

## 9 Corruption and Private Participation

As previous sections have discussed, the form and incidence of governance problems and corruption vary between different sector structures and ownership arrangements. Section 7 discussed the particular issues that arise when public electricity utilities purchase power from independent power producers (IPPs), and Section 8 identified corruption risks that arise in electricity market structures with some degree of competition. This section of the Sourcebook discusses how other aspects of private participation affect corruption risk.

In general the involvement of a private operator in managing and operating the utility could be expected to reduce the risk of corruption. The shareholders of the private firm have a strong interest in ensuring that value within the utility is captured by them, not by utility staff or managers, or government officials. Accordingly, private firms tend to be quite effective at implementing systems to prevent such misappropriation. Moreover, if such misappropriation does occur in a private utility, so long as it is private funds being misappropriated then it is, by definition, not corruption. This is more than a semantic distinction. Theft from a private corporation is still theft, and a serious issue, but it is not a public policy issue in the same way that theft from a public entity is.

In practice, the impact that private participation has on corruption risk will depend on the form of private participation, and in particular on:

- The risks and responsibilities assumed by the private operator under the arrangement
- Who makes key decisions—the private operator, or the government.

Broadly, four types of private participation arrangement are common in the electricity sector:

- **Privatization through a trade sale**—in a trade sale, the government sells an ownership stake in the utility to a selected buyer. The buyer is selected through some form of tender process. Shares in the company may subsequently be floated on the stock exchange. Usually the buyer must have relevant sector and management expertise. For example Eletropaulo, a major Brazilian power distributor, serving the state of São Paulo, was privatized through a trade sale, in which international infrastructure investor AES Corporation acquired a majority stake in the company
- **Privatization through initial public offering (IPO)**—this is the approach the United Kingdom used in privatizing its electricity sector in the 1980s. Shares in the utility are offered for sale to the general public, and traded over the stock exchange
- **Concession contract**—governments may use concession contracts to involve the private sector in distribution or transmission operations, or in a vertically integrated utility. Under a concession arrangement, the private operator pays a fee to for the right to run the business, operate and maintain the utility's assets, and collect revenue from customers. The private operator plans and finances new capital investment, but does not actually own the infrastructure assets
- **Management contract**—under a management contract the private operator simply supplies management services to the utility, but has no ownership stake.

The private operator also has no responsibility for capital investment or system expansion. Management contracts may be a step on the road towards greater private sector involvement, or a way of bringing a more commercial focus to a public electricity utility. Management contracts are an exception to the general principle that private participation reduces provider level corruption risk (see Section 9.2).

While (with the exception discussed above) private participation generally reduces corruption risk, private participation introduces three new venues in which corruption may flourish:

- The privatization transaction
- Award of a management contract
- Regulation and supervision of the private provider or manager
- Renegotiation and extension of private participation arrangements

## **9.1 Privatization Transactions**

Essentially the mode of corruption in privatization transactions is as follows. A private firm pays a government official to sell it the business (or award it the contract) at a favorable price.

The risk of this form of corruption is a significant. Privatization transactions are valuable deals. A privatization essentially capitalizes the entire stream of appropriable value in the utility into a single deal. That is, the transaction concentrates a lifetime of corruption opportunities on a single point. At this point, large amounts of money change hands in an environment where it is difficult for outsiders to judge if the public is getting a good price for its asset. This is true whether the asset being privatized is generation, transmission, distribution or all three.

Indicators of corruption risk in awarding private contracts are similar to indicators of corruption risk in procuring capital works (see Box 6.4), and include:

- A sales price that seems below fair value
- Uncompetitive or non-transparent award processes for private participation contracts or licenses
- A sales structure that does not seem logical, in the sense that it is not the one best suited to public needs—for example, any kind of swap or in-kind deal or joint venture, rather than a straight sale for cash
- A reputation for corruption in awarding of similar contracts
- The existence of unnecessary middlemen—local “agents” that provide generic, ill-defined services
- Unexplained wealth levels among senior officials or politicians with influence over the award.

Box 9.1 provides some additional lessons, and potential indicators of corruption, from Eastern Europe’s experience with electricity sector privatizations.

### Box 9.1: Privatization Lessons from Eastern Europe

The following lessons for transaction strategy emerge from privatization on the power sectors of Eastern Europe:

- **Privatization through transparent international competitive bidding among prequalified investors results in the most sustainable privatization deals.** Negotiated privatization does not even save time and often leads to unsatisfactory terms to the sellers
- **Offer majority shares to attract strategic investors in a manner that enables them to implement prudent investment and operating decisions.** In any case, the strategic investor must have management control
- **Retaining only a golden share (or some similar device, such as a special shareholder agreement) for a specified period may be prudent** when selling all the shares to the strategic investor. It will also help the government to prevent acquisitions and mergers that erode competition
- **The privatization agreement may also contain a prohibition for the resale of assets to anyone with qualifications inferior to those of the original investor.** Otherwise the elaborate prequalification exercise would become meaningless
- **Sort out labor agreements** (in regard to employment levels, severance compensation, and funds for assisting separated labor).
- **Sort out fuel supply arrangements** in order to promote a genuine market in fuels used for power generation. This involves, for example, discontinuation of fuel “allocation” practices and liberalization of fuel imports before privatization.
- **Sort out issues relating to the “right of way” for facilities located in state or municipal lands while privatizing distribution utilities.** Issues relating to the removal of any legal rights the municipalities may have in relation to distribution business and related power facilities should be sorted out in the pre-privatization phase, if necessary, through special legislation
- **Be wary of dishonest and collusive equity for debt swaps and asset stripping** as was practiced in Ukraine

Source: Krishnaswamy, Venkataraman, and Gary Stuggins (2003), *Private Participation in the Power Sector in Europe and Central Asia: Lessons from the Last Decade*. World Bank Working Paper No. 8. Washington, D.C.: World Bank. (available at [http://publications.worldbank.org/e-commerce/catalog/product?item\\_id=2412425](http://publications.worldbank.org/e-commerce/catalog/product?item_id=2412425)), cited in Besant-Jones (2006) “Reforming Power Utilities in Developing Countries: What Have We Learned?”, Energy and Mining Sector Board Discussion Paper No. 19, Washington, DC: The World Bank (page 52).

## 9.2 Corruption Risk with Management Contracts

Management contracts are quite common in the electricity sector. They have been used in Tanzania, Malawi, Georgia, and Albania. Experience with these contracts has been mixed. The focus in this section is not whether or not management contracts are a good idea, but what effect they may have on corruption (please see Box 10.18 on page 134 for a description of the management contract in Tanzania).

Management contracts are sometimes thought of as a species of privatization, but this can be misleading, in that under a management contract essentially all the business risk remains with the public sector. The private firm only gets a fixed fee (which usually covers the cost of the staff it provides) and performance pay (which motivates performance, but in terms of dollar

values is a fraction of total risk that the public sector continues to bear). As a result the management contractor's incentive and ability to reduce corruption are relatively low, compared to true privatization.

Under a management contract, the utility's property and revenue streams still belong to the government. The government therefore needs to retain some control over expenditure and business decisions. For example, government officials will generally continue to be responsible for decisions on capital planning and investment, and IPP awards. As a result corruption opportunities continue in a utility managed by a management contract.

Even in the areas under the management contractor's control, corruption may continue—for example, in human resources and stores—because the funds involved are still public.<sup>24</sup> The management contractor therefore has less incentive to detect and prevent the corruption, as it does not itself bear the cost from the corruption.

Corruption risk in the *award* of management contracts can be indicated by:

- Selection of a poorly qualified or inexperienced contractor when better contractors were available
- Management fees that seem excessive
- An uncompetitive or non-transparent procurement process.

In a utility under a management contract, corruption risk continues in capital projects, which generally remain largely a government responsibility, and this risk can be assessed as outlined in Section 6.

Corruption risk in operations continues, though it should be more muted under a well-designed management contract. This risk can be assessed as outlined in Section 5 for a publicly owned provider.

Regulation (discussed below) is not generally a source of corruption under a management contract, since the management contractor's remuneration does not generally depend on regulatory decisions.

### **9.3 Regulation and Supervision of Private Participation Arrangements**

Regulation can be defined as the organizations and rules that determine the tariffs electricity providers are allowed to charge, and the services they are required to provide. Regulatory decisions affect the value of an electricity provider. This puts those making regulatory decisions in a position to demand a payment for the decisions they make, with the payment being a share of value created for the utility (or the loss in value avoided).

Regulation or private participation contract supervision may be a corruption risk where there is a privately owned distribution, transmission, or vertically integrated utility. It is not usually a risk for:

- **Publicly owned utilities**—since no private person is generally interested enough in the value of a publicly owned utility to seek to improperly influence a regulatory decision

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<sup>24</sup> As the utility's funds and property are still public, misappropriation of these assets is corruption, unlike the case of a private company, where misappropriation by employees generally hurts the shareholders in the company, not the public.

- **Generating companies selling into a competitive wholesale market**—since in this case the financial performance of the company is determined by the market, not a regulator
- **Independent power producers and management contracts**—the supervision of these contracts can be an avenue for corruption, but since they are not considered generally to be regulatory contracts, these situations are discussed separately, in Sections 9.3 and 9.2 respectively

Corruption in regulation or supervision of concession contracts generally involves payment to a regulator or a contract enforcement official, or someone with the ability to influence a regulatory or contract enforcement decision, with the intention and effect of getting a decision that saves the utility money. Such decisions may include:

- Awarding a higher tariff than the regulatory rules warrant
- Setting lower service standards than the regulatory rules warrant
- Not enforcing service standards
- Not enforcing other contractual or regulatory rules, such as not requiring a management contractor to deliver all the outputs promised, or not enforcing penalties on a BOOT contractor who is late in delivery of the asset.

The above examples are all of an official giving an unduly favorable decision to a utility, in exchange for a payment from the utility.

There are also cases in which a regulator may demand a payment simply for giving the “right” decision from a regulatory perspective. This would tend to occur when the regulatory system does not provide clear guidance to the regulator, and/or lacks a credible appeal process. In such cases the regulator can hold the utility hostage unless a bribe is paid, and the utility may have no redress against the unreasonably regulatory action, and therefore essentially be forced to pay the bribe.

Corruption of this sort is difficult to detect when the regulatory rules allow the regulator considerable discretion, as they often do. However, warning signs may be:

- Unclear regulatory rules
- High regulatory discretion
- Rules or contracts that are not enforced
- Regulatory decisions that do not seem to make sense
- Unexplained wealth of regulatory officials
- Utilities paying for trips or other entertainment for regulatory officials.

Corruption risk also arises in renegotiation of the original regulatory deal, which often occurs in response to an unanticipated crisis not anticipated in the regulatory framework.

**Box 9.2: Alleged Bid Rigging in Trade Privatization of Eletropaulo**

In 1998 the Government of the State of São Paulo decided to privatize Eletropaulo Metropolitana, the largest electricity distribution company in Latin America with 5 million

customers. It was the largest privatization Latin America had ever seen. The Government of the State of São Paulo committed itself not to accept bids below US\$1.78 billion. It had been advised that the utility could bring several hundred million dollars more and one of the potential bidders had placed a maximum value of just less than US\$3 billion on Eletropaulo in a private study it conducted to decide whether or not to bid.

The Sao Paulo Government was eager to find firms with the ability to run a privatized public utility, and so only three bidders were allowed to participate in the auction:

- Enron
- A consortium, the Light Energy Consortium, whose four shareholders were AES, Electricité de France, Houston Industries, and CSN, a Brazilian steel company, and
- VBC, a Brazilian group.

The night before the auction took place, it is alleged that AES approached Enron and offered that, in return for not bidding, Enron would build a 1,500 MW power plant with AES to supply Eletropaulo; it would be the lead developer and operate the power plant, pulling in fees for both. Enron would also provide all the fuel for the project, which it would obtain through its stake in the Bolivia-Brazil gas pipelines. According to the allegations, negotiations lasted until 4am on April 15<sup>th</sup>, and an agreement was finally reached a few hours before the auction.

On the morning of the auction, April 15<sup>th</sup>, executives from the Light Energy consortium allegedly arrived at the Sao Paulo stock exchanges with two envelopes. One envelope offered USD 1.78 billion (the Government's minimum acceptable bid). The offer in the other envelope was for an extra USD 500 million. Seconds before the three-minute bidding window elapsed, it became apparent that Enron and VBC were onlookers. Following his instructions for what to do in the absence of another bid, Light's broker handed in the first envelope, thereby securing Eletropaulo at the minimum price.

It was a disaster for the Brazilian government. The jewel in the crown of energy assets for sale that year, Eletropaulo had been expected to bring in several hundred million dollars above the minimum estimate. Had either of the other parties deposited a bid, allegations are that the Light Energy consortium broker would have deposited the second envelope with an offer of an extra USD 500 million. Thus the Government of São Paulo may have lost at least USD 500 million. The upper estimate of the direct loss to Brazil is USD 1 billion (based on the maximum value of Eletropaulo estimated by Enron when it was considering bidding).

According to their alleged agreement, both the Light Energy consortium and Enron stood to gain from the bid-rigging. Light Energy would save USD 500 million in the bidding. It would have to grant a contract to Enron for the production of electricity but would presumably pass part of the resulting increase in the electricity costs on to consumers. Thus part of Enron's profits from the electricity supply arrangement would be an additional (indirect) cost of the bid-rigging. Reported estimates of the value of the contract for Enron by former employees range from USD 200 million to USD 800 million. A former senior Enron employee said that everyone was very excited about what had happened, but that there was caution too "it was made clear that we shouldn't advertise what had happened ...". Enron executives were reported to be particularly happy because, unknown to AES, before being approached by AES Enron senior management had already decided not to bid for Eletropaulo.

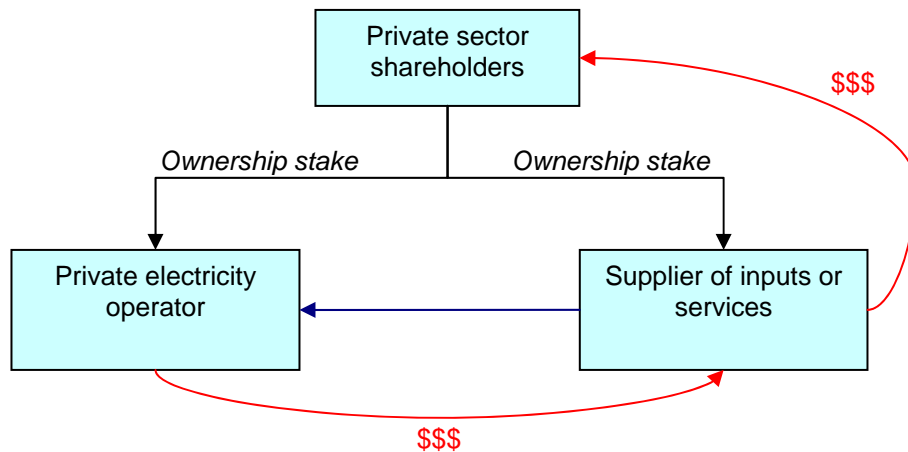
In 1999 another Brazilian energy power generation company (CESP-TIETE) was privatized. Three companies were pre-qualified and allowed to bid. The three were Enron, AES, and VBC. Only AES and VBGC placed bids and AES was the winner. The same kind of practice as described above is suspected of having taken place again.

Source: Reproduced from Jenny, Frédéric (2005), “Competition and Anti-Corruption Considerations in Public Procurement” in *Fighting Corruption and Promoting Integrity in Public Procurement* Organisation for Economic Co-operation and Development, (page 33-34).

### Related party contracts

Where a private operator is responsible for operating the utility, the operator may enter into related party contracts. In this scenario, the private operators may contract with related firms for the supply of key inputs, or for maintenance or construction work. Here “related firm” refers to a company that has the same shareholders as the private operator. The private operator could agree to an inflated contract price for the supplies or works, as a way of transferring profits to the private operator’s shareholders through the related firm.

**Figure 9.1: Illustration of a Related Party Contract**



This type of arrangement is not corruption according to the definition used in this Sourcebook (see Section 2.1). Related party contracting is fundamentally a regulatory problem. It is a means of siphoning funds out of the sector by inflating the utility’s costs, and so inflating final prices. Thus, related party contracting is only profitable for the private sector investors if the regulatory rules enable the private operator to pass the inflated costs through to its customers in prices. Regulators can deter related party contracting problems by introducing rules requiring ring-fencing of supplier and contractor operations, and arm’s length contracting.

### 9.4 Contract Renegotiation and Extension

Following initial award of a private participation contract, it is common for the private operator to seek to renegotiate the contract. Guasch (2004) defines renegotiation as follows:<sup>25</sup>

<sup>25</sup> Ibid.

*Renegotiation occurs when the original contract and financial impact of a concession contract is significantly altered and such changes were not the result of contingencies spelled out in the contract. For example, stated and standard tariff adjustments resulting from inflation or other stated drivers do not count as renegotiation. Nor do periodic tariff reviews stipulated in a contract, or contingencies (such as significant devaluations) in a contract that induces tariff changes. Only when substantial departures from the original contract occurred and the contract is amended can one say that a renegotiation took place.*

Guasch (2004) has found that 10 percent of electricity sector concession contracts in Latin America and the Caribbean are renegotiated, on average within about two years of the contract award (this is despite original contract agreements of 20 to 30 years).<sup>26</sup>

As Guasch goes on to point out, renegotiation can be a good thing, as it offers a way of addressing the inherently incomplete nature of concession contracts. Thus, just because a private operator seeks to renegotiate its private participation contract, it does not mean the operator is corrupt. In many cases the reasons for renegotiating are quite legitimate. Operators frequently cite unanticipated changes to factors outside their control that make the original terms of the contract unworkable. For example, sudden changes in the exchange rate may increase the cost of key inputs above anticipated levels, or significantly inflate the cost of debt servicing.

However, the terms and processes for renegotiation remain a concern. Contract renegotiation is generally less publicized and is subject to fewer controls than the original award. Because renegotiation takes place just between the government and the operator, it is not subject to competitive pressures and their associated discipline and the terms and conditions of the renegotiation are rarely made public. Thus this type of (undisclosed) renegotiation presents greater opportunities for corruption or opportunistic behavior.

If bidders believe they will be able to renegotiate the contract, they may initially bid competitive prices that they cannot sustain in the long term, and subsequently seek to renegotiate a higher price. The outcome is that the initial competitive process may not in fact give the contract to the most efficient provider. This in itself does not necessarily amount to corruption, under the definition used here. However, in principle a private operator might offer a bribe or kickback to relevant government officials in return for assurance that the contract will be renegotiated shortly after the award.

### **Extension of private participation arrangements**

In some cases private operators or public officials may seek to extend or review an expired private participation contract rather than rebidding. For example, this may be based on arguments that the cost and potential disruption from transferring the operation of the utility to another private operator outweigh any additional efficiencies a new operator might bring.

While such arguments may be valid, there are often significant potential gains from retendering private participation opportunities when the initial contract expires. Public officials are usually not well placed to second guess what innovations or efficiencies additional market pressure may encourage. A competitive retender should draw out such

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<sup>26</sup> Guasch (2004), page 34. findings of this study are debatable because Guasch's definition of a concession contract was broad, and which party initiated the renegotiation (that is, government or private operator) is not revealed.

efficiencies—and if the existing private operator is genuinely the most efficient provider, retendering the contract should confirm this.

Often the government officials making this decision have been working with the private operator’s managers for a long period, and may have developed a “cozy” relationship with them. Even where there is no explicit corruption, public officials may be influenced by this degree of closeness to decide in the private operator’s favor. Corruption could involve a bribe paid by the private operator to key government officials to secure a non-contested contract extension, or ongoing provision of favors (such as paying for travel those officials, or giving them the use of the utility’s vehicles and other resources).

### **Detecting corruption in renegotiation, renewal, and extension of private participation**

It is difficult for outside observers to determine whether the justification for any renegotiation or contract extension is legitimate, or reflects corrupt behavior.

In the case of renegotiation, where there is a pattern of frequent objectively unjustified renegotiation in private participation contracts, shortly after the initial award, this may indicate corruption either in the initial award or in the government’s ongoing oversight of the contract. Sector practitioners should be particularly wary where:

- Initial bid prices appeared to be unsustainably low, even at the time of the initial award
- Private participation contracts are managed through a single government agency, and the same government officials are frequently involved in renegotiating public participation arrangements
- Government officials involved in overseeing and renegotiating the contract appear to enjoy a standard of living that their salaries would not support
- The country concerned has a reputation for poor governance and corruption risk.

Indicators of corruption risk in contract extensions or renewals are similar. In particular, where government officials support non-contested contract extension despite poor performance by the private operator, which would raise a corruption “red flag”. Additional indicators are similar to those listed above.

Source List 9.1: Sources on Private Participation and Corruption

Source	Description
<p>Besant-Jones, J. (2006) <i>“Reforming Power Markets in Developing Countries: What Have We Learned?”</i> Energy and Mining Sector Board Discussion Paper No 19, Washington, DC: The World Bank</p>	<p>Beginning on page 46 of this document, Besant-Jones gives guidance on preconditions and good processes for private participation.</p>
<p>Estache, A, Goicoechea, A, and Trujillo, L. (2006) <i>“Utilities reforms and corruption in developing countries”</i>, World Bank Policy Research Working Paper 4081</p>	<p>This paper applies econometrics to a cross-country and cross-sectoral dataset. It finds that, in the electricity sector, private participation and independent regulation appear to reduce the negative effect of corruption on access and quality.</p>
<p>Ghanadan, R. and Eberhard, A. (2007), <i>“Electricity Utility Management Contracts in Africa: Lessons and Experience from the TANESCO-NETGroup Solutions Management Contract in Tanzania, 2002-2006”</i> MIR Working Paper, Management Programme in Infrastructure Reform &amp; Regulation</p>	<p>This paper reviews Tanzania’s experience with an electricity sector management contract. Tanzania’s management contract brought about significant changes in utility operations. It generated a near doubling of utility revenues in two years. However, it failed to achieve meaningful improvements to technical performance in the utility. It aims to: clarify the key factors behind these outcomes; glean lessons about what management contract can—and cannot—do in Africa; and identify possible improvements in the design and application of management contracts in African electricity sectors. One of the factors identified was high electricity costs associated with IPPs.</p>
<p>Guasch, J. L. (2004) <i>“Granting and Renegotiating Infrastructure Concessions: Doing it Right”</i>, Washington, DC: The World Bank</p>	<p>This book describes the various options for private participation in infrastructure, including their benefits and drawbacks (Chapter 2). Chapter 3 and 4 focus on renegotiating concessions, with examples of what drives renegotiation. Chapter 5 offers case studies of renegotiated contracts, with Chapters 6 and 7 commenting on the lessons learned and policy implications.</p>
<p>Johnston, M. (2007) <i>“<a href="#">Understanding the Private Side of Corruption: New Kinds of Transparency, New Roles for Donors</a>”</i>, U4 Brief</p>	<p>This paper discusses gaps in knowledge about corruption in the private sector, and how donors can facilitate a new kind of transparency to improve the outcomes of anti-corruption efforts.<sup>35</sup></p>

Source	Description
<p>Rose-Ackerman, S. (2007)  <i>“Measuring Private Sector Corruption”</i>, U4 Brief</p>	<p>This brief makes recommendations of how donor agencies can identify and control commercial bribery and new types of business-government corruption so as to not undermine the benefits of private sector development.<sup>36</sup></p>
<p>Schwartz, J. and Halkyard, P. (2006)  <i>“Postconflict Infrastructure”</i>, Public Policy for the Private Sector, Note 305</p>	<p>Postconflict countries suffer from disproportionately low levels of private investment in infrastructure, with only small-scale service providers likely to emerge during and right after conflict. Larger investors are slow to enter, and when they do they focus almost exclusively on the easily secured and most profitable subsectors. Yet some countries have been able to couple aggressive reform and liberalized policies to attract infrastructure investments soon after conflict abates. This paper draws out lessons from these experiences.<sup>37</sup></p>
<p>Shrestha, P. (2007)  <i>“Corruption in Infrastructure Provision and Service Delivery at the Municipal Level in Nepal”</i>, in Sohail (ed.) <i>“Partnering to Combat Corruption”</i></p>	<p>This document is a detailed case study of corruption in infrastructure service delivery at the municipal level in Nepal. It details the causes of corruption in infrastructure delivery, and the types of corruption that occur. This document provides comprehensive descriptions of the forms of corruption that occur at the municipal level. This can provide a useful indication to sector practitioners of what to look out for under similar circumstances.</p>

## Part II Increasing Probity and Improving Governance

*Often, governments use these utilities to pursue political, social, and economic objectives, thereby obfuscating the commercial aspects of the utilities. In the process, the management controls, the accountability of the utility managers, and the transparency of their operations are compromised. Over the years, this can lead to inefficiency, corruption, overstaffing, poor standards of supply and service, weak financial performance by the utilities, and fiscal burden. In many countries, these conditions have resulted in a climate of poor accountability and weak monitoring institutions that facilitates corruption until it becomes a fact of life pervading every stage and every level of the electricity business, from government at the apex to meter readers and linemen (responsible for operating and maintaining the low-voltage network) serving the consumer. Often, the electricity utilities are very large enterprises compared with the state's economy and other commercial entities as measured by investments, revenue, number of people employed, and the size of the customer base. Hence corruption in the electricity sector in such countries, if left unchecked, could bleed the utilities, impoverish the community, and even corrode its moral fabric.<sup>27</sup>*

This part of the sourcebook presents information on approaches to reducing corruption by promoting probity and good governance. There are three sections, each of which corresponds to a different “level” of activity or governance: the project level (including both project planning and implementation), the provider level, and the sector level.

This part begins by reviewing ways to increase probity in **capital projects and planning**. Capital projects are where governments and practitioners have traditionally focused most on corruption, and where they have correspondingly centered their efforts to improve probity. Capital projects are also a particular focus for many if not all development agencies. Section 10 of the Sourcebook covers measures that practitioners can feasibly implement in the context of a traditional “project”.

Section 11 covers **addresses sector** governance. The main corruption risks generally thought to occur in provider activities include: billing and collection, award of maintenance contracts, purchase of fuel and the like. Corruption-reducing reforms in providers typically involve well-understood improvements in management systems, and are within the professional domain of sector practitioners, making advice in this area more technical and less controversial than sector-wide governance reform attempts.

Section 12 addresses **sector governance**. By governance we mean the system of relations, accountabilities, and decision-making rights that make electricity services responsive to citizens’ needs (in the case of good governance) or less so (in the case of poor governance). Governance comes last in the discussion because it is the most difficult, and because reforms in this area generally require the longest gestation period, and the most sustained effort. Ultimately, however, governance is the most important element to get right. Without an effective local demand for good service and probity, and a political system that responds to

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<sup>27</sup> Gulati, M. and Rao M.Y. “Corruption in the Electricity Sector: A Pervasive Scourge” in Campos, J. and Pradhan, S. (2007) *The Many Faces of Corruption: Tackling Vulnerabilities at the Sector Level*, Washington, DC: The World Bank

that demand, reforms at the project or provider level are at best likely to remain static, or at worst be circumvented or rolled back.