

## Energising the energy sector

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BAHANGLADESH'S development efforts are constrained by an energy crisis characterised by a growing deficit in power and gas supply. Unless addressed, this will slow down industrial operations, jeopardise trade and economic growth; trigger political instability and cause significant deterioration in citizens' quality of life.

The chapter on energy in the "State of Governance in Bangladesh 2009," produced by Institute of Governance Studies, Brac University, argues that the quality of governance in the energy sector is marred by: (1) political considerations; (2) short term planning horizons of successive governments; (3) lack of incentives for bureaucrats and the private sector and the (4) absence of an effective regulatory body.

It does not attempt to examine all pertinent areas of the energy sector where governance may play a pivotal role, but focuses instead on how governance, or lack thereof, impacts the institutional and policy framework, supply constraints and reform implementation in the power and gas sector. Even though the majority of the nation relies on the consumption of traditional biomass fuel, electricity and gas access is essential to industrial development, economic progress and improvements in household quality of life.

When specifically examining the current situation in the electricity and gas sector separately, the chapter makes more nuanced arguments regarding the reasons for and outcomes of governance gaps. It notes that poor electricity sector performance over the past two decades has been due to the unavailability of domestic capital for financing long-term investment, lack of institutional capacity for efficient production, poor management procedures, limited specialised knowledge in key policy making positions, and low employee commitment.

It singles out increased private sector participation in electricity production and the establishment of the Bangladesh Energy Regulatory Commission (BERC) as the two main positive outcomes of electricity reform, observing that both of these developments are potentially transformational for the sector.

However, the analysis shows that the precedence of political considerations over operational efficiency, the lack of bureaucratic incentives for accountable and competent job performance, and the absence of effective regulation have hampered performance in the sector. The electricity crisis is closely linked to a severe shortfall in gas, the most important source of commercial energy in the country. It is the lack of incentives for international oil and gas companies (IOCs), bureaucratic planning failures and adoption of misguided policies and once again, the primacy of electoral considerations driven by a populist agenda that impedes efficient gas production and distribution.

The government has so far taken a mix of long,

medium and short-term measures to tackle the energy crisis. With regards to increasing gas supply, it has initiated the process of natural gas exploration in offshore boundaries and withdrawn a nine-year injunction on inland gas explorations by international oil companies under production/profit sharing contracts (PSCs). While these steps are positive and will ultimately result in augmenting the national gas supply, they are unlikely to ameliorate the short-term gas shortage.

The power shortfall is being addressed via the implementation of upcoming power generation projects (many of which are surprisingly gas-based) and marginally increasing the electricity tariff to provide greater sectoral income for the government. However, price increases generally are not an effective supply-side response to a shortage.

Additionally, the government is engaging in energy management through a variety of measures, such as holding bilateral talks with other countries regarding energy import and trying to attract foreign direct investment through international road shows. These energy management strategies have been perceived as ill-conceived and unlikely to have long-term effect on the energy crisis, whereas the impact of the road shows is yet to be publicly disclosed.

Although the current government inherited the energy crisis, its initiatives have not addressed the core problem of poor governance of the sector at all levels. While it may be still early to state whether or not the government will be successful in fulfilling its vision for making electricity available for all by 2021, there exist some serious concerns regarding the current state of the sector.

The chapter provides the following specific citizen-centric recommendations:

- **Planning and coordination:** The energy sector needs to adopt a comprehensive, coordinated, pragmatic and long-term master plan that articulates the national energy vision and implementation strategy, in line with resource availability and citizens' interests. The planning process should be inclusive of all stakeholders, so as to maintain political continuity as the timeline for dealing with the crisis, and will span several electoral cycles. An important lesson learned from the gas crisis is that production planning for each energy source should be based on resource availability and that there should be greater coordination among the institutions. The government's best option in the short-term is to enhance Petrobangla's gas production by improving technical efficiency and investment, and strengthen efficiency in existing plants. In the long-term, new gas fields should be explored and the coal sector developed.
- **Policy implementation:** Rigorous and responsive policy monitoring is vital for ensuring faster and more complete implementation of sector programmes that address public needs. Since implementation is often dis-



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rupted by lack of political commitment and frequent change of leadership within institutions, there needs to be greater dialogue and transparency in discussions on controversial policy issues, such as energy trade and foreign investments. Parliamentary engagements need to be more relevant, better informed and inclusive. Given the prevailing discord between political parties in government and in opposition, increased participation of a wider audience will lend political support, reliability and legitimacy to the policy process and outcome. Furthermore, it will improve information base for potential private investors.

- **Package of incentives:** An endemic problem in energy sector service delivery has been the failure of accountability mechanisms, i.e. the absence of checks and balances and a responsibility-reward method for the enforcement of good governance. For any reform to be successful and ensure operational efficiency, the bureaucratic incentive structure must be aligned with the intended outcome of the policy/overall reform. Designing the right policy and institutional framework would require an incentive package which will limit frequent staff/management transfer, appoint qualified staff and align wages with performance. It is vital to create incentives to attract private and foreign investments. Since lack of an assured market was a disincentive for IOCs, it is important to design PSCs that offer more flexible options while still protecting national interests. The process by which IOCs are selected should be a more transparent and inclusive one.
- **Strengthening regulatory capacity:** While there have been some positive governance outcomes from BERC's interactions with citizens, the Commission needs to resolve its own governance deficiencies that undermine its relevance. In order to win citizens' confidence as an institution that regulates fairly and responsibly, BERC needs to gain institutional capacity and authority in order to be able to ignore political influence. Greater transparency, independence and accountability in

decision-making, e.g. regarding staff appointment and verdicts of hearings, would bring the BERC's activities closer to fulfilling its mission to improve citizens' access and experience of energy provision. Some of this could be achieved if BERC implemented the Right to Information Act 2009. Given that consumer groups in the energy sector have demonstrated the ability to act in an organised manner, implementing the Act would provide unprecedented opportunity to further empower the citizens. This would improve BERC's responsiveness to their needs and eventually build an environment of trust between the service providers and consumers.

- **Commitment to change:** To free the energy sector from politics and agendas will require strong political commitment to enforce all the necessary governance reforms. Additionally, the operating companies and the regulatory commission should have the required autonomy so that important decisions are not made on their behalf by the Ministry or through political considerations, resulting in is greater structural clarity. Removing vested interests from energy sector operations and regulation would allow faster policy implementation, better institutional coordination, and ultimately more citizen-focused service delivery. Functional autonomy of energy entities is essential in resolving the chronic underpricing of energy. Removing governance bottlenecks that support artificially low prices is essential in providing the right market signals to stakeholders in both the private and the public domain. This will not only allow the market structure to attain greater efficiency and transparency, but will also help the reform agenda by promoting greater commercialisation of state entities. However, care should be taken to ensure that the majority of citizens are not priced out of gaining or retaining access.

The chapter finally stresses that there is no quick solution. Rather, it will have to be a long-term, concerted effort by all stakeholders, and the citizens should accept that the process will not be painless.

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## Metternich's World

### Frisking ambassadors, feeling happy

SOMETHING is pretty troubling about the way America treats foreigners. It is understandable that the country will be concerned about its security, especially against a background of the tragedy which happened in September 2001. It is not understandable, though, why every non-American must be considered a potential terrorist, a purveyor of some of the most sinister ideas in the world.

People who travel to America these days come back to tell us, as a matter of routine, of all the unsavoury treatment they are subjected to at airports in that huge country. If that is indeed the case, one wonders how terribly embarrassed and humiliated a traveler to America might feel or how unreasonable the fears of humiliation being heaped upon him will be, those that may cause his heartbeat to register a rise.

Frankly, however, it is time for the United States, for its government, even for the fanatical right wing which these days commands so much attention in the American media, to rethink their entire approach to how they deal with foreigners, both those arriving at their airports and those who happen to be within American territory itself.

The sordid treatment that was meted out to India's ambassador to the United States at an American airport last week is surely an outrage that Washington should have swiftly dealt with. Meera Shankar was frisked by US security after being singled out in a queue only because she was attired in a saree.

Of course, it is normal for over-enthusiastic security to make mistakes as they plod through their daily grind of keeping America safe from any threat, real or imagined. But to turn a mistake into a blunder, as they did in Meera Shankar's case, by ignoring the fact that they are mistreating the chief representative of another country is unpardonable. There is something called politeness. There is another thing called diplomatic norms. In the Indian ambassador's case, both went missing. In the end, it was an angry India, followed by angry people outside everywhere, that came up as the image. But was the US government embarrassed?

From the evidence, it does not appear that the White House or the State Department at all feels terrible about what has happened. Washington has expressed regret, which is not quite the same thing as offering an apology. You might be tempted to ask if America has ever, if at all, said sorry to any other nation for what it may have done wrong. Think of the Tonkin crisis of 1964 or the bombing of Cambodia in 1970. Not so long ago, security related to an American airline felt no qualms at all about frisking India's former president A.P.J. Abdul Kalam at an Indian airport. Which raises the question of whether all this concern for security has led to a jettisoning of all forms of civility in post-2001 America.

The actor Shahrukh Khan goes through a humiliating ordeal on arrival in America. Why isn't there someone in America, someone on the higher perches of government in Washington, to remind their security employees that there are perfectly respectable people even outside America, that they too have their dignity?

Imagine the huge uproar that would result if any American diplomat were stopped at an airport outside the United States and subjected to interrogation. How would George W. Bush react if an Indian airline told him he must be searched for security reasons? What will Tom Cruise do if on arrival in Mumbai he is treated to a gruesome session of questioning by Indian security?

The trouble with those that are powerful is that very often they lose sight of perspective. There is in them a huge urge to topple (and hang) men like Saddam Hussein and yet there is not the slightest interest in them in promoting democracy in places like Egypt and Saudi Arabia.

Diplomacy is always diluted by arrogance. In the Meera Shankar case, US Homeland Security Secretary Janet Napolitano has demonstrated that arrogance, in all its irritating brilliance. She thinks frisking the Indian ambassador was done by the book, was appropriate. A message here for other foreign diplomats based in Washington? It could be something like this: your diplomatic immunity is not enough when you travel through post-Dubya America. You are like everyone else.

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## Lessons from Malaysian model

The key lessons of the transformation of Malaysia need to be studied with an open mind to see to what extent we can apply the Malaysian model in transforming our country into a developed one in the context of our own unique historical, political and socio-cultural experience.

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MALAYSIA is generally viewed largely as a destination for Bangladesh manpower, which is only an element, though an important one, in the context of our overall bilateral relationship with Malaysia. My purpose is to try to focus on a wider perspective -- the Malaysian model of democracy and development.

The key lessons of the transformation of Malaysia, a Muslim majority Asian country, into a tolerant, democratic and developed country on the bedrock of a vibrant private sector and enlightened educated intelligentsia need to be studied with an open mind to see to what extent we can apply the Malaysian model in transforming our country into a developed one in the context of our own unique historical, political and socio-cultural experience and milieu.

In its quest for building a tolerant democratic society the racial riot of 1969, when a mob of Malays attacked the Chinese over an election result, was perhaps a turning point. It could have signaled the beginning of the end of Malaysia's nascent democratic multiculturalism but for the sagacious decision by the Malaysian leadership belonging to all the parties to forge a national consensus to learn from the lessons of the racial riot and, based on these, evolve a way forward to achieve racial harmony.

It was decided that the sense of injustice and inequity felt by the poor and backward Malays had to be remedied through affirmative political and economic action programmes in a manner that would not alienate the Chinese minority, which occupied an important position not only due to its significant numbers but also due to its

control of the levers of economic and financial power.

Instead of taking the wealth away from the Chinese and redistributing it amongst the Malay majority to remove the economic disparity the political leadership decided to go for massive economic development to enlarge "the cake of prosperity." Though considerable success has been achieved the fault lines of Malaysia continue to be ethnic and religious cleavages, which may, if wrong policies or actions are taken, reignite the racial violence and conflict.

I feel Bangladesh can draw some useful lessons from Malaysia's model of democratic multiculturalism by granting constitutional recognition to the rights of the indigenous people, which will ensure their greater and more effective participation in all institutions -- public and private. Though they are relatively small in number, this will enable them to contribute more meaningfully towards peace, stability and economic development of Bangladesh.

Chittagong Hill Tract (CHT) and Bandarban, among others, could be converted into major tourist attractions. CHT is of crucial strategic importance. Time has come to put a decisive end to the protracted conflict in the CHT through a just, fair and peaceful political resolution based on national consensus and acceptable to all parties involved.

For achieving democracy and development the Malaysian leadership took a number of decisive policy decisions and implemented them. In enforcing the rule of law the leadership clearly grasped the wisdom of Abraham Lincoln's assertion that "there is no grievance that is a fit object for redress by mob law."

What is of importance is that Malaysia

has largely succeeded in achieving a degree of internal peace and security, which has made it safe for its citizens and visitors alike. Significantly, one does not hear reports of sexual assaults, extra-judicial killings, remand and torture in police custody and so on. It is felt that Bangladesh can draw useful lessons in its effort towards ensuring rule of law, internal peace and security.

In its drive towards achieving democratic governance and development, Malaysia gives priority to building a tolerant society. Though sixty percent of the population are Muslims, the Malays have been careful not to impose their religious belief on others because of their enlightened interpretation of Islam in keeping with Islam's spirit of tolerance.

We need to direct our energies towards achieving the goal of democratic good governance and development. This would also be our best bulwark against extremism, militancy and terrorism, and towards strengthening the process of building a truly tolerant and open society, raising our image abroad, attracting foreign investors and tourists and, consequently, increasing employment generation.

The Malaysian experience of development and investment is of particular relevance for us. In achieving this goal Malaysia itself learnt extensively from the models of other countries, particularly Japan and Korea. At the time of independence the Malaysian economy was dependent on the production of tin and rubber. But the fluctuating demand for the commodities in the world market and the fact that this did not generate enough jobs for the growing workforce influenced Malaysian leadership to opt for manufacturing industry.

A crucial decision was made to attract foreign investment by offering all forms of incentives. Initially, Malaysia mainly concentrated on setting up export-oriented and labour-intensive industries, which not only led to full employment but also gave scope for employing foreign workers. This strategy helped in accumulation of local capital and expertise to the extent that many components of the manufactured goods of foreign companies

started to be produced locally.

Today, Malaysian companies are manufacturing many products which were produced by the foreign companies. Malaysians have invested in foreign countries and are manufacturing products ranging from household appliances to microchips. Malaysian companies have gone a big way into electronics, telecom, IT, infrastructure, food processing, engineering and other key areas involving joint venture projects abroad.

In implementing the "Look East Policy" of Dr. Mahathir Mohammad, Malaysia enforced work ethics, including work place discipline; punctuality, both in the public and the private sector; full government support to the private sector through excellent government and private sector cooperation; quality control and human resource development. These are some of the significant elements Malaysia borrowed and adapted to its condition from Japan and Korea.

The Malaysian government realised that, since corporate tax depended on the profit made by the private enterprises, it was in the interest of the government to assist the private sector to make as much profit as legitimately permissible. Bureaucratic delays were minimised, and policies and laws were amended to facilitate regular dialogue involving the government, the business community and representative of the workers. On the basis of the feedback received from such dialogues the government was able to take corrective measures.

In Malaysia, topmost priority is accorded to human resource development (HRD) and education, and a considerable amount is spent on education. Malaysians were and are being sent abroad to acquire professional qualifications from the institutions of higher learning. Many universities have been set up, and a huge number of other institutions impart training in various fields. Today, Malaysian engineers, scientists and technicians are working both within Malaysia and abroad. The once cheap labour has been converted into efficient and productive labour.

The learning of English was made com-



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pulsory in primary and secondary levels. Dr. Mahathir bluntly said that "there should be no language chauvinism." This helped the Malaysians to acquire proficiency in English and paved the way for Malaysia's transition to modernism with science and technology, including information technology, forming the foundation of its rise to a modern developed economy and society.

Malaysia has achieved remarkable progress in crisis management. An acid test of this was during the currency crisis, when its political leadership decided to fix rate of the ringgit by taking it away from the basket of international currencies; Malaysia emerged from the crisis stronger than before and the ringgit has become a much stronger currency.

In all these achievements, Malaysia consciously spurned any rigid ideological or doctrinaire approach, and its policies

and actions were largely influenced and driven by enlightened and competent political leadership backed by political will, pragmatism and national interest. Malaysia borrowed and applied, innovated and adapted what best-suited national interest.

Malaysia's model of democratic good governance has made it a force for modernisation and moderation. Its successful transformation from a backward agrarian country to a largely industrialised one offers valuable lessons to the political leadership and to the students of politics, development and diplomacy in Bangladesh and elsewhere.

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