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Energy Security, Institutional Development, and Economic Growth: Implications for Post-Conflict Environments

Presentation to USAID Economic Growth Officers Workshop

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G-8 Economic Summit (2007)

Energy is a fundamental driver of growth and development around the world, and the use of energy has been steadily expanding along with the world's populations and economies. Our ability to provide secure access to clean, affordable and safe sources of energy to maintain global economic growth complements our desire to protect our environment. Addressing the challenge of energy security will require unprecedented international cooperation in several areas, including market transparency, enhancing energy efficiency, diversifying energy supplies and developing and deploying new and transformational technologies.



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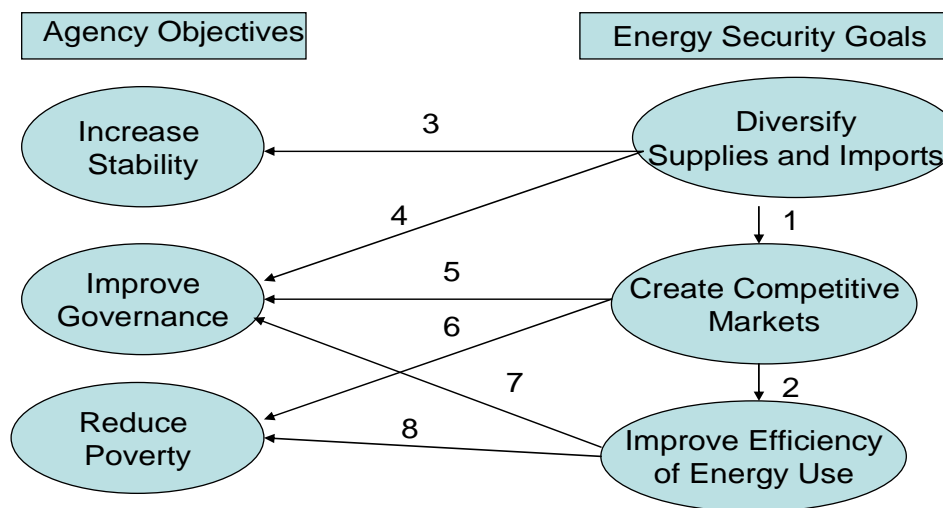
Overview

1. Conceptual Framework
2. The Diagnostic Issues
3. Navigating the Political Minefields
4. Confronting Institutional and Managerial Weaknesses
5. Basic Elements of Institutional Reform Approach
6. Developing Management and Operating Contracts
7. Fostering Public-Private Partnerships
8. Conclusion



1. Conceptual Framework

Agency Vision and Energy Security



See next table for definition of causal assumptions



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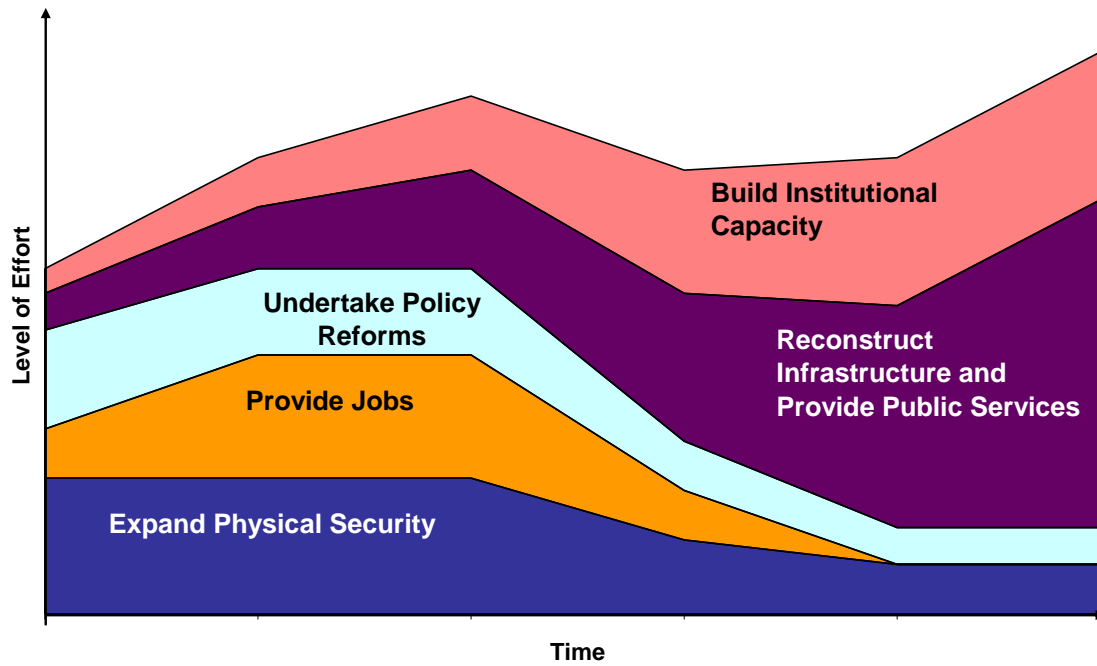
Logical Framework

1. **Diversification of energy supplies and imports reduces monopolies and contributes to greater regional market competition.**
2. **Regional competitive markets create rational prices and incentives for greater efficiency.**
3. **Diversification of energy supplies and imports reduces foreign economic dependence and vulnerability that can cause instability.**
4. **Diversification of energy supplies and imports can reduce opportunities for government corruption and political control of transmission lines.**
5. **Regional competitive markets increase transparency, decentralize political control, and improve financial discipline.**
6. **Regional competitive markets can reduce prices or mitigate price increases for population due to greater efficiency and consumer choice.**
7. **Greater efficiency of energy use can free up government funds for social and other priority investment needs.**
8. **Greater efficiency of energy use is a means of helping low income population reduce energy bills and increase the percentage of their income that they have for other needs.**



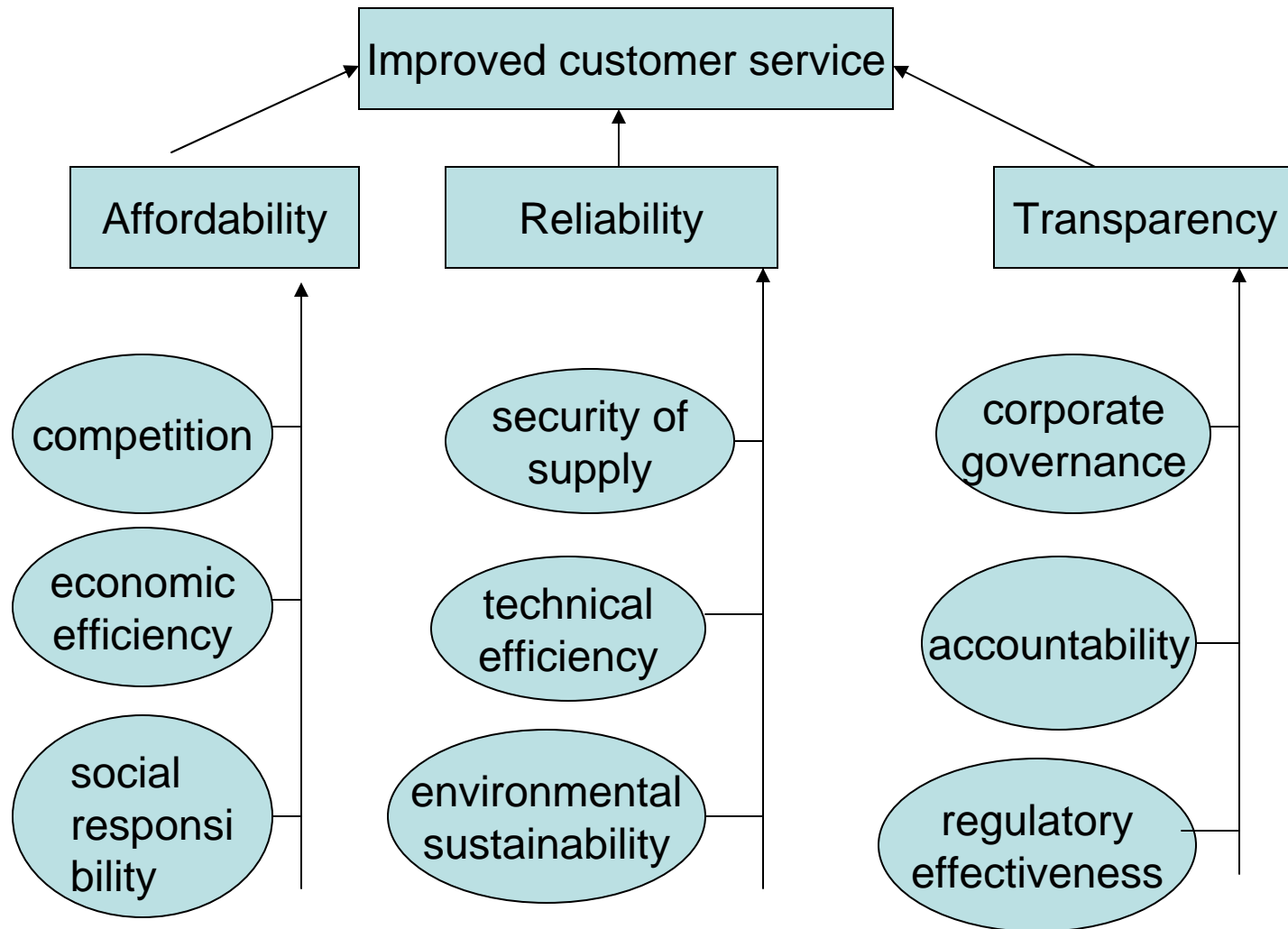
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Post-Conflict: EG Program Emphases





Electric System Framework





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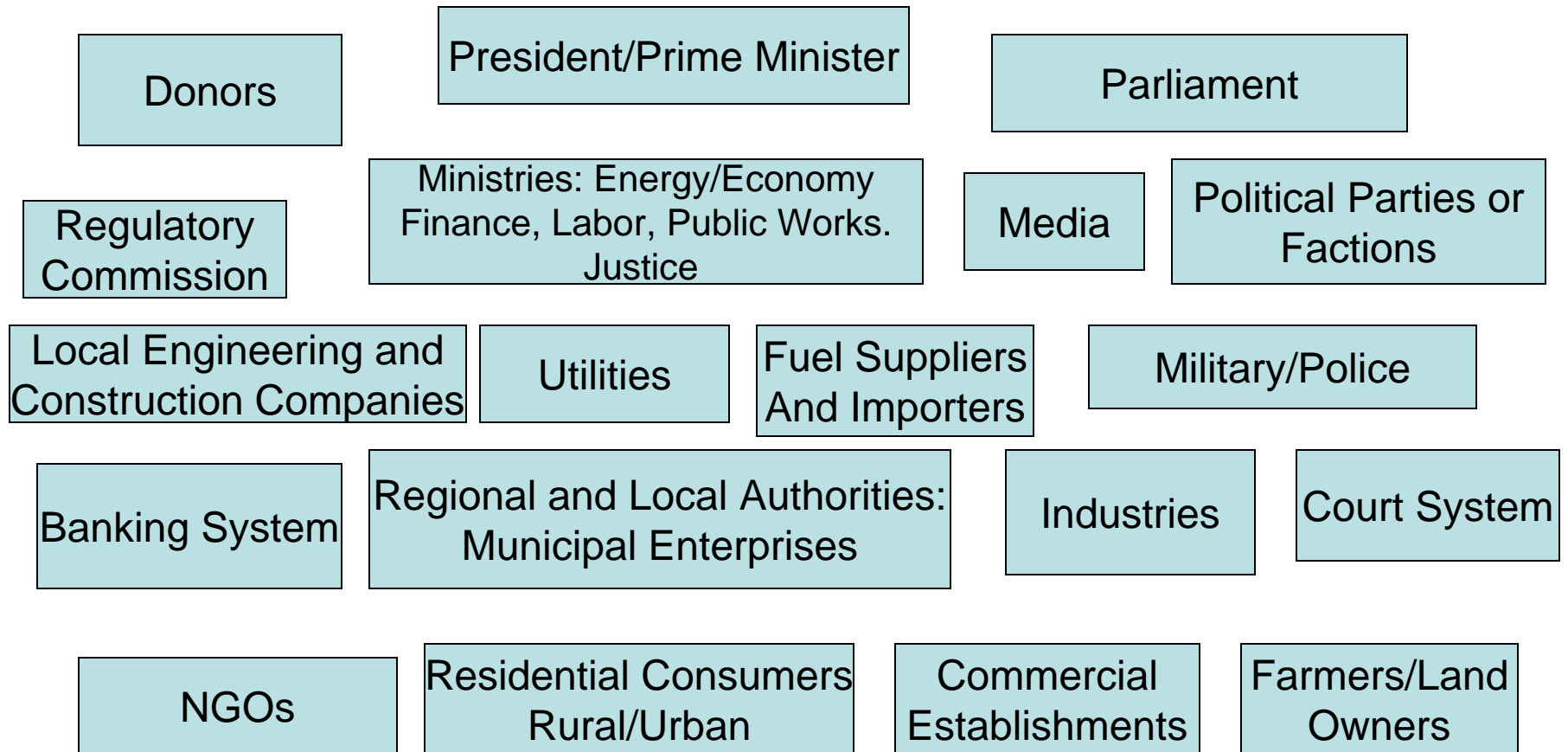
2. The Diagnostic Issues

- Political Mapping
- Geographical Characteristics
- Physical State of the System – quality of service and technical losses
- Cost Recovery and Financial Systems
- Regulatory Environment
- Access of Communities to Service



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Diagnosis: Political Mapping





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3. Navigating the Political Minefields

- Central-Local Tensions
- Ethnic Conflicts
- Corruption in Management and Collections
- Inter-Ministerial Issues
- Donor Coordination Issues



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4. Confronting Institutional and Managerial Weaknesses

- Are basic institutions in place?
- Is there differentiation among policy, regulatory and operation functions?
- Are there committed leaders to work with?
- What kind of team building is possible?
- Is training of local staff and companies feasible?
- How easy is it to hire and fire workers?



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5. Basic Elements of Institutional Reform Approach

- Basic Policy and Legal Framework
- Regulatory Commission Development and Basic Tariff and Licensing Reform
- Restructuring, Corporatization and Unbundling
- Commercialization and System Operational Improvement
- Market Design, Market Rules, Codes and Financial Settlement Systems
- Further Tariff Reform and Social Safety Net Development
- Privatization and Investment Strategy Development and Implementation
- Regional Market Development, Congestion Management, Trade Facilitation and Progressive Market Opening



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6. Developing Management and Operating Contracts

- **Costs/Benefits**
 - Time and Resource Commitment
 - Availability of Good Teams
 - Why not privatize?
 - Reduction in Subsidies
 - Improved Service for Communities and Poor
- **Conditions for Success**
 - Political, Police and Judicial Support
 - Clear Management Control – hiring and firing
 - Competent Chief of Party
 - Proper Incentives in Contract
 - Complementary Capital Financing
 - Donor Support
 - Potential for Privatization/Sale Cases
- **Cases**
 - Georgia
 - Albania
 - Kosovo
 - Azerbaijan



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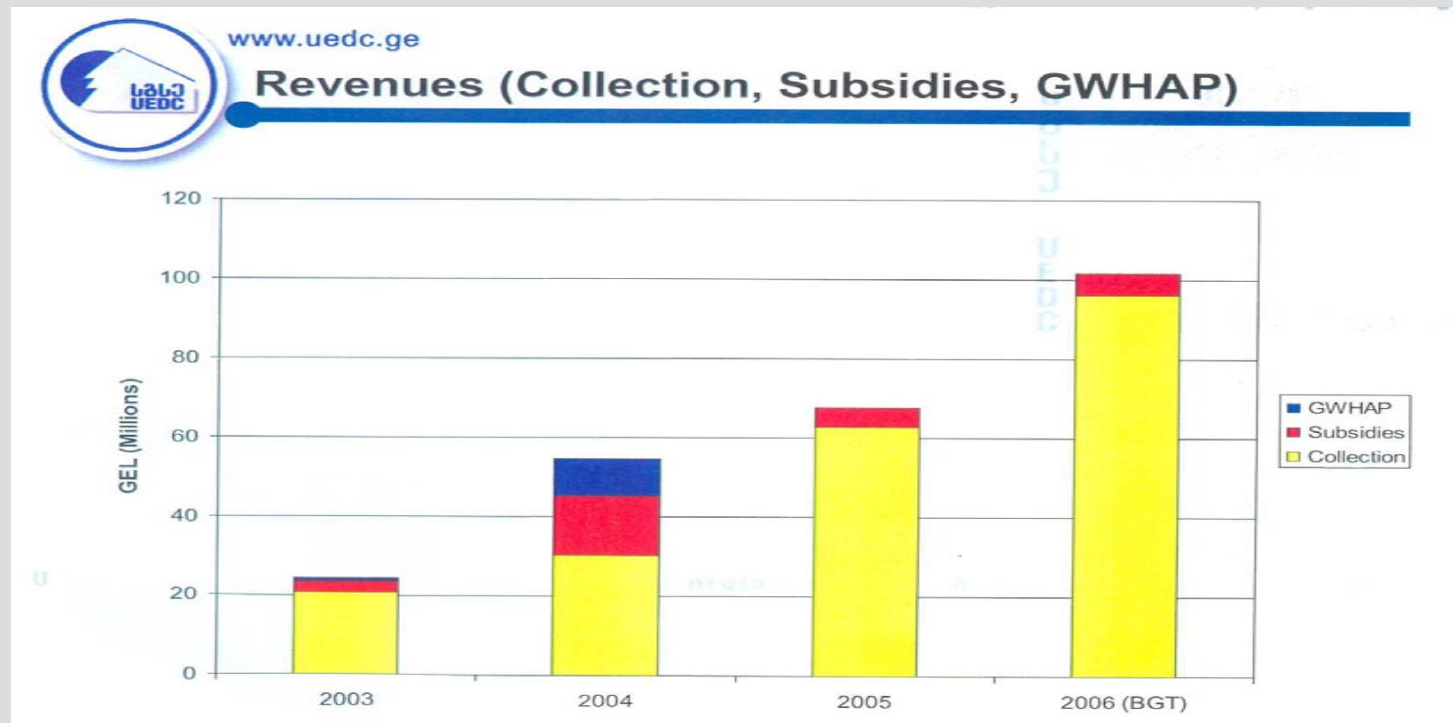
Georgia: USAID-Financed Management Contract for UEDC Electricity Distribution Company

- **PA Consulting Team took over in May 2003 under contract with Government: strong political support by new Georgian Gov after Rose Revolution**
- **Between then and end of 2006 collections climbed from low teens to about 70%.**
- **Result from strict enforcement of payment (except water utilities) and application of communal metering**
- **Payers have access to nearly 24 hour supply**
- **Radical Business Restructuring: reorganization and downsizing – staff turnover approaching 70%; 59 branches eliminated; aggressive internal audit/anti-corruption activities – over 1,000 cases pursued in courts; Major financial management improvements; technical control through investment into priority needs of the system; metering, billing, and collection improvements**



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Georgia: Collection Improvement under Management Contract





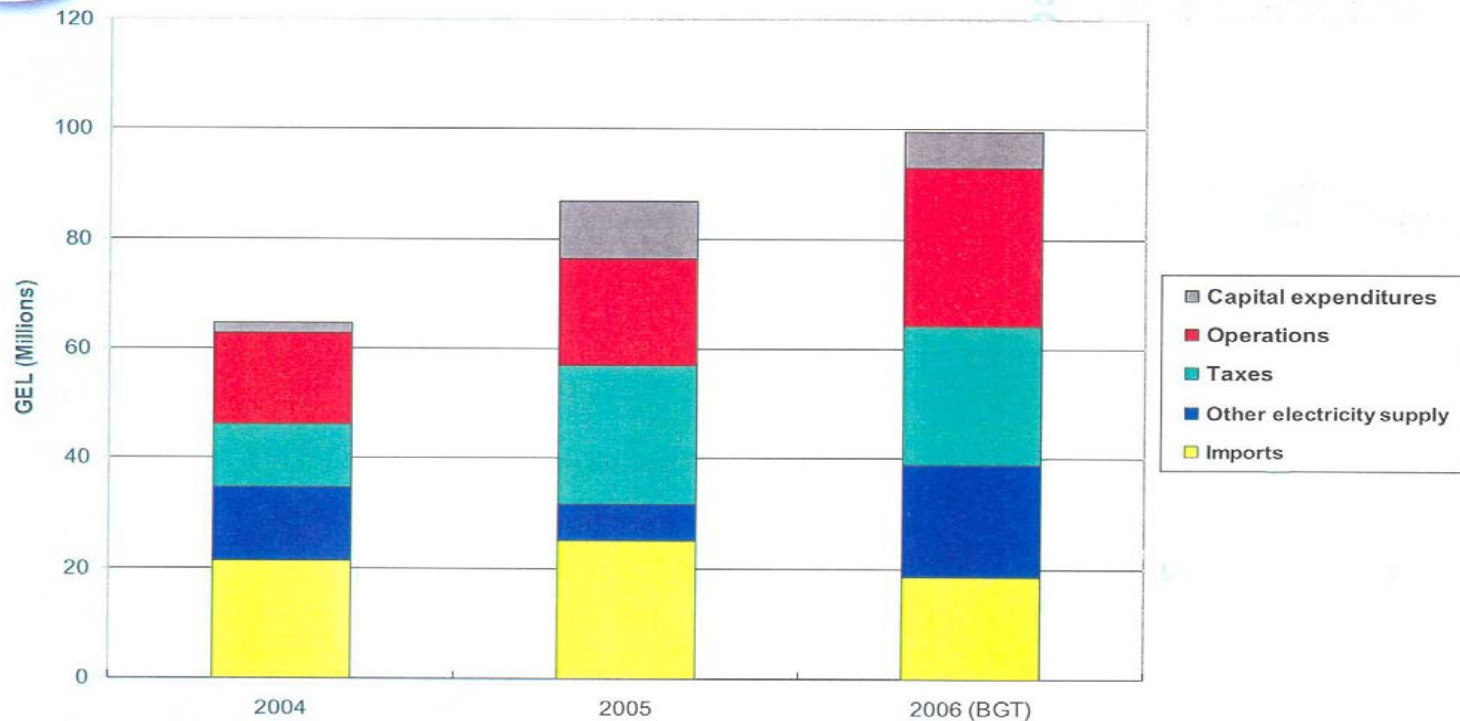
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Georgia: Increased Salary, O&M and Tax Payments under Management Contract



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Expenses by Major Cost Categories





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7. Fostering Public-Private Partnerships

- Framework for sector development and privatization
- Strategic Privatization
- Concessions
- Leasing Arrangements
- Cooperatives



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Strategic Distribution Privatization

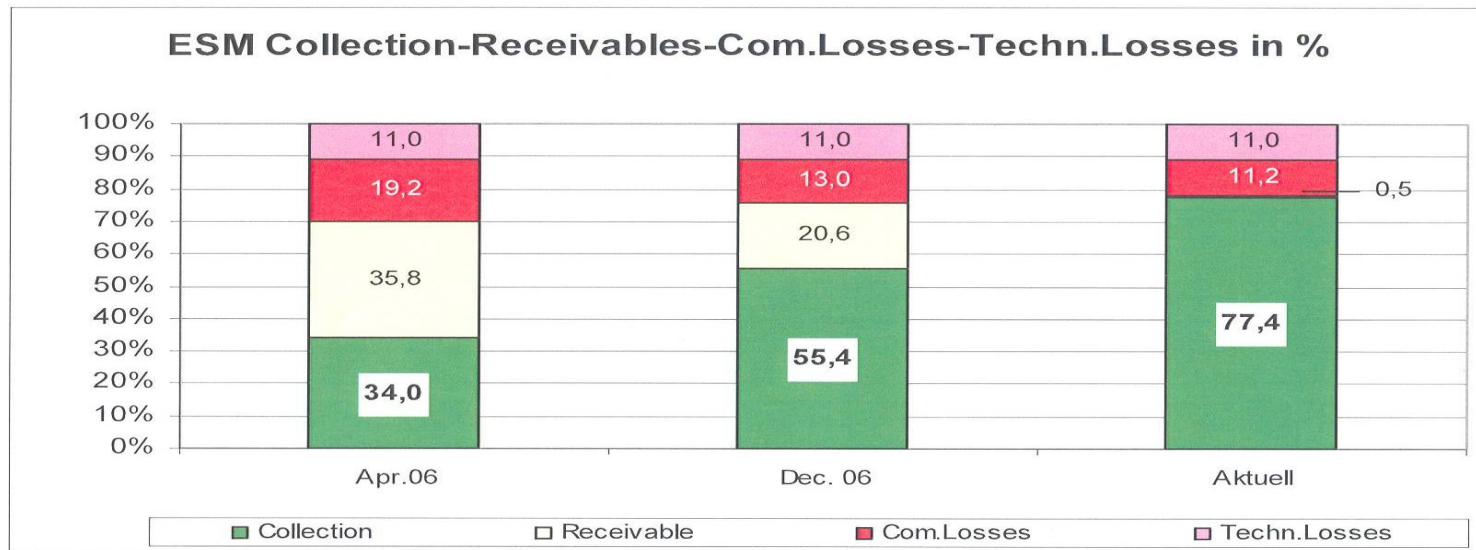
- **Cases: Georgia, Armenia, Macedonia, Ukraine, Moldova, Georgia, Slovakia, Bulgaria, Romania**
- **Necessary Conditions:**
 - Political support; Gov. energy/privatization policy/law
 - Professional energy regulatory body with minimum tariff and licensing authorities
 - Defined market structure and clear property allocation;
 - Legal un-bundling of distribution
 - A transparency tariff methodology and agreement on tariff levels over some initial period
 - Reasonable level of security of supply – no pronounced load shedding
 - No excessive outstanding debts
 - Reasonable levels of technical and commercial losses and the potential for reduction in losses as a result of improved metering, billing and collections
 - Internationally acceptable method for dispute resolution



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Macedonia: Improvement in Collections Since Strategic Privatization of Distribution

Collection-Receiveables-Com.losses-Techn.losses



In the 14 months from April 2006 (when EVN bought 90% of ESM) to June 2007, losses were decreased from 30.17% to 22.15%, and collections were increased from 34.0% to 77.4%.





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8. Conclusion:

Building Policy, Regulatory and Operational Institutions; Developing Human Resources Capacity, and Improving Infrastructure Services are intimately linked and basic to any Post-Conflict program.