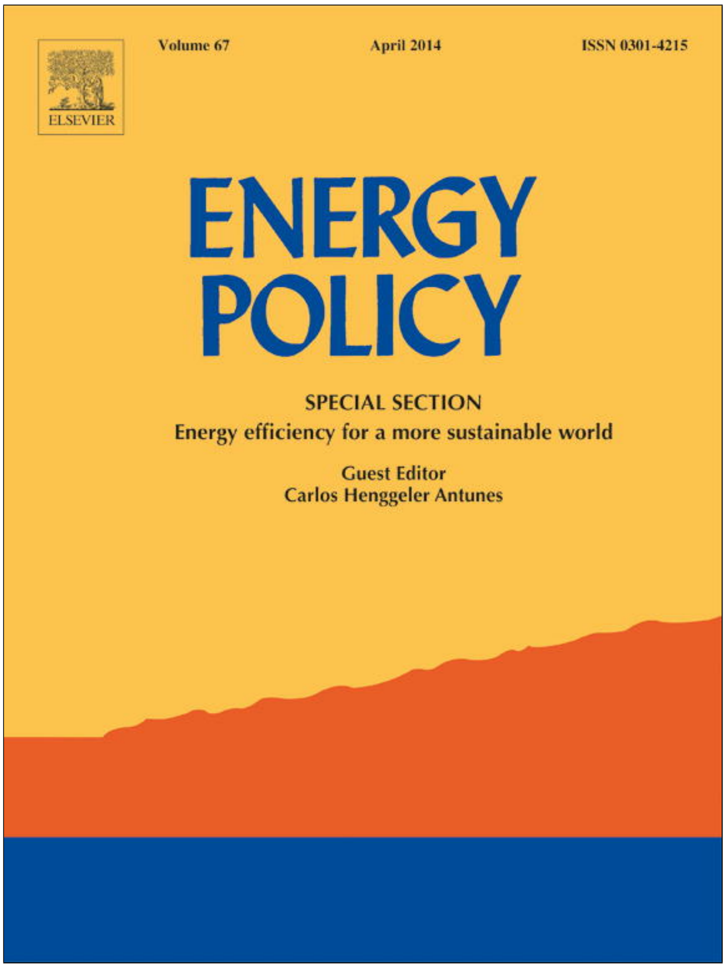
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Reform despite politics? The political economy of power sector reform in Fiji, 1996–2013

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HIGHLIGHTS

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

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ABSTRACT

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

1. Introduction

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

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

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

2. Power sector reform in developing countries

2.1. An overview of reform

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

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

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

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

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

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

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

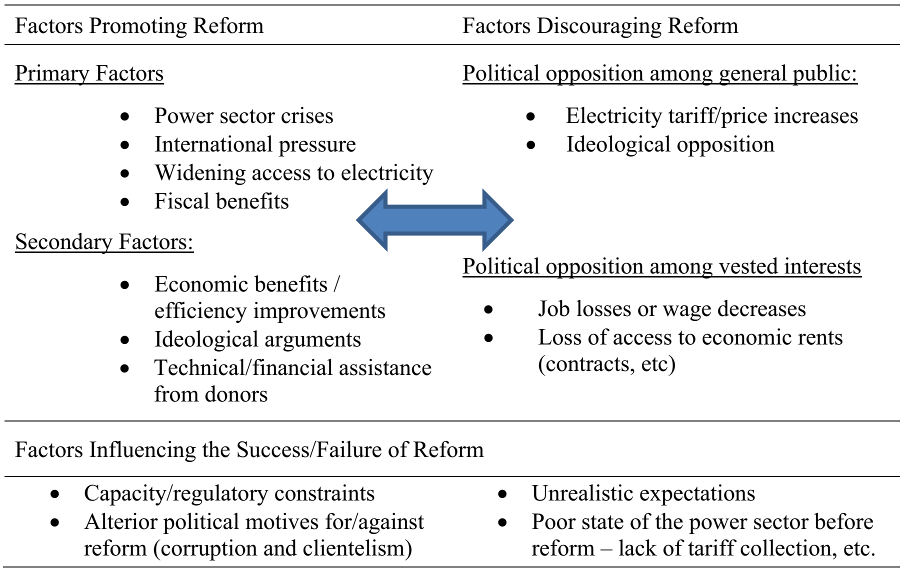

Fig. 2. Political drivers of power sector reform in developing countries: a simple taxonomy.

agreements signed with partner governments, as occurred for example in World Bank structural adjustment loans and poverty reduction strategy programs (Gratwick and Eberhard, 2008). These efforts achieved only modest results, given political barriers to reform (Choynowski, 2004; Besant-Jones, 2006).

Power sector reform in Small Island Developing States (SIDS) in the Pacific has also been limited, despite the promotion of reform by donor organisations. A recent study of power sector performance in Pacific SIDS found that 13 of 19 power utilities are effectively government monopolies; four power utilities in the region have been corporatised, with prices set by an independent regulator; and two power utilities are privately owned. The performance of most electricity utilities in Pacific SIDS was found to be poor: power outages and shortages are common; generation costs are high; and productivity levels are low. Power utilities that operate commercially under independent price regulation perform far better on average than those that are unregulated government monopolies (Dornan et al., 2013). However, reforms have had limited impact on access to electricity in a region where only 30% of households are connected to a power supply (the figure is higher in Fiji at 89%). This is primarily the result of utilities having no incentive to extend electricity grids or install off-grid systems (see Dornan, forthcoming for a detailed discussion).

2.2. Political barriers to reform

Why have power sector reforms been limited in most developing countries? What explains the mixed results of reforms that were implemented? The literature identifies numerous reasons for the failure of power sector reforms in developing countries, many of which are applicable to SIDS. These include constraints on government and regulatory capacity, inefficient power sectors that made reform difficult, donor promotion of reforms that were inappropriate for developing countries, and unrealistic expectations among governments implementing reform (Choynowski, 2004; Rosenzweig et al., 2004; Besant-Jones, 2006; Weisser, 2004b).[2] Important in all these explanations are political factors, highlighting that "power sector reform is an inherently political process" (Besant-Jones, 2006: 14). A list of political factors promoting and discouraging reform is provided in Fig. 2. Factors that influence the outcome of reform are also illustrated.

Most political economy analyses of power sector reform in developing countries have focused on political opposition to reform. Political opposition has several dimensions, and is usually associated with ideological arguments against reform. One important barrier to the effective and full implementation of reforms is political opposition to increases in electricity prices. Electricity tariffs in many developing countries, including Pacific SIDS, are kept below the cost of supply by government in order to stimulate economic activity and ensure that power is affordable for low income households (Choynowski, 2004; Rosenzweig et al., 2004; Besant-Jones, 2006; Dornan et al., 2013). Such subsidies are regressive, as they most benefit households with high levels of power consumption. These households also generally enjoy high incomes. Power sector reform in developing countries has involved increasing the price of electricity for consumers, so that tariffs reflect the economic cost of supply. Lifeline tariffs have often been adopted in order to protect low income households. The situation contrasts with that of the developed countries, where reforms lowered electricity prices through productivity improvements (or at least, this was the argument prior to implementation of reforms, as actual results were mixed) (Choynowski, 2004).

Governments in developing countries understandably have been wary of the political implications of higher tariffs. As a result, governments have been reticent to transfer control over tariff determination to independent regulatory bodies tasked with ensuring electricity prices reflect production costs, preferring to provide (often *ad hoc*) financial support to power utilities. Failure to increase tariffs has in turn deemed other reforms that have been implemented ineffective. For example, investing in additional generation capacity is difficult if the revenues of the utility do not cover its costs (Choynowski, 2004; Rosenzweig et al., 2004; Besant-Jones, 2006).

Vested interests are a second source of political opposition to power sector reform in developing countries. The literature commonly cites the "vested interests" of small groups adversely

[2] Barriers to economic reform in Pacific SIDS include political economy factors, institutional inertia, and lack of regulatory capacity (Duncan, 2011; Dornan et al., 2013). An additional consideration in SIDS is the small size of power systems, which limits the scope for competition (Weisser, 2004b; Dornan et al., 2013). The experience of Pacific SIDS shows that independent price regulation is feasible

(*footnote continued*)
in SIDS, although it may not be cost-effective without donor-support in micro-states (such as Nauru, with a population of 10,000).

affected by power sector reform, such as trade unions in the electricity sector whose members stand to lose as a result of efforts to improve efficiency (Choynowski, 2004; Rosenzweig et al., 2004; Besant-Jones, 2006). These arguments are also relevant in Pacific SIDS, where economic and public sector reform has been limited due to political economy factors (Duncan, 2011).

Discussion of vested interests and the political economy of reform draws heavily on public choice theory. Economists in this school argue that small and organised special interest groups are better placed to influence government behaviour than the large and disorganised majority of voters (Olson, 1965; Mueller, 1979; Mueller, 1989). This imbalance leads to perverse political outcomes, with reforms that would benefit the majority not pursued due to the influence of a small but highly organised minority. Again, opposition to certain reforms in the power sector has made wider reform efforts ineffective, such as when there has been opposition to downsizing of the sector's workforce.

Lack of political commitment to reform is also discussed in studies of power sector reform in developing countries. A comparison of motives for reform in developed and developing countries provides some insights. In developed countries, arguments for reform have primarily considered efficiency objectives. This has not been the case in developing countries. Rosenzweig et al., noted that in developing countries, "governments rarely bought into the broader philosophical or theoretical schema of the international agencies, which deemed the introduction of market mechanisms and competition to be goals in their own" (Rosenzweig et al., 2004: 18). This scepticism of efficiency arguments for reform deepened as a result of problematic reforms in other countries; the most prominent example being the energy crisis in California of 2000–2001 (Gratwick and Eberhard, 2008).

Governments in developing countries have instead pursued power sector reform as a practical response to challenges in the sector. These include ensuring that electricity supply continues to meet increasing demand, widening access to electricity, and reducing the fiscal burden on the state (Besant-Jones, 2006). Indeed, in many developing countries, reform has followed crises in the electricity sector, with the expectation being that private sector investment will help to address power supply shortages (Newbery, 2001; Rosenzweig et al., 2004; Besant-Jones, 2006; Gratwick and Eberhard, 2008). Such motives have often translated into only short-term political commitment to reform. Expectations of private sector investment flows have provided initial motivation for reform, only to disappear when that investment has not eventuated. This explains the many examples of policy reversals that have afflicted reform in developing countries (Rosenzweig et al., 2004). It also explains the limited implementation of reform in Pacific SIDS, which have generally enjoyed good fiscal management and avoided economic crises, lessening the need for power sector reform.

3. Power sector reform in Fiji

Fiji differs to other Pacific SIDS in its implementation of power sector reform. Although power sector reform in Fiji did not proceed as originally conceived, it has achieved some success in recent years. This has led to Fiji being considered a model of power sector reform for other Pacific SIDS. Reform of the electricity sector in Fiji can be divided into two periods (a timeline is provided in Fig. 3). Prior to the first period in 1996–1999, the FEA produced almost all electricity, purchasing limited amounts of power from co-generation facilities operated by the state-owned Fiji Sugar Corporation (FSC). The electricity grid in Fiji was therefore essentially operated as a vertically-integrated, state-owned monopoly, with very limited private sector involvement. Electricity prices were set by government, and were kept below the cost of production in order to ensure affordability for poor households. This situation was consistent with the model of electricity sector regulation in most developing countries at the time (Choynowski, 2004; Rosenzweig et al., 2004; Besant-Jones, 2006).

Public enterprise reform was initiated in 1996 by the *Soqosoqo ni Vakavulewa ni Taukei* (SVT) government in response to fiscal problems (an overview of governing political parties is provided in Fig. 4). The *Public Enterprise Act* (1996) sought to commercialise state-owned enterprises with a view to eventual privatisation (Appana, 2003). A number of state-owned enterprises were "privatised" in the late 1990s, although in some cases these entities were purchased by government-controlled entities.

Reform of the FEA began in 1998 under the public enterprise reform legislation. The FEA was separated into three companies responsible for generation, transmission and distribution, and retailing: PowerGen Fiji, PowerLines Fiji, and MegaPower Fiji, respectively. Donors played a role in designing this reform process. At the request of the Fiji Government, the Asian Development Bank (ADB) provided technical assistance, drafting the *Reorganisation Charter*, which outlined the FEA's reform plan (ADB, 1995, 1998). The long-term objective was the privatisation of the generation and retailing components of the FEA and the introduction of competition in these areas. The transmission and distribution component was to remain under government ownership, as this sector was considered a natural monopoly.

These changes were consistent with international trends in power sector reform (Choynowski, 2004; Rosenzweig et al., 2004; Besant-Jones, 2006). However, they were short-lived. The election of the Fiji Labour Party (FLP) to government in May 1999 stalled the public enterprise reform process, with the new government intent on maintaining public control over utilities. The FLP reversed the reforms of the FEA, bringing together the three recently established power companies to again form the FEA. The election of the FLP government therefore signalled the end of the first period of power sector reform in Fiji.

The FLP government was overthrown after less than one year in office in the 2000 coup. The second period of reform (2001–2013) commenced when the interim government appointed by the military won elections as the newly formed *Soqosoqo Duavata Lewenivanua (SDL)* party in 2001. The SDL government resumed the public enterprise reform process, but in a more moderate form. A new board of directors appointed by the SDL government initiated internal reform in 2002, resulting in productivity improvements (Maunsell Limited, 2005; World Bank, 2006; ADB, 2010). System losses were reduced from 18% to 10%, and tariff collection rates were increased. In a separate move, the government gave an independent regulator (the Commerce Commission) the responsibility for setting electricity prices, although the true independence and effectiveness of the regulator remained questionable (Maunsell Limited, 2005; World Bank, 2006; Reddy, 2010). Tariffs were first increased by the Commerce Commission in 2005.

The SDL government was overthrown in a military coup in 2006. The military remains in government at the time of writing (2013), although it has committed to hold elections in 2014 under a new constitution. The military government has continued many of the power sector reforms initiated by the SDL. The current government has supported the continuation of the FEA's corporate strategy, although some key management figures have been replaced. It has also strengthened independent regulation in order to de-politise electricity price (or tariff) determination. After initially reversing electricity price increases awarded by the independent regulator, the government passed legislation granting the Commerce Commission greater powers, and moved to provide better resources for the organisation. The Commerce

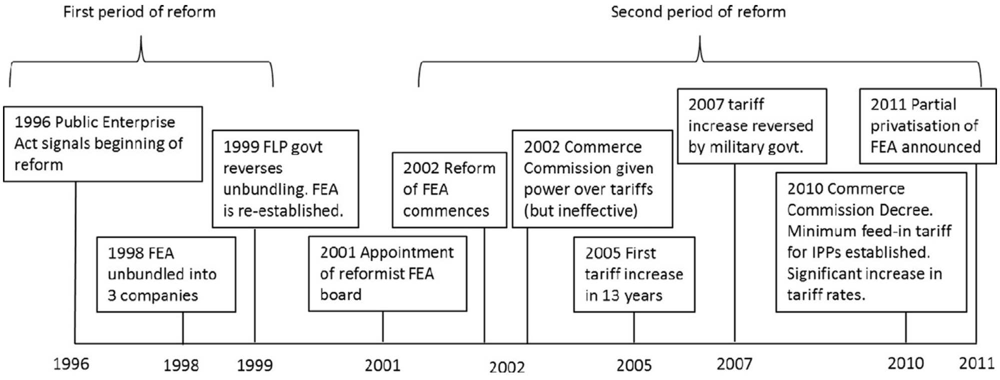

Fig. 3. Timeline of power sector reform in Fiji.

Political Party	Acronym	Governing Period*	Support Base
Soqosoqo ni Vakavulewa ni Taukei	SVT	1992-1999	The party was established as a political vehicle for the traditional indigenous body, the Great Council of Chiefs, and had a primarily indigenous Fijian support base.
Fiji Labour Party	FLP	1999-2000	Although avowedly multi-racial, the FLP was viewed as the dominant Indo-Fijian party. It enjoyed strong links with the trade union movement (which have since been severed).
Soqosoqo Duavata Lewenivanua	SDL	2001-2006	The party was established by Qarase, who became Prime Minister in the aftermath of the 2000 coup. In government, it pursued affirmative action policies on behalf of its primarily indigenous Fijian support base.

* as a dominant member of a multi-party alliance.

Fig. 4. Overview of Major Political Parties that have formed Government since 1992.

Commission has subsequently set a minimum feed-in tariff for electricity that the FEA is obliged to pay Independent Power Producers. This should help to facilitate much-needed private sector investment in low-cost renewable technologies, although history suggests that private sector investment will remain low while the Fijian political environment is considered unstable (Dornan and Jotzo, 2012, Gounder and Prasad, 2013, Prasad, 2012).[3] The military government has also signalled further reform, announcing in 2011 that it would partly privatise the FEA. That reform is yet to proceed, and is discussed in the next section.

4. Discussion

4.1. Political economy

Explaining reform in Fiji requires an understanding of the political drivers for and against change. One important factor has been political instability (Prasad, 2012). Four Fijian governments have been overthrown in coups, with two military coups in 1987, a civilian-led coup in 2000, and another military coup in 2006 (see the timeline of politics in Fiji in Fig. 5). Political instability in Fiji has been partly the result of tension between the indigenous and Indo-Fijian populations (which comprise 57% and 37% of the total population, respectively) and a race-based electoral system that features communal seats open only to candidates and voters from certain races (Fraenkel and Grofman, 2006; Lal, 2006; Fraenkel, 2009; Ratuva, 2005).[4] A strong military and the development of a "coup culture" have also played a role. Political instability has resulted in policy inconsistency and reversals of power sector reforms, including the unbundling and subsequent re-bundling of the FEA.

Political clientelism, in conjunction with changes in government, has been an important driver of reform and has influenced the implementation of reform. Clientelism refers to a reciprocal and ongoing relationship of exchange between a client and a patron. In relation to politics, clientelism involves an elected politician (or patron) providing targeted and contingent resources to clients in exchange for their political support (Grzymala-Busse, 2008; Hicken, 2011). Political clientelism commonly takes the form of corruption, although it can take place in other ways, and is often legal (a point highlighted in relation to "corruption" in Fiji by Larmour (2010)). Political clientelism is acknowledged as important in the broader literature on the politics of reform in developing countries (Kurer, 1996; Grabowski, 2002; Sarker and Pathak, 2003; Khan, 2010; Duncan and Hassall, 2011; Hicken, 2011). However, it has not generally been used to explain reform of the power sector in developing countries (Lovei and McKechnie, 2000).[5]

[3] Private sector investment in Fiji has declined dramatically after every military coup or period of political instability. This is true under the current government, with private sector investment gradually improving from a low base in 2006–2007. See Gounder and Prasad (2013) for a detailed discussion.

[4] Rivalries between various indigenous Fijian groupings have also played a role, although their significance is debated. See Fraenkel (2009) for an overview.

[5] Discussions of corruption tend to focus on existing corruption and its potential resolution through power sector reform.

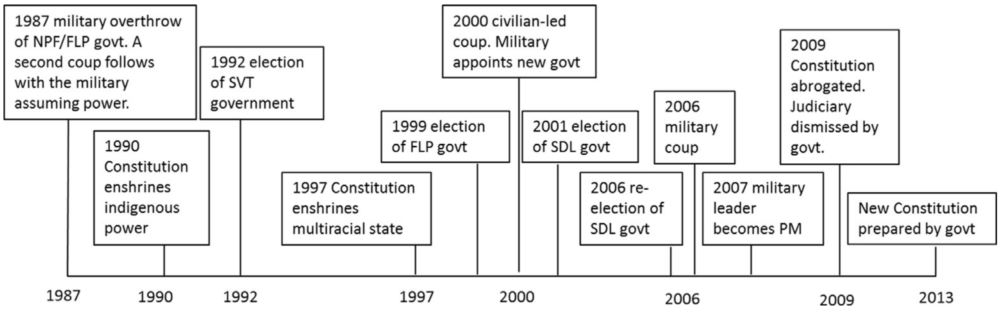

Fig. 5. Timeline of politics in Fiji.

Political clientelism features prominently in recent political economy literature on limited and open access orders (or political settlements, in the work of Khan) (North et al., 2009; Khan, 2010). North et al. (2009) have argued that low-income countries are only able to develop economically if they move away from a situation described as "limited access orders", where the elite maintain control over political, economic, and social organisations; to a state of "open access", where there is freedom for individuals to compete in political, economic, and social organisations. In limited access societies, economic rents arising from government-legislated monopolies are controlled and shared among the elite. In the open access societies, there is competition for the rents that are created, and they are therefore generally temporary. Political clientelism plays an important role in limited access orders, acting as a distribution mechanism and enabling elites to muster political support.

In Fiji, the political clientelism evident during the SVT government (1992–1999) and SDL government (2001–2006) was symptomatic of a limited access order. These governments were characterised by minimal adherence to the rule of law, widespread corruption, and an inefficient judiciary; a situation McCarthy refers to as "inefficient democracy" using Morlino's framework (McCarthy, 2011; Morlino, 2009). Both governments relied on a primarily indigenous Fijian support base, and ensured that policies benefitted this group. For instance, under the SVT government new affirmative action measures were used to ensure that management positions in the civil service were filled by indigenous Fijians. These measures most benefitted those close to the SVT. By 2000, with around 45% of Fiji's population, Indo-Fijians held 35% of all civil service positions, but only four of 35 Permanent Secretaries, one of the 29 Deputy Secretaries, and five of the 27 Chief Administrators were Indo-Fijian (Slatter, 2004). Civil service reforms under the SDL government were similar. Permanent Secretary positions were converted to CEO positions as part of civil service "rationalisation", with the salaries of new CEOs (who were generally SDL supporters) more than double those of the former Permanent Secretary positions. Of the 27 CEOs appointed through a supposedly merit-based selection process, only two were Indo-Fijian (Appana, 2011).

Political clientelism provided an important motivation for broader public service reform under the SVT and SDL governments. Reform was used as a distribution mechanism, with government supporters rewarded through the provision of government contracts and positions in the public service. These and other arrangements have been well documented (Appana, 2003; Sarker and Pathak, 2003; Slatter, 2004; Appana, 2011; Larmour, 2010). In the case of the National Bank of Fiji, loans amounting to FJ$220 million were provided to supporters of the SVT government, including a FJ$5 million loan to the General Manager of the bank itself (Slatter, 2004). These transfers resulted in the near-collapse of the state-owned National Bank of Fiji, which was subsequently rescued by the government at great expense to the taxpayer (Department of Public Enterprises, 1998; Sutherland, 1998; Appana, 2003; Reddy et al., 2004; Slatter, 2004).

The classification of the military government now in power as a limited access order is more controversial. The coup differed to previous coups, where the military had intervened on behalf of indigenous Fijian interests. The leader of the military, Commodore Josaia Voreqe Bainimarama, cited the need to address "race-based" politics and the "pervasive increase in corruption" that had occurred during the SDL government (Fraenkel and Firth, 2009: 10). Power under the regime is by definition concentrated in the hands of one group. Some analysts argue that the current military government is engaging in clientelist politics, providing development programs to regional communities in exchange for support, and awarding civil service positions to (mainly military) supporters (Fraenkel, 2011). The objective of such actions is the continued rule of the military leadership, possibly in an elected context after the country returns to democracy in 2014. However, others refute this view, instead asserting that the 2006 coup and subsequent military actions comprise an attempt to undercut the traditional elite and move the economy away from domination by the elite to a more democratic, market-oriented economy (Bulatale and Duncan, 2012).[6] Certainly, corruption under the military government is less evident than during the SDL government. The actions of the military government are nevertheless motivated at least in part by political concerns. The impact of political imperatives on efforts to reform the power sector in Fiji is discussed next.

4.2. Political motives for past reform

Power sector reform in Fiji has been motivated by political concerns. Reform of the FEA has its origins in the public enterprise reforms of the SVT government, which were initiated in response to fiscal problems caused by a poorly performing economy, an expanding civil service, and "affirmative action" policies that involved the government making credit available to indigenous supporters. The clientelist agenda behind affirmative action policies has already been discussed.[7]

[6] Bulatale and Duncan (2012) point to the current government's attempts to reduce the power of the traditional elite through confronting its support base, including the Great Council of Chiefs (which has been abolished) and the Methodist Church (which has had its ability to raise funds substantially reduced). Bulatale and Duncan (2012) also argue that the establishment for the 2014 election of a democratic (one man, one vote) electoral system, and the move away from the former use of race-based electoral constituencies, should further move Fiji towards an open access order.

[7] In Fiji, pro-indigenous Fijian political parties argue the need for affirmative action policies that favour indigenous Fijians on the basis that Indo-Fijians dominate the commercial sector and achieve better results in higher education. Poverty is also commonly said by advocates of affirmative action to be higher among indigenous Fijians. This last argument is untrue; income levels and poverty rates for the two ethnic groups are almost equal (Narsey, 2006; Narsey et al., 2010).

The SVT government's unbundling of the FEA into three companies generated political benefits. Privatisation of two of the three companies created by the unbundling of the FEA, had it proceeded, would have provided the government with additional resources, potentially further fuelling clientelism. At the same time, reforms created opportunities to reward government supporters. For example, unbundling of the FEA allowed the government to appoint board members to each of the three new power companies.

The election of the FLP to government in 1999 as part of the People's Coalition alliance reversed these changes. The election of the FLP government in many ways represents an accident of history; the FLP and its allied parties gained 52% of parliamentary seats with only 32% of the first-preference vote, due to the alternative vote electoral system and preference swapping among the smaller political parties (Slatter, 2004; Fraenkel and Grofman, 2006). Anger against the perceived corruption of the SVT government also played a role.

Power sector reform was peripheral to these developments, but it was influenced by the change in government. The FLP did not share the same support base as the SVT, and did not wish to direct resources to its political opposition. The FLP had opposed both privatisation and the dismissal of employees under the public enterprise reforms, and had campaigned on an anti-reform platform in the run-up to the election (McMaster, 2001). The FLP also enjoyed close links with the trade union movement, which included trade unions in the electricity sector; and had ideological reasons for opposing the market-oriented public sector reforms (Slatter, 2004). As a result, the FLP government moved quickly to stall or reverse the economic reforms that had been implemented. The unbundled FEA was subsequently re-bundled, once again becoming a vertically-integrated, state-owned, monopoly utility.

The election of the FLP government understandably generated resentment among the primarily indigenous support base of the SVT government. There was also a resultant loss of lucrative contracts and board positions among elite indigenous Fijians. In 2000, only 11 months after the election of the FLP, some of these SVT supporters entered parliament house in a coup against the government (Appana, 2003, 2011; Slatter, 2004; Lal, 2006). The group was led by George Speight, a beneficiary of the clientelism of the SVT government (Slatter, 2004).[8] An indigenous government was elected in fresh elections after the coup.

The new SDL government recommenced reform, but in a manner that served its political agenda (Appana, 2003; Sarker and Pathak, 2003; Prasad and Tisdell, 2006). The SDL government's *Social Justice Act* (*2001*) required that at least 50% of shares floated in privatisations were to be offered to indigenous Fijians, who could access special government assistance to purchase them (Government of Fiji, 2002). Similarly, indigenous Fijians were to acquire 50% of contracts where goods or services were contracted out to the private sector (Sarker and Pathak, 2003).

In the power sector there were some successful reforms despite such issues. Reform of the now corporatised FEA by a new board of directors did improve its performance (Maunsell Limited, 2005; Dornan et al., 2013). The board included members sympathetic to the SDL's political views, but who also had considerable private sector experience. One reason for the success of the new board was that it received the support of government in the face of protests from trade unions and the opposition (World Bank, 2006). This support was political. The trade union movement and opposition were dominated by opponents of the SDL government. The SDL was not particularly concerned about job losses among this group.

Progress with more extensive reforms was limited, however. There were no further attempts to unbundle or privatise the FEA. Electricity tariffs were also kept unchanged for most of the period, despite power generation costs increasing as a result of growing demand for electricity (which was met using expensive oil-based power generation). The SDL government did re-establish an independent, multi-sector regulator, the Commerce Commission, which was given control of electricity prices in 2002. This move was consistent with the advice of donors, and on the surface looked like good policy. However, the organisation was unable to effectively perform its role, given a limited budget and staff numbers (Maunsell Limited, 2005; Reddy, 2010). A 2005 consultancy concluded that there was a “widespread perception” in the electricity sector that the tariff set by the Commerce Commission was influenced by government (Maunsell Limited, 2005: 36–37). The FEA also noted in the report that it was doubtful whether the Commerce Commission had the “economic and power engineering analytical capability to analyse the network for tariff studies” (Maunsell Limited, 2005: 126).

Reforms that were implemented successfully during this period therefore coincided with the political objectives of government. Improvement in the performance of the FEA was possible because of government support against vested interests opposed to reform. This support was politically motivated. Reform in other areas was not so successful. Independent tariff regulation did not serve the political objectives of the government. As a result, despite passing enabling legislation (that had been drafted with donor assistance), the Commerce Commission was not given the political independence required to perform its role effectively.

4.3. *Military pragmatism*

The overthrow of the SDL government in the 2006 military coup placed an end to the affirmative action policies described earlier, including the requirement that 50% of contracts/tenders be given to indigenous Fijians. Modest reforms of the civil service and public enterprise sector have continued. Importantly, the military government has replaced senior managers in the civil service and public enterprises with military personnel, ostensibly as part of the government's response to corruption. These appointments can also be understood as an attempt by the military to secure its control over these public sector organisations (Fraenkel, 2011).

In the power sector, some senior managers have been replaced, but not by military personnel. The military government has taken an active role in negotiating the financing of large-scale power sector projects, which is justified given the loan guarantees it has provided lenders to the FEA. It has also pursued a number of pragmatic reforms in the power sector.

The military government has substantially strengthened the Commerce Commission as the independent regulator of various industries.[9] In 2010, the Commerce Commission was empowered through revised legislation and increased funding. It subsequently increased electricity tariffs so that they covered the cost of electricity supply. The Commerce Commission also sought to encourage private sector investment in the electricity grid through higher feed-in tariffs. In 2011, the government announced its intention to sell a 49% stake in the FEA on the South Pacific Stock Exchange in the near future. The Minister for Public Enterprises, Aiyaz Sayed-Khaiyum, stated in a press conference in 2011 that:

[8] Speight had been appointed as CEO of Fiji Pine Limited by the Minister of Finance, despite a number of conflicts of interest (Speight at the time was director of a company owned by the Minister of Finance, and had been hired as an intermediary by a U.S-based timber company to negotiate with landowners).

[9] There are exceptions, such as the government's reversal of tariff increases it considered excessive on two occasions.

> "The idea is that the government will continue to own the majority of FEA allowing other participants to come into FEA, thereby reducing the dependency on government debt or debt guarantees" (Baselala, 2010).

In a notable omission from the statement, the Minister did not discuss efficiency gains.

The 2006 coup and subsequent military government actions may be interpreted in a number of ways, as was highlighted earlier. Bulatale and Duncan (2012) argue that the actions of the military government are designed to overthrow the "limited access orders" system that has dominated the Fijian economy and society. In the power sector, reform is encouraging increased competition and private sector participation in electricity provision. At the same time, however, the intervention of the military in the civil service appears to reflect the efforts of military leaders to consolidate their political influence. The current military leader, Bainimarama, will seek the prime ministership in elections that are to be held in 2014. Voter sentiment is therefore important, despite the continuation of military rule at present.

"De-politicisation" of tariff setting serves political purposes in an environment where electricity tariffs have increased 90% since the military coup in late 2006. The alternative of keeping tariffs below costs is not viable given the precarious state of government finances (government debt is approximately 50% of GDP). Higher tariffs and other measures designed to attract private sector capital address the fiscal burden on government of FEA investments, and reduce the need to provide the FEA with government debt guarantees. The potential political benefit for the military of fiscally-sound policies is that they facilitate spending in other areas that might generate political rewards (increased government spending on rural infrastructure is one such example).

4.4. Reform despite politics? The muddled path of power sector reform in Fiji

The muddled path of power sector reform has achieved some positive results despite its political motivation. The World Bank considers the FEA a regional success story of corporatisation: its reform is pointed to as "a model of electricity sector rehabilitation", and an example that other reform-minded governments of SIDS in the Pacific could follow. The World Bank's *Pacific Infrastructure Challenge* report states:

> "…the FEA is an excellent case study of reform in an electricity sector. The focus the board and management has applied on reducing systems losses (including an active campaign on eliminating pilferage), involving private sector partners in the operation of generation assets, removing inefficiencies, increasing customer service standards, fully recovering costs in tariffs, and planning for future growth in demand is *a model for needed reforms in other Pacific countries*" (World Bank, 2006: 96–97. Emphasis added).

Power sector reforms implemented since the 2006 coup, have not received the same level of publicity, given the reluctance of donors to deal with the Fijian military. Nonetheless, reforms implemented by the military government are notable, and have served to consolidate those of the SDL government. The "de-politicisation" of electricity prices, although inherently political, does represent an important step in ensuring that tariffs reflect the economic cost of power supply. The establishment of minimum feed-in tariffs for Independent Power Producers by the Commerce Commission is also warranted, given the monopsony position enjoyed by the FEA. Such initiatives, coupled with political stability, should help to generate private sector investment, which is needed if Fiji is to expand its generation capacity to meet demand in the coming decade (Dornan, 2009, Dornan and Jotzo, 2012).

This second phase of reform has occurred within an environment of political clientelism and instability, with reforms politically motivated. What explains their success? The primary feature of this second period of power sector reform in Fiji is that reforms have been aligned with political incentives. Reform of the FEA from 2002 was initiated by a new board of directors, chosen by the SDL government in part because of their support for the government. Subsequent reform of the FEA was a success because the SDL government supported the board in the face of opposition from trade unions. This support was political, as the relevant trade unions were dominated by political opponents of the SDL government. In contrast, there was little political imperative for the SDL government to establish independent tariff regulation. The necessary regulations were therefore approved, but underfunding and a lack of independence from government meant that the Commerce Commission remained ineffective.

Reforms undertaken by the military government also appear to have proceeded because they were aligned with political incentives. The military government has had strong political incentives to strengthen the Commerce Commission and disassociate itself from increases in electricity tariffs. The government, with debts amounting to 50% of GDP, is also not in a position to subsidise low electricity tariffs or guarantee FEA debt. It has therefore pursued strategies to minimise the fiscal impact of the electricity sector.

Power sector reform in Fiji has therefore been inherently political. Reform has occurred, not despite politics, but because of politics. The end result has been a collateral, almost incidental, result of broader power struggles within Fiji, with specific reforms proceeding because they were consistent with the political interests of leaders at the time. This raises a number of issues and questions. First, it highlights the importance of considering political motives that drive and shape reform; it is not sufficient for studies of power sector reform to only consider politics as a barrier or obstacle to reform. Second, the role of politics in driving reform in Fiji inevitably suggests that the capacity for donors to excerpt influence over reforms is limited. Third, this raises the issue of whether, and to what extent, reforms are replicable. Can reforms be replicated given that they are the outcome of political struggles for power? Under what circumstances? What does this mean for Fiji as a model of power sector reform for other Pacific SIDS?

5. Conclusion

Power sector reforms have achieved mixed results and have not been implemented in their entirety in the majority of developing countries, despite the activities of donor organisations. Studies of power sector reform note the importance of political obstacles when explaining this lack of success. These studies emphasise political resistance to increases in electricity tariffs and the presence of vested interests that are opposed to reform. Unrealistic expectations among governments in developing countries are also said to have played a role; the failure of reforms to immediately address power sector crises often resulted in policy reversals.

Power sector reform in Small Island Developing States (SIDS) of the Pacific has been limited. Fiji is an exception, and is now considered a model of power sector reform for other Pacific SIDS. This paper has argued that power sector reform in Fiji has been driven by political economy factors, with both political instability and clientelism being of importance. Ethnically-based clientelist politics, or politics based on exchange between political patrons and their supporters, motivated power sector reform under the SVT and SDL governments. Subsequent reform by the military government has also had political objectives, or at the very least, involved political benefits. Political instability meanwhile has led to some spectacular policy reversals, as occurred in the case of the unbundling and subsequent re-bundling of the FEA.

The modest success achieved during the second period of power sector reform in Fiji has occurred in a difficult political environment. Particularly notable is reform of the FEA, which, under a new board of directors, increased its efficiency and reduced power losses. Productivity improvements were achieved despite the counter-productive affirmative action policies of the SDL government. The military government has built on the reforms of the SDL government, establishing an effective independent regulator that has increased electricity tariffs so that they better reflect economic costs. Much-needed private sector investment in the sector is also being encouraged through higher feed-in tariffs and the partial privatisation of the FEA.

A second phase of power sector reform in Fiji has therefore been implemented effectively within an environment of political clientelism and instability. This paper has argued that politics is central to understanding reform in Fiji. Reforms succeeded not despite politics, or in the face of political barriers, but because of politics. Reforms that were implemented were aligned with the political objectives of successive governments operating in an environment of political clientelism. The support of the SDL government against vested interests was instrumental in the successful reform of the FEA by its new board. The military government similarly had political incentives for establishing effective independent tariff regulation and encouraging private sector investment in electricity supply.

The muddled road to power sector reform in Fiji demonstrates that reform is possible within difficult political environments. However, it is challenging, takes time, and is not predetermined or guaranteed. Because reform is inherently political, it is difficult to replicate, raising the question of the extent to which Fiji can serve as a model for other SIDS. Reform is also not something over which donors are likely to excerpt considerable influence. The Fiji experience, above all, highlights the need for studies of power sector reform to direct greater attention toward political drivers behind reform. The political motives that shape and drive reform are proof that it is not sufficient to consider politics only as a barrier to reform.

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