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CONCEPT NOTE

GOVERNANCE CHALLENGES TO REFORMING PAKISTAN'S ENERGY SECTOR

DECEMBER 27, 2012

This publication was produced for review by the United States Agency for International Development by David A. Garner. It was prepared by Management Systems International (MSI) under the Monitoring and Evaluation Program (MEP).

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Contracted under No. GS-23F-8012H and Order No. AID-391-M-11-00001

Monitoring and Evaluation Program (MEP)

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PURPOSE

USAID/Pakistan asked Management Systems International (MSI) to provide a consultant to help identify key points in the energy sector for current and future programming initiatives. As part of the scope of work, the MSI consultant was asked to assist USAID's Energy Office in three specific areas: 1) how can USAID's Energy Program utilize the "Implementing Policy Change" or IPC¹ model as a means to more fully integrate governance into energy sector work; (ii) identify types of citizen actions that could be most helpful in advocating for change; and (iii) assess recent Pakistani court cases and policy measures, and their impact on Pakistan's energy sector, as well as USAID's energy program.

Introduction

The challenges associated with reforming Pakistan's energy sector are well known. These were briefly summarized in a paper by Pakistan's Planning Commission last year.²

"The energy sector in Pakistan is still largely state controlled. However market development as envisaged in the cabinet approved reforms of 1992 has remained stalled and a single monopolistic buyer/seller model still remains. The public sector organizations involved in the power sector remain plagued with managerial and administrative problems, extreme lack of funding due to tariffs being set at below cost recovery, nonpayment of receivables, and delayed payment of subsidy by the Government. Similarly the petroleum sector is dominated throughout by parastatals, right from the exploration to marketing... [T]he state is deeply involved in controlling all aspects of the energy sector and has not been able to provide the enabling environment, and as a result large scale investments ... have failed to materialize."

Of course different people offer different explanations for how this situation has developed. The purpose of this paper, however, is not to write a history for why the situation has developed as it has, but instead to suggest ways to move the sector forward, particularly with regard to "Implementing Policy Change" (or IPC) type programming strategies and energy sector reforms.

¹ See Appendix I for a short summary of the IPC model.

² Government of Pakistan, Planning Commission, "Framework for Economic Growth," May 2011, p. 72.

A POSSIBLE WAY FORWARD

One step to stimulate reforms across the energy sector could involve creating an executive agent to oversee Pakistan's energy sector.³ This could be one of several possible next moves on the chessboard of sectoral reforms. It could be a useful substantive action, but it could also be an example of the kinds of actions that a coalition of donors could agree upon as part of a shared donor strategy to promote a carefully selected package of sectoral reforms. Additional reforms could include unbundling the electricity sector and establishing an integrated policy and planning process (perhaps through the mechanism of a National Energy Policy Board) since such integration is not currently taking place across the energy subsectors.

Over the past fifteen years successive governments of Pakistan have been unable to find the political will to promote meaningful substantive reforms in the energy sector. Bureaucrats in various ministries, for example, were largely put in charge of day-to-day reforms connected with unbundling the energy sector, and in many cases they seem to have said, "Yes, yes," but they meant, "No. . . ." They clearly dragged their feet. The restructuring process connected with unbundling the energy sector was captured by those who were meant to be reformed, and the political elites either ignored the problems, or in some cases benefited from them. Something similar seems to have happened with the country's Gas Allocation Policy.

Without political will, there will be no reform. The failed efforts to unbundle the energy sector is a classic example of the problem. It is significant that the Pakistan Electric Power Company (PEPCO)⁴ was established 13 years ago as a transitional agency to oversee the unbundling of transmission, generation, and distribution. Thirteen years later PEPCO still oversees the operations of the GENCOs and DISCOs, (with the nominal exception of Karachi).⁵ PEPCO oversees their staffing and their finances. DISCOs and GENCOs are supposed to be stand-alone companies, but in fact corporate officers are not selected by their respective boards of directors. Instead, they are selected by the Ministry of Water and Power, and/or by PEPCO.⁶ Good governance means that their boards of directors should be able to hire and fire the management team. This has not happened. The vested interest of the incumbent bureaucrats has insured that it did not happen.

POTENTIAL MANDATE OF AN EXECUTIVE AGENT FOR PAKISTAN'S ENERGY SECTOR

He will report to and take direction from the Prime Minister on energy actions approved by the Cabinet, the Prime Minister and Parliament, and/or meetings of the Energy Summit. He will have the full authority of the Prime Minister to ensure the implementation of actions approved by the Prime Minister in the energy sector. His authority shall include implementing (i) all current energy laws; (ii) all national energy policies such as those relating to the restructuring of the Water and Power Development Authority (WAPDA); and (iii) other governance matters such as establishing a transparent central power purchasing agency (CPPA), financially independent distribution companies, energy efficiency programs, renewable energy, privatization, planning documents, energy security measures, and any other government energy policy. Technical and policy differences between line ministries and departments shall be referred up to him for adjudication."

(Adapted from page 62 of ADB report.)

³ An executive agent for the energy sector could take several forms. It might involve a Deputy Prime Minister for Energy, for example, or the creation of a Ministry of Energy, or perhaps the appointment of a Minister of State for Energy who would help to oversee the work of various line ministries working with energy matters.

⁴ Pakistan Electric Power Company, the son of WAPDA, (Water and Power Development Company).

⁵ India started after Pakistan with a policy of unbundling, but it appears to have gone forward successfully. Many other countries have also successfully unbundled their energy sectors, and many lessons could be drawn from such experience that would be applicable to Pakistan.

⁶ At some level, the Ministry of Water and Power attempted to dissolve PEPCO in late 2011 but various measures including court cases have been used to forestall this. Additionally, even though PEPCO is now essentially defunct in many areas, other high level entities control many of its functions and there are some calls within WAPDA and the GoP for reintegration of the sector under a PEPCO-type organization

What to do?

The international development community, acting together through an informal coalition, should promote the establishment of an integrated set of proposed energy sector reforms. A few possible options are briefly described below. These might involve: (i) establishing an office of a Deputy Prime Minister for Energy; or (ii) creating a Ministry of Energy; (iii) creating a “virtual” Ministry of Energy; and/or (iv) creating a National Energy Policy Board. These options are not mutually exclusive, and the purpose of this paper is to lay out some options and processes that stakeholders might pursue in order to secure meaningful sectoral reforms. These options, and others, could be explored with various stakeholders during the course of a Stakeholder Mapping Exercise in order to assess the potential levels of interest that exist for specific reforms, and others that might rise to the surface during the course of conducting such an exercise. This might allow USAID and other donors and stakeholders to assess what specific energy reforms might prove politically feasible in today’s Pakistan.

A Deputy Prime Minister for Energy

One option might involve creating an office of a Deputy Prime Minister (DPM) for Energy. The Deputy Prime Minister, acting under the authority of the Prime Minister, should oversee all agencies and departments that deal with energy (see Figure 1 below). The DPM would combine authority and responsibility in one person. He should have a suitable Technical Secretariat, staffed with appropriate senior level Pakistan technocrats – from both the public and private sector – to have the necessary horsepower to oversee a sprawling and largely dysfunctional sector, which is estimated to employ between 400,000 and 500,000 individuals. The Technical Energy Secretariat might be established by transferring some or most of the planning commission’s existing energy wing to the new entity, perhaps leavening this with some additional outside experts in finance, economics, strategic planning, and organizational development. At present, the various ministries that constitute the energy sector all formally report to the Government of Pakistan. Yet any government deals with many issues. Today, many people and entities in Pakistan have some responsibility in the energy sector, but no single person or single office is responsible for looking at its overall functioning capacity.⁷ In the case of fuel allocations, for example, if tradeoffs need to be made between using natural gas to fuel captive power generators run by private industry⁸ versus supporting the generation of electricity by GENCOs which can convert gas into electricity more efficiently, than a DPM for Energy could make such resource allocation decisions, working in consultation with other relevant line agencies like the Ministry of Finance, Commerce, etc. The proposed DPM would be part of the prime ministry, which by definition has overall responsibility for the conduct of all other executive branch ministries. Thus, he would have the weight of the prime minister behind him, which should help him oversee and coordinate the direct work of the energy sector, including the Ministries of Petroleum and Natural Resources, Water and Power, and Pakistan’s Atomic Energy Commission. The advantage of creating a DPM for Energy is that it would concentrate in one place the responsibilities for overseeing the energy sector. The potential disadvantage of such an office is the flip side of its potential advantage: it might concentrate too much authority in one person, or one office.

Ministry of Energy

A few years ago, the Friends of Democratic Pakistan proposed creating a Ministry of Energy that in theory would have consolidated all the various agencies and departments that deal with energy into one mega-ministry. The proposal appeared to go nowhere. The existing agencies presumably did not like this idea.

⁷ Except nominally the Prime Minister, who is not able to focus exclusively on the energy sector.

⁸ The term “captive power” refers to power generated “held captive” and not used to provide electric power that flows into the national grid. In Pakistan, some natural gas has been diverted to captive power producers, meaning industry and other users who in turn use such gas to produce electric power to meet their own needs. Their smaller generators are much less efficient than the large systems used by the GENCOs. At the same time there is a special tariff class used for selling natural gas used for captive power, so these industries have been getting access to natural gas under preferential systems. In short, the 2006 Gas Allocation policy is not being followed.

Several ministers might have lost their portfolios if the sector had been consolidated into a single ministry. The advantage of creating a Ministry of Energy is similar to the idea of creating a DPM for Energy: it would begin to weave together the various components of the energy sector into one extremely large bureaucracy. The size of the ministry could eventually become a problem. One large bureaucracy might not represent a significant improvement over the existing, somewhat fragmented structure, and might even turn out to be worse, and as with the office of a deputy prime minister, it could also promote the concentration of power and resources in the hands of one individual. Further efforts to weave together the many disparate parts of several separate ministries would also consume great amounts of organizational energy over several years, and the long-existing dysfunctions of these many different organizations may well end up being consolidated under one roof. Moreover, it would not be able to directly draw upon the resources of the prime minister's office when it came to working with other collateral ministries with interests in the energy sector (e.g. the Ministry of Finance).

A possible alternative to creating a Ministry of Energy could involve creating what in effect might be a "virtual" Ministry of Energy by designating an executive agent (title to be determined), which would oversee various ministries to coordinate and integrate their ongoing day-to-day work. This would avoid bringing several ministries together formally, and might also avoid some issues connected to designating a deputy prime minister. If there is an interest in creating an executive level agent or agency to oversee and coordinate the energy sector, then presumably ways could be found to make it happen. (Pakistan, after all, helped to invent the office of the 'extra additional secretary.') Prime Ministers can readily designate "ministers of state" for technical sectors. Thus, an option could be to designate a minister of state for energy, who would not have the standing of a deputy prime minister, and would not directly run a huge bureaucracy, but might be able to improve coordination between and among key line ministries and look at overall issues of sectoral performance. Stakeholders could explore ways to give the executive agent a title and function that would be legally and bureaucratically acceptable.

A National Energy Policy Board for Pakistan

Stakeholders might also explore the utility of a National Energy Board for Pakistan,⁹ which could be responsible for formulating overall national energy policy with a mandate to better integrate national priorities for the energy sector. Perhaps this National Energy Board could be given responsibilities for formulating national energy policy, while an executive agent or various line ministries could be responsible for executing such policy decisions.

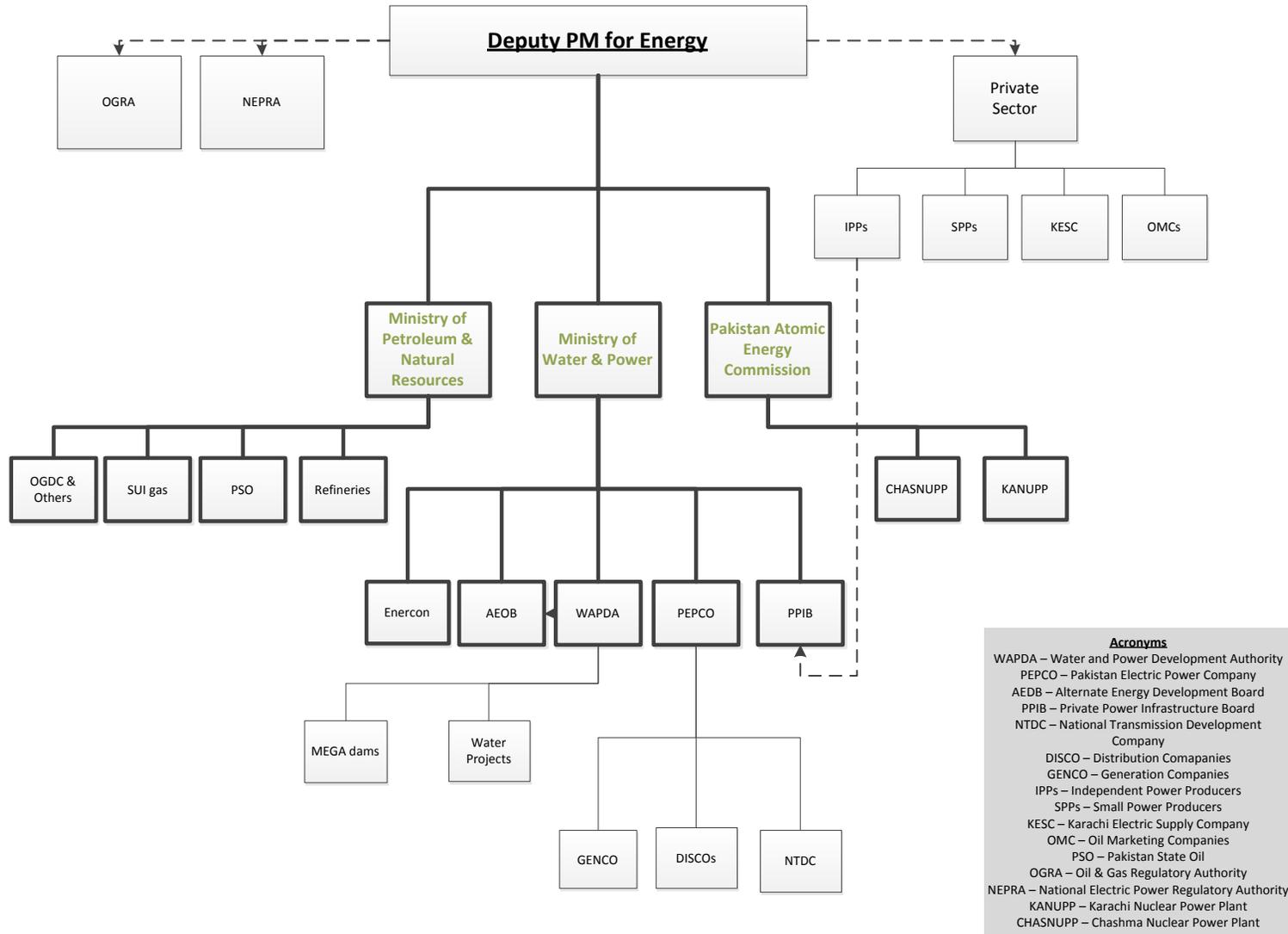
The operations of the U.S. Government's Federal Reserve System may suggest ideas for how to structure a National Energy Policy Board. If stakeholders determined that it was useful, an Energy Policy Board could include representation from the major line ministries (MWP, Petroleum, Atomic Energy Commission, Finance) regulatory agencies (NEPRA and OGRA), the four provinces (perhaps nominated by the provincial governors), selected representatives from the GENCOs and DISCOs (probably on a rotational basis), and perhaps other relevant stakeholders. This energy policy-making body would function like the U.S. Federal Reserve Board which formulates overall U.S. monetary policy. The National Energy Policy Board would be charged with rationalizing and integrating government policies for the energy sector. It might also formalize representation from the provinces, so that activities at the national level would conform with the letter and spirit of the newly-passed 18th Amendment to the constitution. It could also open the door for participation from the proto-private sector through the country's DISCOs and GENCOs.

⁹ Typically an individual ministry is charged with making policy and then implementing it. However there is precedent for alternative mechanisms. The Planning Commission of Pakistan often makes policy decisions, for example, that go to the Prime Minister for approval, and then to the line ministries for implementation. Second, the Council of Common Interests (CCI) could make policy decisions in the case of electricity, which would then be implemented by the relevant line ministries. A National Energy Policy Board, with broad representation across government at various levels, could operate in a similar manner.

An entity like a National Energy Policy Board might be chaired by the Prime Minister, a deputy prime minister for energy, a minister of state, or by a completely independent officer. (The chairman of the American Federal Reserve Board is appointed by the President of the United States, but the board and its chairman are independent of the government.) The Energy Policy Board would be supported by experts from the Technical Energy Secretariat (mentioned above). Meetings of the Energy Policy Board could be transcribed, and these could be made public after a period of time. The Energy Policy Board might also be authorized to hold hearings on activities of the energy sector, in order to engage the public and other relevant stakeholders more fully in the policy-making process. Through such mechanisms, policy formulation for Pakistan's energy sector might become more open and transparent, and stronger institutional checks and balances might also be put in place.

The advantage of a separate policy-making body for the energy sector is that policy would be created with participation from a wide range of relevant institutions. The board might help promote checks and balances between and among implementing agencies, (including the potential deputy prime minister or Minister/Ministry of Energy if such a role was approved by relevant agencies). The disadvantage is that this policy-making board might prove cumbersome and have difficulty reaching meaningful decisions. It could prove to be too complex a mechanism to be useful at this time.

FIGURE 1: POSSIBLE ORGANOGRAM FOR PAKISTAN'S ENERGY SECTOR INSTITUTIONS¹⁰



¹⁰ Following normal conventions of organograms, solid lines indicate a direct supervisory or reporting relationship, while dotted lines imply an indirect relationship. Clearly regulatory agencies like NEPRA and OGRA and the private sector, which are shown on Figure 1 with dotted lines, do not report to a deputy prime minister or to a minister of energy, nor would he supervise their work.

ESTABLISHING A PROCESS TO PROMOTE POLICY CHANGE

While establishing an office of a deputy prime minister or a Ministry of Energy might catalyze a process that could lead to serious structural reforms, clearly no single individual or reorganization of line ministries can reform Pakistan's energy sector. The policy change process should involve several levels of Pakistani society, and it needs to be actively managed by a suitable coalition of stakeholders. Some of the tools for managing such a process can be found in USAID's past experience with 'Implementing Policy Change.'¹¹ The tools and the processes of IPC are briefly summarized in Appendix I to this paper.

Applied to Pakistan's energy sector, there are essentially three levels to this policy change model: (i) high policy elites; (ii) upper-level technocrats; and (iii) grass roots activists. In order for a program to promote reforms of the energy sector and build the necessary political support, it will be necessary to work at all three levels. Figure 2 on the following page schematically shows how this strategy might be viewed conceptually, including various levels of stakeholders. The three levels are briefly discussed below:

The High Policy Elites

High policy elites consist of both national and international stakeholders who would engage in dialogue on a number of key issues on energy sector reform. On the international donor side, this would consist of ambassadors from relevant countries (USA, Germany, Japan, UK, etc.), senior staff from international financial institutions like the World Bank and the Asian Development Bank (ADB), and various members of the Friends of Democratic Pakistan. Their counterparts from Pakistan would consist of political elites like the president, prime minister, other senior ministers (including the ministries of Water and Power, Petroleum, Finance, etc.), leaders of opposition political parties who are not currently in office, and others who have significant influence in the policy-making process. A few representatives from the private sector and other key stakeholders might also have significant influence. Under an IPC-type program, an informal coalition from the international community would initiate dialogues with their various counterparts on the subject of energy reform organized around a carefully defined shortlist of key issues. Ambassadors and donor agency heads from the donor coalition should have four or five key talking points, which are designed to lead to actions in the near term. One item on such an agenda could be the appointment of a deputy prime minister for energy or the establishment of a Ministry of Energy. Another possible idea on such a list could be the need to fully unbundle the energy sector, and how to move forward with such an initiative. Other ideas for such a list of talking points might include the need for suitable checks and balances across the energy sector, a proper role for the National Electric Power Regulatory Authority (NEPRA), and/or how to address the energy sector's liquidity problem.¹² The leaders of the donor coalition should try to reach a consensus about what issues are most important, and which are also politically feasible in order to put them onto an agenda for actions over the next 18-24 months.¹³

¹¹ During the 1990s, for a period of more than a decade USAID supported IPC as a vehicle to improve policy implementation processes around the world. Building on hands-on technical assistance in more than 40 countries IPC approaches helped governments modify their purposes, structures, activities, and procedures to enhance their performance and bolster momentum to improve governance by: (i) helping governments to discharge their policy responsibilities; (ii) helping stakeholders to influence policies; and (iii) promoting an enhanced role for civil society. The IPC process was described in more detail in an earlier paper "Integration of Governance Principles and Approaches into USAID's Sector Strategies and Programs," submitted to USAID in April, 2012. IPC is also described in various documents which are readily available on USAID web site, as well as on MSI's website.

¹² Another item that might make the list of top priorities could be the need for a Generation Risk Assessment, which would look at the right fuel mix for Pakistan including hydro-power, coal, fuel oil, etc. This mix determines the cost of production, because different strategies yield different costs for power.

¹³ The coalition should appreciate the limited ability of the political and policy communities (as well as other groups) to deal with issues of change. They can deal only with a limited number of issues at any given time, or the process overwhelms the carrying capacity of the group.

The Upper-Level Technocrats

Continuing dialogue on energy sector reforms at this level should involve national and international technocrats. On the international side, this would consist of staff and consultants who work for donor agencies in the energy sector.¹⁴ Their counterparts on the Pakistan side would be progressive energy sector technocrats found in organizations like the Water and Power Development Authority (WAPDA), PEPCO, the DISCOs, GENCOs, etc. Because the dialogue involving sectoral reform needs to extend beyond just the energy sector technocrats, international groups supporting broader government reform like the National Endowment for Democracy (NED) or the National Democratic Institute (NDI) should talk with their counterparts in the political arena, using the same primary talking points that are used with the 'High Policy Elites' and the 'Energy Technocrats.' Some of this dialogue should extend to members of Parliament, and particularly to members of key Parliamentary committees. In some cases, governance experts from the international community might also want to reach out to counterparts in think tanks, academia, or the legal community as part of a strategy to build larger coalitions for energy sector reforms. Other important interlocutors on the Pakistan side who should be part of such a dialogue include staff of the Planning Commission, and the National Ombudsman's Office.

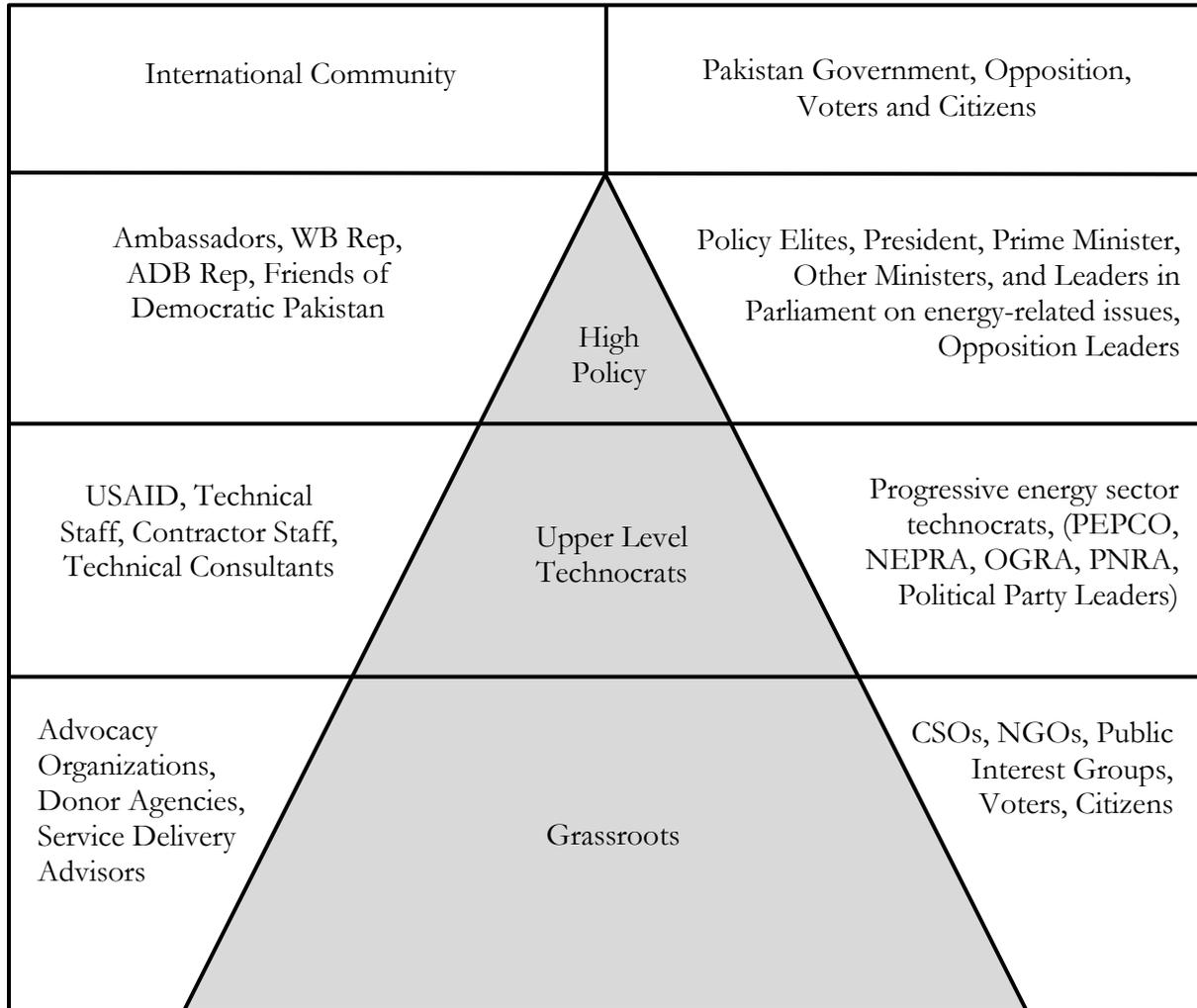
Grassroots Level

For the grassroots on the international side, the players would include staff working in advocacy or service delivery organizations. On the Pakistan side, they would include representatives from various civil society organizations, NGOs, public interest groups, political party workers, consumer rights organizations, the Federation of Pakistan Chambers of Commerce & Industry (FPCCI), All Pakistan Textile Manufacturers Association, etc. Most of these stakeholder groups will fit into the policy change process as foot soldiers for reforms. They can add energy by contributing to a national dialogue. They also add momentum by organizing marches, conducting demonstrations, picketing, testifying before Parliament, attending conferences and workshops, holding seminars, etc.

The proposal that attempts to do everything, almost always ends up doing nothing. The four or five key issues that are eventually chosen need to be carefully prioritized and sequenced.

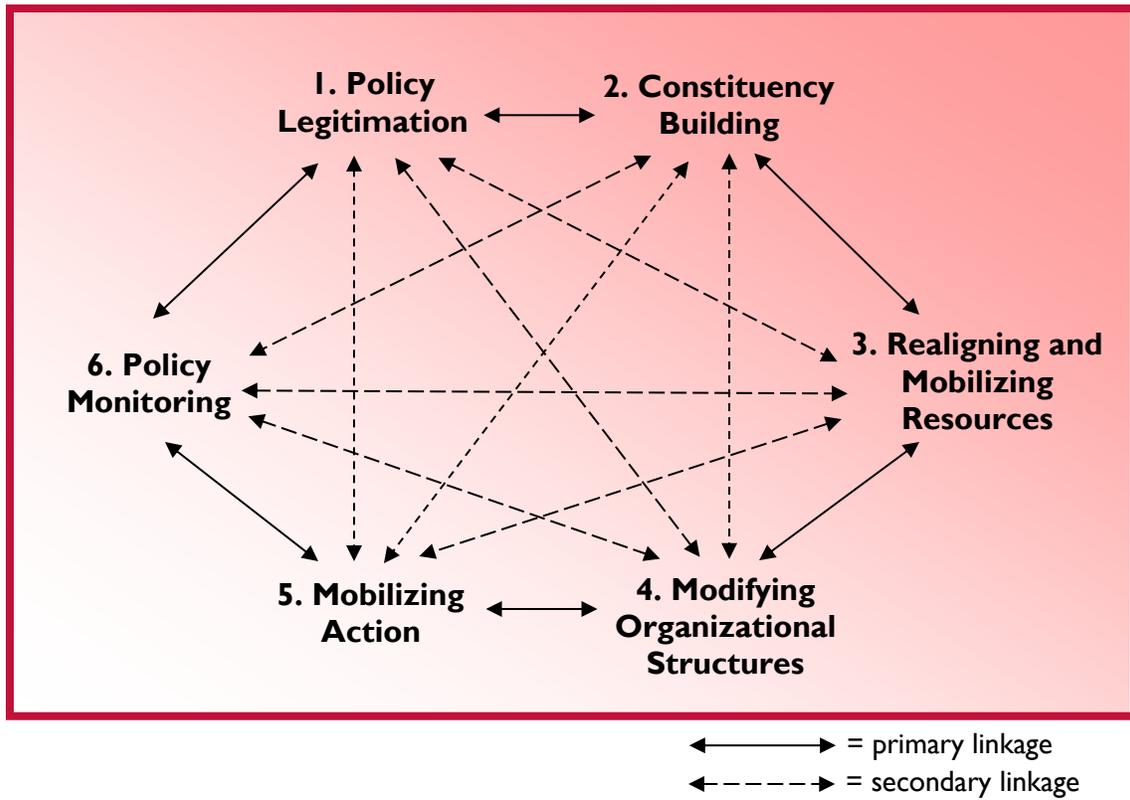
¹⁴ Such advisory services are critical since local technical experts often fight reform issues and the Deputy PM's office will require such seasoned advisors who can rebut vested interests and present examples of 'best practices.'

FIGURE 2: POLICY REFORM PROCESS; LEVELS OF STAKEHOLDERS



The language and the specifics of various energy sector reform messages for stakeholders would change somewhat depending on a particular audience, but to move sectoral reforms forward, it will be necessary to find and promote common themes across the different levels of society. And there needs to be a clearly formulated but flexible strategy behind such efforts. This IPC-type process that would need to be followed is suggested in the graphic, above, and further described in Appendix 1.

FIGURE 3: THE POLICY CHANGE PROCESS



GETTING TO A STRATEGY: IMPLEMENTING CHANGE

A first step to begin moving towards energy sector reforms might involve the appointment of a senior executive agent for the energy sector. A second and possibly related step could involve the establishment of a Technical Energy Secretariat. The Secretariat would have at least two major functions: (i) it would support the activities of the senior executive agent (whether a deputy prime minister, minister of energy, minister of state, or some other title that might prove acceptable) to help coordinate the technical functions of the various line ministries and agencies working in the energy sector. For this task, it will need relevant expert staff from Pakistan, at least some of whom presumably would come from the existing energy wing of the Planning Commission¹⁵ (ii) as part of its overall structure, it should have a strong planning cell in order to define, articulate, prioritize and sequence a sector reform strategy. The senior executive agent, Technical Secretariat, and Energy Policy Planning Cell should all promote the development of an integrated policy and planning process. If a National Energy Policy Board were established, it would also promote such integration. The Planning Cell should also work closely with donor-funded groups like IRG, AEAI and appropriate citizens' coalitions. The latter groups, in turn, should mobilize a campaign promoting energy sector reforms at the grassroots level, reaching as high into the pyramid of influence (Figure 2) as possible.

Some staff for the Technical Energy Secretariat would come from the concerned ministries and agencies, such as the Ministry of Power and Water (MPW), OGRA, (Oil and Gas Regulatory Authority) and NEPRA. The Technical Secretariat would also need a few expatriate advisors on policy and planning, who would be combined with local experts seconded from the National Planning Commission, appropriate regulatory and technical agencies, etc.

A planning cell might include one or two senior USAID-funded staff with extensive experience in energy sector reforms, particularly former USAID staff or consultants who were closely involved with systemic structural energy sector reforms in Eastern Europe and the Former Soviet Union in the 1990s. The planning cell should not be dominated by American advisors, and should include experts from several other donors and several countries. It should strive to ensure continuity of its technical staff for a period of 3-4 years.

The office of a designated senior executive agent for energy¹⁶ should become a focal point for foreign donor reform efforts in order to ensure that such efforts are consistent with the overall policy priorities of government. Under such a system, the international community might agree among themselves that only those plans and projects which were approved by the senior executive agent would be funded by donors. The implementation of such projects would remain with the line ministries, while monitoring and evaluation would be with the senior executive agent's office. Operating under the authority of the prime minister, the senior executive agent and his Secretariat might become a mechanism to overcome the status quo that currently characterizes the actions of WAPDA, PEPCO, etc. Over time, the senior executive agent might be able to make some of the tough structural decisions related to restructuring and reforms that MPW or MPNR have not been willing or able to make.

Beyond establishing an institutional focal point for sectoral reform, USAID and other stakeholders such as the ADB and the World Bank need to consider the organizational mechanisms that will be necessary to effect reforms. This requires a strategy, which should be handled almost like a national political campaign. A campaign should have an overarching strategy, a few key themes, and suitable outreach messaging capacity (the four or five talking points referred to above are examples of the themes that will be required). To affect energy sector reforms, it is not enough just to write a report, formulate a policy, or work with the many

¹⁵ Staff of the Technical Secretariat and the Planning Cell should be hired under some mechanism that would involve career appointments. Staff may also need to be hired under a mechanism outside of Pakistan's normal government-level salary scales, in order to attract the necessary level of expertise.

¹⁶ The "Senior Executive Agent" could be a Deputy Prime Minister, a Minister for Energy, a Minister of State, or whatever office or title might prove acceptable to key stakeholders.

constituent parts of the sector. It is necessary to have a holistic view of the whole sector and a clear strategy for prioritizing and sequencing changes, and then to monitor the situation to confirm that it is moving in the right direction. The proposed changes, in turn, need to be properly publicized. It is not enough to hold a conference, a seminar, or a workshop. The folks who convene the conferences or stage the workshops also need to know how to work with the media to insure suitable coverage. At some level, Pakistan needs to have a national dialogue on the subject of energy sector reforms. Citizens and voters across the country need to be mobilized, in order to build pressure on the political system to provoke positive sustainable reforms.

As explained in the earlier MSI report,¹⁷ it will be useful to have donor funded contractors (such as AEAI, IRG, etc.) as well as USAID and other U.S. Government staff conduct a careful ‘Analysis of Stakeholders’ in order to find out who would support a particular reform, and who might oppose it. Using the tools of stakeholder mapping, the donor coalition should identify those policy reforms that potentially have the most traction, and also seek ways to neutralize expected opposition to such reforms, while at the same time looking for ways to expand the number of supporters. In the energy sector, much of the natural opposition to sectoral reform will come from members of the unions connected to PEPCO, and its subsidiaries, the GENCOs and DISCOs. Most of these organizations are dramatically over-manned. The employees and union members control the switches, however, and they can literally “turn off the lights” across the country. One way to begin to neutralize union opposition to potential energy sector reforms would be to signal that redundant workers would not be fired while reforms move forward. Instead, issues of over-manning could be handled over time through natural attrition. Since labor costs are a relatively small part of the running costs for the energy sector, this may turn out to be a cost that must be borne in order to gain meaningful support for reforms. It might become part of a grand bargain.

Some Observations about Timing

Now might be the right time for USAID and the U.S. Government to initiate a process for energy sector reform, knowing that at a minimum it will take several months for such an initiative to gain meaningful traction.

- First, USAID has a new mission director, and the embassy will soon have a new ambassador.
- Second, a national election will be held probably sometime in the next few months. During the run-up to the election, the country will be listening to hear what individual political parties have to say about Pakistan’s energy crisis. Political leaders will be looking for things to say. For a political party, promising to designate a senior executive agent for energy could be an easy way to show their commitment to change, at relatively little cost to themselves or their parties, at least at this time.
- Third, USAID Washington apparently is putting pressure on USAID Pakistan to become more active with energy sector reforms. The suggestions in this paper should be relatively low cost for policy elites, but could have high visibility and potentially high impact. Perhaps it would become a relatively high profile short-term initiative, which one or more political parties in Pakistan could support. The current government could take immediate action, and opposition parties could raise various ideas in their platforms and public speeches.

Plan B: What are the Fallback Options?

This paper suggests that a process needs to be put in place where USAID works with other members of the international donor community to form a coalition, and generate a consensus about a limited number of initiatives which they can all support, using IPC methodologies. Given current political sensitivities in Pakistan, an international financial institution such as the ADB should take the formal lead in these initiatives, with the U.S. Government providing reinforcement. Once there is agreement on the primary elements of an

¹⁷ *Ibid.* Carter, et al., “Integration of Governance Principles and Approaches into USAID’s Sector Strategies and Programs.”

energy sector reform strategy, USAID and other members of the coalition can jointly support policy dialogue on various agreed upon subjects. Working through the donors and their contractors and grantees, dialogue can be facilitated among the upper level technocrats. As part of this process, USAID should also expand its work with a broad range of civil society organizations. Unlike the health and education sectors, few civil society groups today can legitimately claim to understand the energy sector or have well-developed ideas about what could be done to effect reforms. Pakistan's civil society organizations working with the energy sector are relatively nascent, with their focus primarily on service delivery. They seem to have little sense of the larger architecture of the sector, or what structural reforms might be required to make it more functional. For example, there seems to be little debate among CSOs about strategies for second generation reforms to support further unbundling, or how to get the government to act on recent court decisions (see Appendix III for a list of such cases).

In spite of civil society's lack of experience in the energy policy arena, however, there still are important opportunities that USAID can support at the grassroots levels. One possibility would be for USAID to fund a consortium of CSOs,¹⁸ or continue funding individual CSOs while also funding an apex body which can help promote coalitions. The USAID Energy Team could prepare targeted Requests for Applications (RFAs) for the Citizen's Voice Program to encourage a broader response from the NGO/CSO community that goes beyond those which currently are responding to the energy-oriented RFAs. The NGOs or CSOs that are active in the area of political organizing or citizen mobilization should also be encouraged to apply, for example, along with the more technical energy-oriented NGOs. CSOs with media expertise or with experience handling social marketing might be encouraged to join forces with technical CSOs. Working through Citizen's Voice, USAID can fund conferences, workshops, and seminars with more fanfare so they will be of greater potential interest to Pakistan's media and citizens. With grant funding from Citizen's Voice, CSOs might stage public policy debates on key issues like unbundling. They could work with Parliament to organize testimony at hearings. They might produce documentaries that frame key issues and highlight practical solutions to the energy crisis that would be shown on Pakistan television. Once there is broad strategic agreement on the substance of possible messages, USAID might directly fund social marketing activities that would promote specific actions or programs.

Provincial Assemblies

Citizen's Voice might also fund groups to work with special committees in each provincial assembly and/or with the National Assembly to educate selected members of Parliament (MPs) about the magnitude and consequences of the problems across the energy sector. CSOs might also use hearings in Parliament to help publicize key issues, important studies, or whatever data is being collected about the status of the sector. Participant travel to selected countries might be explored, where stakeholders with competing interests might travel together to see successful experiments with energy sector reforms. Georgia or countries in Eastern Europe might offer important lessons.

The Legal Community, Civil Society, and Energy Sector Reforms

Several recent court cases and their legal implications for the operations of the energy sector are described in Appendix III. Selected members of the legal community represent a potentially important target for Citizen's Voice. An RFA could be crafted that encourages representatives from this important constituency to apply for grants and to join the work of other CSOs focused on more day-to-day 'service delivery' issues in the energy sector. Citizen's Voice should seek ways to promote such bridge building, and cross fertilization between and among CSOs.

¹⁸ "Funding a consortium" in this cases means that funding would go to several groups that agree in advance to promote certain shared interests that would transcend the interests of any one particular group.

SUMMARY OF PROPOSED ACTIONS

The activities described in Table 1 are intended to summarize what has been written above. The proposed activities are clustered around the IPC Policy process as shown in Figure 3, above.

TABLE 1: SIX STEPS TO THE IPC POLICY PROCESS APPLIED TO ENERGY SECTOR REFORMS

Reform	Process
Policy Legitimation	The international development community in Pakistan should establish an informal coalition, under the auspices of the Asian Development Bank, which begins anew to debate specific programs and actions to support energy sector reforms. The coalition should try to secure consensus on four or five key actions or activities that are central to an energy sector reform process. They should try to look carefully at issues of prioritization and sequencing, and initiate a policy dialogue to promote key points with relevant stakeholders. Some of this work might involve conducting a Stakeholder Mapping Analysis, (which would be more complete than the notional mapping given in Appendix IV) in order to assess the interests of various stakeholders, and how to formulate reforms to gain broad support.
Constituency Building	Once there is agreement on key issues, the international coalition should initiate dialogue with their counterparts at various levels of Pakistan’s society, including: (i) the high policy elites, (ii) the upper-level technocrats, and (iii) grass roots organizations. Themes and messages should be consistent. Working through Citizen’s Voice, USAID should seek ways to program its assistance to encourage different parts of Civil Society to come together. Citizen’s Voice might use some of its resources to raise consciousness about structural issues that plague the energy sector.
Realigning & Mobilizing Resources	Coalitions of stakeholders who are interested in reforms across the energy sector should be formed. CSOs with a mix of different kinds of expertise should be encouraged to join together. Political parties might begin to speak out about structural reforms. Perhaps other stakeholders can also be mobilized. “Conditions precedent,” the flow of donor funds, and other similar mechanisms should be used as levers to nudge realignment and reforms.
Modifying Organizational Structures	If possible a Technical Energy Secretariat should be formed with the potential to oversee the entire energy sector of Pakistan. An office of an executive agent for energy (or whatever term or office proves acceptable) should be established, probably operating under the authority of the prime minister. Donor assistance could be channeled to such an overarching office. Certain donor-funded advisors might be consolidated into the Technical Energy Secretariat, probably housed in the prime minister’s secretariat. At the CSO level, USAID should encourage the formation of consortia of CSOs.
Mobilizing Actions	The planning cell for a Technical Energy Secretariat should include a mechanism like a Program Management Unit (PMU) which could liaise with contractors and grantees to launch a campaign to reform the energy sector. In addition to a PMU working inside the Technical Secretariat, donors might form a specific task force to promote and coordinate reform efforts. Workshops, conferences, and marches should be held to help mobilize citizens and CSO groups. This work should also be linked to outreach through the media.
Program Monitoring	Since policy reforms do not automatically implement themselves, it will be necessary for a Program Management and Evaluation Unit or a donor’s task force to monitor the actions of various line ministries and departments (as well as donors) to see that reforms (and support for reforms) are moving in the right direction, and that they stay on track.

APPENDICES

Appendix I: IPC, an Approach for Governance Reforms in the Energy Sector

During the 1990s, for a period of more than a decade, USAID supported IPC as a vehicle to improve policy implementation processes around the world. Building on hands-on technical assistance in more than 40 countries, IPC helped governments modify their purposes, structures, activities, and procedures to enhance their performance and bolster momentum to improve governance by: (1) helping governments to discharge their policy responsibilities; (2) helping stakeholders to influence policies; and (3) promoting an enhanced role for civil society.

The IPC Approach

Donors and host governments have increasingly recognized that governance and politics are as important as technical responses for achieving sector objectives. Decisions about what proportion of national resources will go to, for example, primary education, rural electrification or family planning, are all political decisions. Such decisions typically create winners and losers at all levels of society.

And such “political” allocation decisions do not happen automatically - they must be planned and managed. The IPC approach has helped governments, donors and other stakeholders to: a) clarify and develop consensus on policy reforms; b) develop a constituency for policy change; c) plan implementation steps that fall within their purview; and d) influence government actions to support their plans. Where suitable policies are already on the books, the IPC process focuses on implementing those policies. Where such policies have not been adopted, “policy change” includes the formal adoption of suitable policy instruments. Too often governments pass legislation and propound regulations, but these actions are not followed up with resources to put them into effect. The nominal and sometimes token role of energy regulators across South Asia is a good example. Formal adoption of a policy may not constitute genuine policy change in the absence of meaningful implementation actions.

Managing policy change is different from managing projects and programs. The context is more overtly political, necessary resources are rarely at hand, and nobody is fully in charge. For these reasons, successful policy change requires a different style of management than most public managers are used to. Successfully pursuing long-term reforms in democratizing environments involves knowing which direction to move in, but also paying attention to how to get there. It is important to recognize that policy reform and policy implementation is as much about a process as it is about content. Sometimes developing country officials and international donors have focused on policy content, while ignoring or downplaying the process.

Meaningful policy change is an ongoing process that must be managed. The policy implementation process calls for consensus-building, participation of key stakeholders, conflict resolution, compromise, contingency planning, and adaptation. New policies often reconfigure roles, structures, and incentives, thus changing the array of costs and benefits to implementers, beneficiaries, and other stakeholders.

The IPC Project developed a task model based on a decade of working on policy change in 40 countries. The major steps to the task model include: (i) policy legitimation; (ii) constituency building; (iii) resource accumulation; (iv) organizational design; (v) mobilizing actions, and (vi) policy monitoring. These six steps and their inter-relationships were shown graphically in Figure 3.

Appendix II: Memorandum to Energy Team on Results Framework Indicators¹⁹

July 9-10, 2012

To: Saeed Anwar, Energy Team

From: David Garner, MSI Consultant

Subject: Energy Team Results Framework and Comments on Indicators

1. “Achievement of key steps towards the dissolution of PEPCO”

For IR 2.2, “Autonomous Energy Sector Entities,” [IR 2.2] I think that the Energy Team should consider reformulating their statement: “Achievement of key steps towards the dissolution of PEPCO.” The real issue here does not seem to be PEPCO itself, or whether it is dissolved. I think that the real issue that USAID should probably be addressing is that Pakistan seems to have had a failed strategy to unbundle its energy sector. Now the need is for a more rational organizational structure for Pakistan’s energy sector, and this structure might involve unbundling, or it might involve some other kinds of organizational structures. PEPCO seems to me to represent part of Pakistan’s first generation efforts to unbundle the sector, and the first generation efforts generally seem to have failed. This in turn leads to problems of circular debt, load shedding, etc. Pakistan, for its part, now needs to craft a new strategy, with sufficient support that it has a chance of being adopted, and then fully implemented. Here are some provisional options for ways to formulate the indicators, which are laid out along a continuum of complexity which USAID might consider:

- “Achievement of key steps to develop a new organizational strategy to effectively manage the energy sector.”
- “Achievement of key steps to develop a new strategy to effectively commercialize the energy sector.”
- “Achievement of key steps to develop a new strategy to effectively commercialize and corporatize the energy sector.”
- “Achievement of key steps towards developing a new strategy to effectively unbundle the energy sector.”

These certainly are not the only possible indicators for such an initiative. And over time they might come to represent some of the steps that the sector will need to go thru as it moves towards unbundling. From my perspective, I am neutral about which specific formulation might represent the best approach. My agenda is to help the energy team and its partners think through some of their options, and keep these within the context of USAID’s manageable interests. I think the energy team may want to encourage some discussion about these matters, as well as other comments on indicators that follow, below.

2. Focus DISCOs

The RF may need to include something specific for the Focus DISCO(s). If so, does it belong under IR 1.2, (“Improved Distribution System Technical Operations”), or should it be under IR 2.3 (“Improved capacity of USAID supported energy public sector entities”)? Or both? Or someplace else?

¹⁹ This Memo is adapted from two emails, which have been spooled together and converted into a memo for purposes of this Concept Note and Report.

3. Circular Debt

For DO 1: “Increased Energy Supplied to the Economy,” I wonder if “Slowing the Percent increase in Circular Debt,” fall clearly within USAID’s management interests? The issue of circular debt seems to represent a multivariate equation, over which USAID has no control, and perhaps limited influence. Should the energy team commit to this statement, or can other ways be found to address this important initiative that would imply a less aggressive commitment? Are you on the edge of over promising? Could you use a vaguer formulation, like “Improved financial sustainability?” As a general rule, I think the energy team may want to be relatively conservative about what it is committing in all its indicators.

4. Outputs and Outcomes

For IR I: “Increased Energy Supply,” I am advised that 2.4.4.1 – 35, (“Number of days of U.S. Government funded technical assistance...”) is really an output, and not an outcome. Items at the IR level should be outcomes.

5. Numbers of Beneficiaries

Conversely, for Item 3, under IR 1.2: “Improved Distribution System Technical Operations,” the indicator “Number of beneficiaries with improved energy services due to U.S. Government assistance,” may be more like an outcome. You or Melissa explained on Friday that the number of beneficiaries was a simple multiple of total megawatt (MW) of energy added. Thus, is there a case to be made for moving “Number of Beneficiaries,” up to become an outcome under IR I: “Increased Energy Supply?” Since USAID is already committing to measure the number of MW of energy, perhaps they are also committing to measuring the number of beneficiaries? Is it an outcome? Or is the issue of beneficiaries simply too sensitive at this time to be given too much visibility for reasons that Melissa discussed on Friday?

6. Measurement Issues

Two indicators may need some clarification about how they are to be measured: “yearly hours of load shedding,” for example is actually both a seasonal and a geographical issue. Does this matter of seasonality raise issues for how (or when) ‘yearly hours of load shedding,’ gets measured? Load shedding also varies by geography, and thus by implication by DISCO. Does any significant data get lost if it is all bundled into ‘yearly’ load shedding? In a similar manner, are there any special things that would need to be done to clarify how relevant parties are going to measure “total public and private funds ‘leveraged’ by the U.S. Government?” under IR 1.4: “Increased Non-U.S. Government Investment in the Energy Sector?” Many donors seem to run around trying to leverage other donor's money, or say they are leveraging it. Is this something that needs clarification?

7. Supplies and Sales

Is there any meaningful connection between “yearly MWs supplied to the national grid,” and “yearly MWs of electricity sold?” Do “supplies” and “sales” exist along a continuum? Are there useful or meaningful ways to link these two aspects together, or process them in some way that provides additional insights into USAID’s programs? Does the difference between ‘supply’ and ‘sales,’ say anything useful? For example does it say anything about ‘losses?’ Do these two indicators need to be handled in some special manner, because they are dealing with similar aspects of the same phenomenon?

8. DISCOs and Complaint Procedures

Under IR 2.4, “Effective Civil Society Oversight, etc.” Item 1.2 “Number of DISCOs with consumer complaint procedures...” This seems to relate more to the box above. IR 2.3: “Improved Capacity of USAID-supported energy public sector entities,” rather than relating directly to civil society. At the same

time, there is a connection between civil society and DISCO complaint procedures that I think can be clarified with further discussions. This is an issue I hope to explore this week.

9. Propensities to Violence

Finally, for IR 2.4 “Effective Civil Society Oversight,” I think Item 1.1 would be more clearly stated if the last part of the clause “...with propensity to violence against the crisis” were dropped. Every city in Pakistan has a propensity to violence against the crisis, and there have been demonstrations all over the country.

10. Increased Energy Supplies

Finally, for IR 1: Increased Energy Supply, Item 3 should probably be drafted to be more specific. It currently says, “increased energy sold.” It should probably specify, “sold to whom?” Is this talking about DISCOs selling to customers? GENCOs selling to DISCOs? GENCOs selling to NTDC? Etc.

Appendix III: Recent Court Cases

Introduction

Pakistan's energy sector suffers from a series of governance issues, which has led to a series of court cases being filed. Several recent seminal cases are briefly described below.

Case 1: Rental Power Projects

In March, 2012, the Supreme Court of Pakistan announced the verdict in the case of corruption involving Rental Power Projects (RPPs) by declaring these power plants to be illegal. The verdict holds the Ministry of Finance, WAPDA, PEPCO and the GENCOs responsible for causing huge losses to the Public Exchequer. The case was heard by Chief Justice Iftikhar Chaudrey and Justice Khilji Arif Hussain. The petitioners included Makhdoom Syed Faisal Saleh Hayat, the Federal Minister for Housing and Works and Member National Assembly (MNA) Khwaja Muhammad Asif. The apex court's decision said, *"The contracts of RPPs are ordered to be rescinded forthwith and all the persons responsible for the same are liable to be dealt with for civil and criminal action in accordance with law."*

Significance: The petitioners contended that a meager amount of electricity was being generated through the medium of RPPs, although billions of rupees have been spent on these projects. The Supreme Court declared the power plants to be 'illegal.' The Chief Justice asserted that legal proceedings should be carried out against all those involved in corruption. The Supreme Court also ordered the National Accountability Bureau (NAB) to investigate all rental power generation sites. However not a single step has been taken as yet by NAB to implement the court's verdict.

Case 2: HESCO

This case involved the harassment of consumers by Hyderabad Electric Supply Corporation (HESCO) that began in January 2001. The company was continuously sending detection bills to consumers despite the fact that a monitoring team from the Pakistan Army had removed faults in meters and made it clear that no detection bills would be sent. HESCO, for instance sent inflated bills to more than 300 domestic and commercial consumers of Badin district in July 2001. The bills indicated huge readings of the units, which the consumers had not utilized.

Significance: This case was significant because it exposed the operational inefficiencies of HESCO and their lack of accountability and competence in collecting outstanding dues from their customers.

Case 3: Small Power Producers - Maple Leaf

Until the early 1990s, WAPDA and Karachi Electric Supply Company (KESC) were alone in running the power sector. The new power policy of 1994 opened the way for private companies to generate and distribute electricity; however, their outreach remained limited. Without any resistance from WAPDA and KESC, Small Power Producers (SPPs) and Captive Power Producers (CPPs) complied with the necessary legal requirements and began operations. At the time, WAPDA did not object to their operations because it needed electricity to supply to its clientele. Soon thereafter WAPDA began to impede the operations of the private companies through various means. In 2001, Islamabad Electric Supply Company (IESCO) forcefully disconnected the electricity connections of the consumers of Maple Leaf. WAPDA had also filed a petition before NEPRA to cancel the power generation and distribution licenses of all other SPPs because WAPDA feared that the companies were snatching its consumers. Maple Leaf in turn filed a petition before NEPRA, which rejected the plea of IESCO and WAPDA, but later in 2005 conceded to the viewpoint of the two monopolies and cancelled the power generation and distribution licenses of Maple Leaf and Crescent Power Company.

Significance: This case was significant because it reasserted WAPDA's monopoly over the operations of the power sector. Despite efforts to unbundle, the sector remains in the grips WAPDA's or PEPCO's influence.

Case 4: Cotton Ginners Association

Cotton Ginners Association of Pakistan filed a case against the GOP for non-notification of a tariff reduction implemented by NEPRA in 2003 -2004. This decision effectively called for financial autonomy for the utilities, but this was denied by the GOP by use of a total freeze on tariff. No escalations or reductions were notified, until the current government came in power (or shortly before that). The case went up to the level of the Supreme Court, where the government's appeal was turned down.

The decision of the Supreme Court was never implemented by Government of Pakistan.

Significance: This case was significant because it sheds light on the root causes of circular debt. The total freeze on power tariffs by GOP has led to financial insolvency of the whole sector.

Case 5: Gadoon Amazi Case

Gadoon Amazi Case is an important case filed by industrialists from Gadoon Amazi. They challenged the right of WAPDA to fix tariff and also some fixed charges, which were a component of power rates. It was the first time that NEPRA Act was reviewed by a court. One of the important rulings of the Supreme Court in this case was that consumers of electricity need to be involved in electricity tariff determination.

Significance: This case emphasized the need for engaging the consumers in tariff determinations. However this remains a very contentious issue both for the producers as well as the consumers of electricity in Pakistan.

Conclusions

Governance has been a serious issue impeding progress of the energy sector. Issues related to NEPRA tariff determinations and electricity theft should be addressed on an immediate basis. In some of these cases, interim relief offered by the courts has been of no effective use to consumers because the costs of electricity supplied to consumers still have to be fully recovered. Such faulty court injunctions can increase the burden on both the utility system and consumers.

Appendix IV: Stakeholder Mapping and Pakistan’s Energy Sector

One way to approach a policy reform agenda for the energy sector is to carry out a Stakeholder Mapping exercise. Some initial results from a preliminary and notional Mapping Exercise are summarized in Table 2, below, and presented in more detail in Table 3. These data begin to assess key stakeholders’ interests in power sector reforms. The mapping seeks to determine who would support such reforms and how strongly they support them, and contrasts this with those who may oppose reforms, and how strongly they oppose them. A preliminary analysis of the mapping data suggests there is a huge but largely unorganized community of energy consumers across the country who would welcome significant reforms, but that such reformers are strongly opposed by a deeply entrenched technocratic community which controls significant resources and is strategically positioned to block reform efforts. Key players who have been identified to date are summarized in Table 2, below, and explained in more detail in Table 3.

TABLE 2: SUMMARY OF STAKEHOLDER MAPPING EXERCISE

Pro-Reform Groups & Organizations	Opponents of Reforms
Prime Minister’s Office, [?] and perhaps the Ministry of Finance [?]	Labor unions, senior level political leaders who benefit from the current system
Selected Chambers of Commerce and Trade Associations, and key industrialists	PEPCO (or some substantial percentage of its line staff)
Federal and Provincial Ombudsmen	
Consumer Rights Organizations	
DISCO and GENCO Boards of Directors and some portion of their Senior Management [?]	DISCO and GENCO staff below level of the boards of directors, and some members of senior management
Planning Commission of Pakistan	Other bureaucrats and other bureaucracies (TBD)
National Transmission and Dispatch Center - NTDC: Senior Management [?]	NTDC: staff
USAID Contractors working in Energy Sector, including IRG, AEAI, and other donor sponsored contractors	
LUMS and International Business Administration, (IBA) Karachi	
Selected civil society organizations (although they are not currently organized for political action)	Political Opposition (<i>Any parties who are not part of the governing coalition will tend to oppose proposals put forward by the government, particularly if they see ways to turn it to their political advantage</i>)
Ordinary Householders (including most of the population of Pakistan, which again is not organized for political action, except for blocking major traffic arteries to displace their frustrations)	
Neutral Organizations:	
WAPDA used to include both water and power. Since 2007, WAPDA deals only with water, including hydropower development and distribution. Power issues have been transferred to PEPCO rendering WAPDA relatively neutral.	
NEPRA is described by some as not yet a meaningfully independent regulatory body that can function separately from the government. Some observers characterize it as “more of a liability than an asset,” but it appears to be functionally neutral or perhaps very marginally on the side of reforms.	

TABLE 3: AN ILLUSTRATIVE STAKEHOLDER MAPPING EXERCISE²⁰

A. Those Who Support Energy Sector Reforms						
Stakeholders supporting major reforms of Pakistan's energy sector	Position and depth of feeling. (Note if stakeholder is a significant champion)	Incentives that produce stakeholder's position. What are benefits and costs of change?	Degree of influence on systemic energy reform process	Strategy, allies or alliances and recent major actions	Resources, (Knowledge, money, connections, access to government, degree of organization/ mobilization)	Government's reliance on stakeholder for political support. (High, medium, low)
Prime Minister, and/or Ministry of Finance	Supportive in principle if it can serve their political purposes	If reforms can bear fruit in the near term, the prime minister and/or minister of finance and government could claim credit	If they engage, their influence could be extremely high	Depends on office holder, coalition partners in the government - needs to be assessed	Potential access to resources very high. Connection to government could not get much higher. However, whether there is an actual organization or reason to push the reforms needs to be assessed. May require establishing a PMU or similar mechanism	Extremely High
Selected Chambers of Commerce and Trade Associations	Some private sector groups would support serious reforms	Strong financial incentives: they need reliable cost-effective power to run their businesses	Needs to be tested	Selected Chambers of Commerce and trade associations might join together.	Substantial potential resources, but not currently organized or mobilized	Relatively High [?]
Federal and provincial Ombudsmen	Might become champion for reforms?	Mandated to address maladministration, including systems failures like Pakistan's power sector	Potentially substantial if they focused on energy reforms	???	Progressive entity, operational at federal level and in three provinces. Independent of GOP, but with direct access	Low to Medium?
Planning Commission	Principle drafter for government's	Substantial Institutional commitment to	Significant at conceptual level, but NPC not	Has drafted reform policies, which have	Significant player within GOP. Significant knowledge, data, legitimacy, but not involved with	Low to medium [?]

²⁰ This 'Stakeholder Mapping Exercise,' was initially prepared in February/March, 2012 to suggest some of the key players in the energy sector, and to posit their potential interests. If it were deemed useful, this draft could be expanded to include other stakeholders including various line ministries (Petroleum, Water & Power, Atomic Energy) parliamentary committees on water and power, specific political parties, etc. Conducting a more complete Stakeholder Mapping exercise could be one way to help determine where the universe of stakeholders actually stands on various issues, and might help USAID and the U.S. Government determine where a consensus might exist for potential energy sector reforms, and therefore, which reforms to push for.

	new energy policies. Could become champion.	reform process. Wants to establish Secretariat for energy reforms	engaged with implementation	already been approved by highest levels of government	policy implementation.	
Consumer rights organizations	To help consumers secure legally enforceable rights	It is part of their organizational mandate	Maybe somewhat marginal?	?????	TBD	Low?
GENCO and DISCO Boards, and some part of management	Mandated to bring change; trying to gain control over their entities	Salaries? Bonuses? They should benefit from reforms, although some managers seem to like the old systems better.	Should be substantial	?????	Should have access to serious resources; institutionally well positioned	Medium?
Educational Institutions such as: Lahore University of Management Sciences (LUMS) Lahore and Institute of Business Administration (IBA) Karachi	Could support reforms, particularly as part of a larger coalition	Progressive institutions, interested in government reforms	Medium	No current connections with other potential members of consortium?	Might have knowledge and familiarity with lobbying processes	Low?
CSOs	CSOs and NGOs are not yet focused on energy sector	Progressive CSOs would like to see reforms and progress in country	Low	Not known	Not significant	Low
Householders	Many feel very strongly	High rates, poor service, repeated load shedding and blackouts provide strong incentives	Negligible, as individuals	Negligible	Negligible resources; Negligible current organization	As long as they are not organized, they are ignored

B. Opposition to Energy Sector Reforms

Stakeholders opposing major reforms of Pakistan's energy sector	Position and Depth of Feeling. (Note if stakeholder)	Incentives that produce stakeholder's position. What are benefits & costs of change?	Degree of influence on systemic energy reform process?	Strategy, allies or alliances and recent major	Resources, (Knowledge, money, connections, access to gov't, degree of organization /	Current government's reliance on stakeholder for political support. (Hi, med, low)
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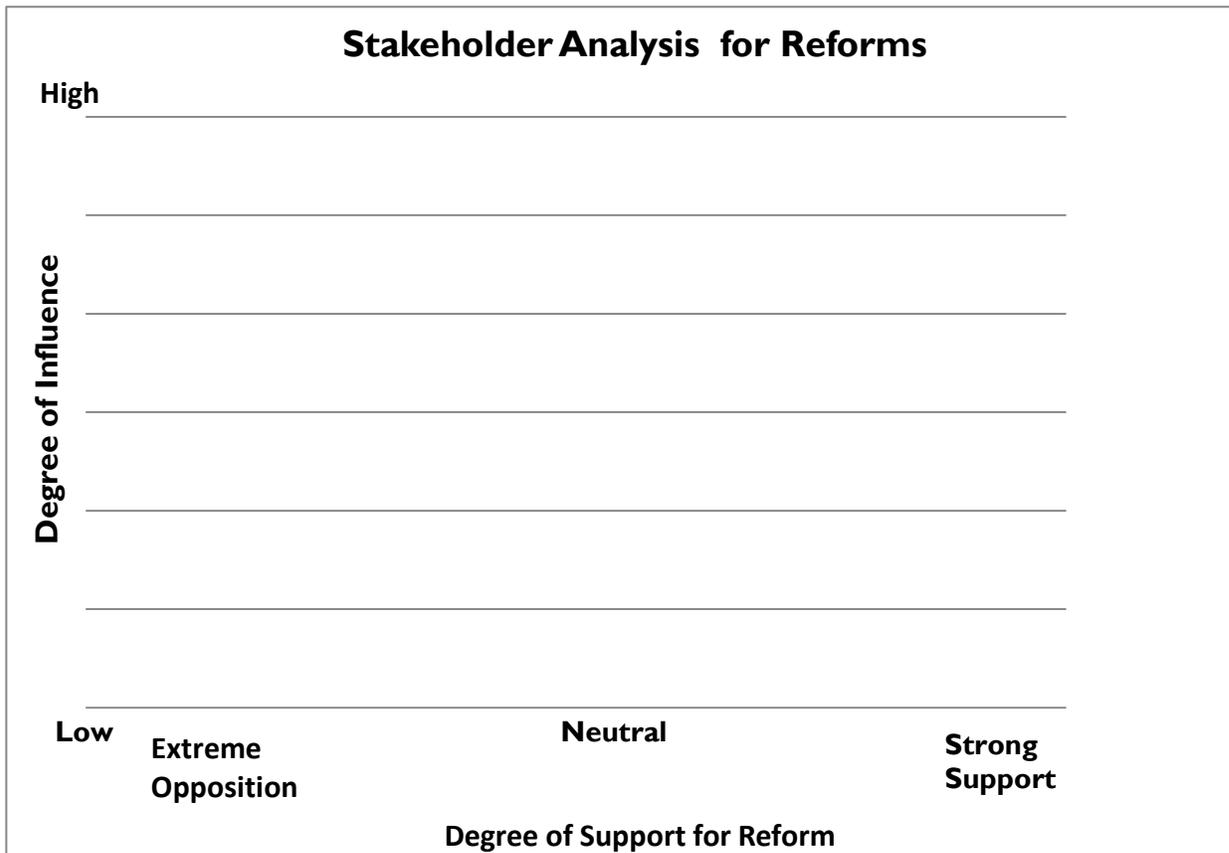
	is a significant opponent)			actions	mobilization	
Unions	114,000 members, most strongly opposed to reform. Opposed to efficiency and transparency	Power sector dramatically overstaffed; > 50,000 are potentially redundant if sector is reformed	Well organized. Motivated to protect their positions. Can help block reforms	???	Vertically organized; can be used for protests, or to influence day-to-day operations of DISCOs, GENCOs	Low?
PEPCO	The old power wing of WAPDA, with 148,000 staff most of whom like and benefit from old system	PEPCO formally oversees nine DISCOs, four GENCOs, plus NTDC. Most staff benefit significantly from existing systems	Huge	??	Very powerfully entrenched, vast resources; they represent the operational component of the energy sector	Medium?
GENCOs (4) and DISCOs (9) (working under general authority of PEPCO)	Some senior management supports reforms, but line staff (85% of 121,000) strongly oppose them	Management benefits from reforms; line staff may lose jobs, and/or reduce their incomes with reforms	As service providers, DISCOs could pull the switch and turn off the lights	???	GENCOs and DISCOs are new organizations, management still learning their roles; line staff are members of unions, and oppose reforms	Low (unless they “pull the plug”)
NTDC, (National Transmission & Dispatch Co.	NTDC appears to be similar to GENCOs and DISCOs, as characterized above.					
Political opposition (any)	Opposition parties typically will oppose government’s efforts to reform power sector [?]	Opposition will oppose virtually anything any incumbent government proposes	Usually very high	Major reforms will not happen until after the next election	Substantial	Always in dynamic tension; the real issue is the number of votes and size of governing coalition after the next election
C. Substantially Neutral Organizations						
WAPDA	WAPDA used to include both water and power. Since 2007, WAPDA deals only with water, including hydropower development and					

	distribution. Power issues have been transferred to PEPCO.
NEPRA	NEPRA is not yet a meaningfully independent regulatory body that can function separately from the government. Some observers characterize it as “more of a liability than an asset.”

A Scatter Diagram

A framework for generating a scatter diagram is given below. When properly filled out with suitable inputs from relevant, informed stakeholders in Pakistan, such a diagram can help to clarify the relative strength of various players, and could become a powerful tool for future work with energy sector reforms. However the group that will be using this data should be closely involved in both the initial stakeholder mapping exercise, and in plotting the results onto such a scatter diagram. Until an Energy Sector Policy Reform Group is organized and equipped to utilize such data, there is little reason to generate the calculations since it will have very negligible utility.

FIGURE 4: SCATTERSHOT DIAGRAM



Appendix V: Recommendations on a Policy Reform Management Unit (PRMU)

August 24, 2012

To: Catherine Johnson, Saeed Anwar, USAID/Pakistan

From: David Garner, MSI Consultant

Subject: Note on an Intra-U.S. Government Policy Reform Management Unit for the Pakistan Energy Sector

This memo augments the Concept Note I sent you last week, and builds on the conversation we had with Roger Garner and our follow-up discussion. One key issue for launching a policy change initiative will be how to steer it. Here are some initial thoughts.

1. For geopolitical reasons, an energy policy reform initiative might need to be led by the Asian Development Bank, but it would still need strong support from the United States Government. In order to put into place the necessary systems for such an initiative to move forward, the U.S. Government might find it useful to work closely with the American Executive Director in Manila at the ADB.
2. Because a successful energy reform strategy will require a fine political touch, such an initiative probably needs to be led and facilitated by experts with easy access to the senior leadership of the American Embassy and USAID in Islamabad. This might mean USAID staff members (or former staff) who have worked in energy sector reforms in the Former Soviet Union, and who are fluent in U.S. Government, USAID and American Embassy systems. If possible these individuals should be full time employees stationed in Islamabad and assigned for (say) a two year tour. If suitable experienced candidates are not available for a full time assignment, then perhaps one or more could be brought out on periodic TDY rotational basis. They should have two FSN counterparts, perhaps including an engineer who knows the power sector and an organizational/financial expert. This team would be tasked to operationalize an energy sector reform strategy over the next few years, following some of the general approaches suggested in this concept note, including stakeholder mapping, coalition building, etc.
3. A variation on the idea might involve one or more sector reform advisors from inside the ADB on assignment to Islamabad. She or he could be a public person who speaks out in various forums, while others would remain relatively quiet in public meetings.
4. A suitably constituted U.S. Government Energy Reform Team would become responsible for liaison and coordination with other interested donors, in order to generate a consensus among them and other stakeholders about ways to move sector reforms forward. They should actively try to build a consensus about 3–5 key initiatives which the donor community could rally behind, and they should help to articulate the sequencing and prioritization for such reforms, particularly drawing upon experience in eastern Europe and the Former Soviet Union as well as lessons learned from other similar reform efforts in other countries.
5. Such a Team would work closely with the USAID's existing Energy Team and DG Team, and seek ways to link governance initiatives with energy sector reforms. They would liaise closely with reformers in the GOP in the energy sector, and with other important stakeholders including Pakistan's Civil Society Organizations. They would try to build bridges between Pakistan CSOs,

relevant technocrats, and other stakeholders. They would promote the establishment of coalitions of interested stakeholders. They would monitor such a reform strategy as it begins to move forward.

6. Such a sector reform unit might also include staff from the Political/Economic Section of States, and/or perhaps an Energy Attaché or specialists seconded from the Department of Energy.
7. If the U.S. Government decides that it is a priority, the Energy Reform Group could promote the idea of an integrated Policy and Planning Unit in the prime minister's Secretariat, or the notion of a National Energy Policy Board. If such a unit were eventually to be established, they should liaise closely with such a planning cell, and/or be assigned to work within it.

TABLE 4: POLICY COMPLEXITY REFORM CHECKLIST

	A		B	C	
	Simplifying Factor		Neutral	Complicating Factor	
	Check		Check		Check
Where did the impetus for the policy come from?		Inside the country		Outside the country	
		Inside the government		Outside the government	
Who decided the policy and how?		With democratic legislative process		Without democratic legislative process	
		With widespread participation		Without widespread participation	
What is the nature of the benefits?		Visible		Invisible	
		Immediate		Long-term	
		Dramatic		Marginal	
What is the nature of the costs?		Invisible		Visible	
		Long-term		Immediate	
		Marginal		Dramatic	
How complex are the changes?		Few changes		Many changes	
		Few decision makers		Many decision makers	
		Small departure from current practices, roles, and behaviors		Large departure from current practices, roles, and behaviors	
		Limited discretion		Large discretion	
		Low technical sophistication		High technical sophistication	
		Low administrative complexity		High administrative complexity	
		Geographically concentrated		Geographically dispersed	
		Normal pace		Urgent/emergency pace	
		Single event		Permanent changes	
	Low level of conflict about nature and value of changes		High level of conflict about nature and value of changes		
Total Number of Checks:					
Total Score (Graded A-C):					

TABLE 5: REFORM COMPLEXITY MATRIX BY KEY COMPONENT

Interventions Related to Police Reform	Degree of Conflict Likely	Time Required For Institutionalization: Are there Short-term Gains?	Organizational Complexity	Logistical Complexity	Budget Needed	Amount of Behavior Change Required	Potential Impact
All categorized by High, Medium or Low							
Increase salaries for police	Low	Low/ Quick Gains	Low	Low	High	Low	Medium
Civil service tests for police	High	Medium	Medium	Medium/ High	Medium	High	High
Stronger, more independent IG/police	High	High	High	High	Medium/ High	High	High