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THE TANGLED WEB OF ENERGY GOVERNANCE

In Pakistan, the energy sector's vitality is essential to the nation's economic pulse, yet it is ensnared in a web of governance and sustainability issues and inefficiencies.

THE PRINCIPAL-AGENT CONUNDRUM

The principal-agent dilemma sits at the heart of Pakistan's energy sector, where the conflicting interests of Pakistani consumers (the principals) and the agents (comprising the energy bureaucracy, planners, and Independent Power Producers, or IPPs) are in perpetual conflict. This ongoing discord is evident through multiple detrimental outcomes: inflated energy prices, skewed power agreements, and a short-sighted focus that disregards the imperative of long-term sustainability. These issues are exacerbated by systemic moral hazards, adverse selections, and information asymmetries, which collectively contribute to a bleak outlook for the sector's governance.

Further compounding the problem, the lack of transparent and effective regulatory frameworks perpetuates an environment where accountability of agents is minimal, and inefficiencies thrive.

The consumers, often lacking a strong voice or representation, find themselves at the mercy of policies and decisions that prioritise immediate gains over equitable and sustainable energy solutions. Consequently, this aspect hampers the potential for innovative and environmentally conscious energy strategies, which are critical for the nation's economic and ecological future.

Moreover, the ripple effects of this governance challenge extend beyond the energy sector, impacting Pakistan's overall economic stability. The inflated energy costs lead to increased production costs in various industries, reducing their global competitiveness, and swelling circular debt. Additionally, the unreliable power supply, a direct outcome of these governance issues, further deters foreign investment and hinders the growth of local businesses.

To address these multifaceted challenges, a concerted effort towards systemic reform is essential. This would involve enhancing regulatory mechanisms, promoting transparency, and fostering a culture of accountability. Engaging various stakeholders, including civil society and international energy experts, in the policymaking process could also contribute to more balanced and forward-thinking energy policies. Such reforms are not

just crucial for rectifying the current dilemmas but are imperative for ensuring the long-term resilience and sustainability of Pakistan's energy sector.

BUREAUCRATIC BOTTLENECKS AND INERTIA

Pakistan's energy sector is beleaguered by a bureaucratic apparatus that is often paralysed by its own complexity. Burdened by administrative red tape and political intrusion, the system is marred by inefficiencies. Performance incentives are scarce, leading to a workforce that is frequently unmotivated and ineffectual. This bureaucratic inertia not only impedes progress but also hinders the sector's ability to respond to evolving market demands.

OPAQUE DEALS WITH INDEPENDENT POWER PRODUCERS

The contracts binding the nation with IPPs are cloaked in a veil of opacity. While these agreements are crucial for energy supply, their non-transparent nature leaves consumers at a disadvantage, often bearing the brunt of unfavorable terms. This lack of clarity in contractual dealings epitomises a larger systemic issue where the interests of the few overshadow those of the many.

NEPRA'S STRUGGLE FOR AUTONOMY

The National Electric Power Regulatory Authority (NEPRA), envisioned as a bulwark of consumer rights and fair play, grapples with its own set of challenges. Its operations are often undercut by political meddling and a lack of autonomy. The regulator's effectiveness is further diminished by its limited capacity to enforce compliance, spotlighting the gap between regulatory intent and execution.

SHADOWS OF A COLONIAL PAST

The legacy of colonial administration lingers in Pakistan's energy sector. The centralised decision-making structures, a vestige of colonial governance, continue to hamper efficiency. This top-down approach, often detached from ground realities, leads to systemic sluggishness and underperformance, exacerbating the principal-agent problem and eroding public trust.

TOWARDS A STRUCTURAL OVERHAUL:

Reduction in Marginal Cost of Energy Governance in Pakistan

An essential component of overhauling Pakistan's energy sector involves reducing the marginal cost of energy governance. Despite the increasing total budget of the Ministry of Energy, particularly in its current expenditures, there is a pressing need to streamline costs and enhance efficiency. This reduction is not about cutting essential services or compromising on quality; rather, it's about optimising resource allocation and eliminating wasteful expenditure.

To achieve this, a thorough audit of current expenditures should be conducted to identify areas of redundancy and inefficiency. Streamlining processes, leveraging technology for better management, and reducing bureaucratic layers can significantly cut down administrative costs. Implementing cost-effective practices, such as digitalising operations and embracing energy-efficient office practices, could also contribute to reduced operational costs. Furthermore, investing in capacity building and training of the existing workforce can lead to a more skilled and efficient team, capable of managing the sector's needs with lower resources. Rationalising expenses also involves renegotiating contracts and agreements to ensure that the state is getting the best value for its money, particularly in procurement and external consulting services.

As the Ministry of Energy reduces its marginal costs, the savings accrued can be redirected towards more critical areas such as infrastructure development, renewable energy projects, and consumer benefit initiatives. This approach not only ensures a more sustainable financial model for the Ministry but also contributes to the overall economic health of the country by redirecting funds to areas that yield long-term benefits.

Transparency and Accountability

In the context of Pakistan's energy sector, transparency and accountability are not merely administrative buzzwords; they are foundational pillars for rebuilding trust and credibility. By instituting transparent practices in dealings and decision-making, the sector can dismantle the opaque structures that have long facilitated mismanagement and corruption. This involves making contract terms with IPPs public, ensuring open bidding processes, and enabling independent audits.

Establishing clear channels for accountability, where decisions and actions are subject to scrutiny, could foster a culture where inefficiencies and malpractices are less likely to thrive. This approach would not only restore consumer confidence but also attract more responsible and sustainable investment in the sector.

Strengthening NEPRA

NEPRA's transformation into an autonomous and powerful regulator is essential for the sector's health. Strengthening NEPRA would mean granting it true independence from political pressures, allowing it to make decisions based on technical and economic merits rather than political expediency. Enhancing its enforcement power would enable NEPRA to effectively regulate tariffs, monitor service quality, and ensure compliance with environmental standards. An empowered NEPRA could also play a pivotal role in streamlining regulatory processes, making it easier for new entrants to invest in renewable and sustainable energy sources, a crucial step towards Pakistan's energy sustainability.

Revisiting IPP Contracts

The contracts with Independent Power Producers, often criticised for their lack of transparency and favouritism, require regular scrutiny and revision. Aligning these contracts with national interests and public welfare involves renegotiating terms to ensure fair pricing, eliminating any clauses that lead to undue financial burden on the state or consumers, and ensuring that these contracts contribute to the nation's long-term energy goals. This process also involves balancing investor confidence with societal needs, ensuring that these contracts are attractive to investors while safeguarding public interest. Such scrutiny would also involve ensuring that IPPs adhere to environmental standards and contribute to the nation's transition to sustainable energy sources.

Performance-Based Incentives

In the Pakistani context, introducing a performance-based appraisal system for the energy sector's bureaucracy could be transformative. By linking rewards and career progression to tangible results such as improved service delivery, reduced energy losses, and successful project completions, a more motivated and effective workforce could be fostered. This shift would encourage innovation, efficiency, and a more proactive approach to problem-solving within the sector, helping to overcome the endemic inertia that has plagued it for years.

Decentralisation and Commercial Mindset

Decentralising decision-making and embracing a more commercial mindset could address many of the systemic inefficiencies in Pakistan's energy sector. Decentralisation would mean giving more autonomy to local entities and regional energy departments, allowing for quicker, more context-sensitive decision-making. A commercial mindset would involve treating energy not just as a public service but as a dynamic market sector, encouraging competition, customer service, and innovation. This approach could lead to more efficient operations, better customer service, and, potentially, lower energy costs.

Long-term Visionary Planning

Finally, the sector needs a paradigm shift from its current reactive stance to a proactive, long-term strategy. This involves developing and implementing a comprehensive energy plan that looks beyond immediate crises to the future needs of the country. Such planning should focus on diversifying energy sources, investing in renewable energy, improving energy efficiency, and building the infrastructure needed for a sustainable energy future. Long-term planning also means anticipating future challenges and opportunities, such as technological advancements in energy storage and distribution, and preparing the workforce and the nation for these changes.

CONCLUSION

Transforming Pakistan's energy sector requires a fundamental shift in governance, contractual dynamics, and regulatory frameworks. Addressing the principal-agent problem extends beyond mere policy changes; it necessitates a paradigm shift in the interactions between the state, its apparatus, and its citizens. This transformation is key to ushering in a more transparent, efficient, and self-sufficient energy future for Pakistan. Efficient energy governance, in particular, plays a crucial role in enhancing the sustainability of the sector. It ensures that resources are utilised judiciously, costs are optimised, and environmental impacts are minimised, thereby contributing to a more sustainable and resilient energy landscape.

In navigating these waters with foresight and resolve, Pakistan has the opportunity not only to illuminate its own path but also to serve as a model for similar economies struggling with the legacy of complex energy governance. The journey towards reforming the energy sector is indeed challenging but presents a unique opportunity for Pakistan to set a precedent in sustainable and efficient energy governance, inspiring and guiding others facing similar dilemmas.

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