reflect the economic cost of supply. Studies have also questioned the political commitment to reform of governments in developing countries, highlighting the fact that reforms were in many cases implemented in response to power sector crises, or as part of loan conditions established by donors.

Power sector reform in Small Island Developing States (SIDS) in the Pacific has also been limited. Fiji is an exception, having undergone two periods of reform, in 1996–1999 and 2001–2013. Power sector reform in Fiji has been a domestic initiative. Reform has not resulted from donor pressure, nor has it been a response to crisis in the power sector. But neither has power sector reform in Fiji proceeded as originally conceived. Plans to introduce competition into the sector and to privatise the Fiji Electricity Authority (FEA) have never eventuated; the FEA, a government business enterprise, remains the dominant electricity utility. A second phase of reform has been more successful. The performance of the now corporatised FEA has improved, and Independent Power Producers have signalled their intention to invest in the sector. In recent years, independent tariff regulation has also been established. This has led to Fiji being considered a model of power sector reform for neighbouring Small Island Developing States (SIDS) in the Pacific.

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What explains Fiji's experience with power sector reform? There has been no published study of power sector reform in Fiji or in other independent Pacific SIDS. This paper addresses this gap in the literature, exploring the failure of early reform efforts in Fiji, and the success of more limited reform in recent years. The paper is based on interviews of Fijian civil servants and officials involved in, or with knowledge of, power sector reform and regulation. It also draws on a comprehensive review of the literature, including historical documents and press coverage that are not available electronically. The paper begins by discussing the mixed results of power sector reform in developing countries. It proceeds to provide an overview of power sector reform in Fiji. The paper then draws on the political economy literature to discuss how political imperatives have influenced both successful and failed reform efforts in Fiji.

2. Power sector reform in developing countries

2.1. An overview of reform

Power sector reform began internationally in the 1980s, with a drive to introduce competition and private sector involvement into what had traditionally been a sector dominated by the state. Advocates of reform argued that the introduction of competition and private sector participation would increase efficiency and lower generation costs, leading to lower prices and better services for the consumer. Power sector reforms formed a part of a broader set of policy changes implemented around the world as part of the "Washington Consensus" (Williamson, 1990). State-owned monopolies in electricity provision were "unbundled" as a part of this process, with the generation, distribution and transmission, and retailing roles of power utilities separated. This enabled the introduction of competition into the generation and retailing businesses, commonly with the involvement of the private sector. Competition and private sector involvement was less common in transmission and distribution, as these functions were considered to be a natural monopoly and remained more highly regulated by the state. A continuum of models of power sector regulation is illustrated in Fig. 1. Power sector reform generally involved movement over time from regulatory models involving less competition (at the top of the figure) to models involving more competition (at the bottom of the figure).

In developing countries, power sector reform was generally advocated in response to poor performance. Electricity provision in many developing countries is inefficient and costly. At the same time, the quality of electricity services provided to consumers is poor, with frequent and prolonged blackouts and brownouts. Proponents of reform argued that private sector involvement and the introduction of competition could address these problems by improving worker productivity, ensuring maintenance, and facilitating the adequate collection of tariffs. They also argued that reform could widen access to electricity through private sector financing of grid expansion and investment in generation capacity (Choynowski, 2004; Rosenzweig et al., 2004; Gratwick and Eberhard, 2008). These arguments were also made in many SIDS (Weisser, 2004a, 2004b).

In the majority of developing countries the entire suite of reforms was never implemented, despite such arguments. In an extensive review of electricity sector reform in 150 countries, Besant-Jones (2006) found that only 19 countries had introduced extensive competition in both distribution and generation, and that this had occurred primarily in Europe and Latin America. Vertically integrated monopolies remained in place in 79 countries; while in 52 countries, Independent Power Producers (IPPs) sold electricity to a single buyer. Gratwick and Eberhard concluded that the "standard model" of power sector reform in developing countries has not been implemented, and that instead:

> "What we find in the power sector of most developing countries is a confused and contested policy and institutional space that arises from the fact that the incumbent state-owned utility remains intact and dominant, but where IPPs are also invited into the market, often with less than enthusiastic support from the incumbent (2008: 3958)."

The implementation of reform has been limited despite significant effort by donor organisations. Multilateral and bilateral donors promoted power sector reforms through the provision of technical assistance and financing to developing countries. In some cases, power sector reforms were incorporated into loan

	Operational Model	Regulatory Structure	Ownership
Less competition	Vertically Integrated Monopoly	Full regulation of generation, transmission, distribution, and retail components.	State ownership of all components.
	Monopsony	Full regulation of transmission, distribution, and retail components. Competition to enter generation level.	State ownership of transmission, distribution, and retail components. Primary generation company owned by the state, but purchases power from smaller private sector generation companies.
	Wholesale Competition	Full regulation of transmission, distribution, and retail components. Generation regulated by the market.	State ownership of transmission, distribution, and retail components. Generation companies owned by the state and private sectors.
More competition	Full Customer Choice	Full regulation of transmission and distribution components. Generation and retail regulated by the market.	State or private sector ownership of transmission and distribution components. Generation and retail companies are generally owned by the private sector.

Fig. 1. Regulatory structures in the power sector.
Source: Adapted from Choynowski (2004).