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CREATIVE DESTRUCTION? ENERGY POVERTY AND THE DOUBLE-EDGED ROLE OF THE PRIVATE SECTOR

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The role of the private sector (and particularly that of transnational corporations) in the achievement of international development objectives has long been a focus for academic debate and the source of much controversy. Recently, the dominant perspectives on international business have shifted from an often antagonistic questioning of the impacts and intentions of transnational investment in the developing world to an increasing engagement between international institutions, governments and corporations and strong advocation of market-led private sector solutions over state intervention and regulation. Most recently, there have been calls for a deepening of engagement with the international business sector as a way of dealing with the problems of development finance, in particular meeting the Millenium Development Goals.

Whilst the importance of further explorations of the ways in which state and private sectors can best complement each other in achieving development objectives is clear, this paper is intended to sound a word of caution about these developments. In particular, questions need to be raised about the contrasting impacts of different types of private sector engagement in development and the importance of understanding the political and historical context of market reforms and the promotion of transnational investment. The paper argues that blindness to context has led to the dominance of a corporatised form of privatisation that too often stifles the potential of more localised embodiments of the private sector.

These arguments are developed within a broad discussion of private sector participation in the delivery of basic services, before attention is focused more specifically upon the energy sector. Nicaragua is used as a case study to illustrate the non-technical barriers to local micro-, small and medium enterprise participation with a particular emphasis on renewable and alternative energy.

Introduction[1]

The international business sector is increasingly being heralded as the solution to the problems of development finance and the seeming inability of decades of international development activity to achieve significant changes in the circumstances of the majority of the world's population.[2] More critical voices, however, have long pointed out that development is about far more than encouraging economic growth and have questioned the relationship between the meeting of development objectives and the pursuit of profit central to the activities of private companies. Such questions connect debates about development into the complex academic literature on Corporate Social Responsibility (CSR) and assessments of the degree to which large-scale corporations are able to act in ways that are beneficial to their stakeholders (suppliers, workers, neighbours, consumers) as well as their shareholders.

Institutions such as the UN, previously cautious regarding the potentially negative impacts of transnational corporations (TNCs) in developing countries, have developed a series of partnerships with major corporations since the mid-1990s designed to encourage businesses to act in responsible ways (via voluntary CSR-related activities) and to use their resources in development promoting activities (e.g. through philanthropic giving). It should also be pointed out that this policy of corporate partnerships has its critics.[3]

Most recently, however, there have been calls by donors and sympathetic observers to look at the relationship between the international business sector and development objectives through a broader perspective than that provided for by CSR.[4] These calls have focused upon clarifying how international capital might contribute towards development objectives through core corporate activities. In other words, whilst to date much of the activity surrounding the role of the international business sector in development has focused around philanthropy and the amelioration of negative impacts or helping corporations to conform to external or social norms and regulations, it is now being suggested that the day-to-day economic activities of corporations can themselves contribute to meeting developmental goals via more inclusive business models.

These new business models create value by providing products and services for or sourcing from the poor. Ashley[5], for example, lists a series of levers or business functions addressing key development objectives via such inclusive business activities. These include: technological breakthroughs and innovative retailing developments to reach bottom of the pyramid customers, connecting small and medium enterprises into supply chains as vendors or suppliers, offering enhanced working conditions and training and coordinated infrastructural development with state institutions.

Clearly, not all business activities can be development-friendly and those advocating this kind of approach recognise that the evidence base concerning the developmental impacts of private sector activity is relatively thin.[6] There is a problem with this, however. Those advocating such approaches frequently mention these limitations, as well as the importance of developing mechanisms for expanding and enhancing the contribution of local medium, small and micro enterprises (MSMEs) to development objectives rather than just enhancing the opportunities for large-scale corporate involvement. However, in practice what results is too frequently a further call for easing and facilitating the opening up of economies in the developing world to transnational investment.

Within this context, therefore, this paper contributes to the current re-evaluation of the role of the international business sector by providing a deliberately provocative warning about some of the inadequacies of a naive championing of international investment as a solution to development problems. Our contribution centres around the specific case of the delivery of basic services and what could be termed the corporatisation of pro-market policies. The types of privatisation processes promoted by the international financial institutions (IFIs) have formed the spaces of engagement for services in such a way that local capital channelled through MSMEs has relatively restricted chances of participating, for the sake of a transnational involvement of sometimes dubious impact. The paper explores these issues through a discussion of the provision of energy services, deepening our analysis through a specific case study of the situation in Nicaragua. Before considering those particular issues, however, it is worth beginning with some general observations about terminology and scope.

First, there is a need to clarify what is meant by the international business sector and private sector involvement in development more generally, because the defining line between public and private in these days of private/public partnerships is far more blurred than a couple of decades ago. Across a range of different countries in Latin America the private/public divide has ceased to be defined (if it ever was) by arbitrary division into state and private according to clearly defined functions and symbolic hierarchies. Instead, these economies are dominated by the complex interactions of processes of power and control between private and public spheres, themselves directed by clientelistic actor-networks representing a variety of elite interests and motivations. It is important that this is borne in mind in the discussions below because it is perhaps above all in the area of basic service delivery where the traditional distinctions between state and private sector are most problematic. An example of this would be in those countries where there are single (or a small group of) private sector companies operating as if they were state monopolies where contracts have frequently been awarded on the basis of intricate relations of patronage between private companies, political party members, state officials and/or elected representatives.[7]

Second, there is the question of the relative size and dynamics of individual private sector companies. Many of the current debates about the role of the private sector in development, either explicitly or by implication, focus upon the activities of large-scale corporations with a global reach. Large corporations are, however, plainly not the only embodiments of the private sector – the bulk of individual companies in any country of the global South are much smaller in size. Clearly, larger and smaller private sector organisations alike behave in very different ways, have very different relationships with their employees, suppliers, customers etc. and therefore have very different implications for local economic development. In the energy sector, moreover, there are a lot more similarities and points of convergence between the NGOs (non governmental organisations) and MSMEs working in the field of renewables than there are between the small enterprises and the giant corporations such as Union Fenosa working in the sector.

There are also important differences between the larger-scale companies themselves in terms of their size, dynamics, origins and above all questions of national ownership. The insistent advocation of the merits of the private sector over the state by the IFIs over the past couple of decades has ignored issues such as the potential impacts of foreign ownership of key industrial sectors or basic infrastructure (even though such issues have been debated for decades within development studies) and the *de facto* crowding-out of small-scale capital and MSMEs by the corporatising of privatisation. Private sector ownership in developing countries has always had an international dimension to it, not least due to colonial legacies. But recent decades have seen significant qualitative changes in this regard as a result of ongoing globalisation processes, the concentration of commercial and financial power that has accompanied them and the privatisation and liberalisation policies of the economic reforms programmes applied as loan conditionality by the IFIs. There has clearly been a close connection between the neoliberal economic reforms enacted across the South over the past two decades and the strategic interests of TNCs in entering new markets, removing barriers and enhancing their market share. The processes of deregulation, privatisation and liberalisation have not so much increased the size of the domestic private sector relative to the public sector in developing countries, so much as (in many instances) increased the amount of foreign ownership and the intimacy of elite economic links to transnationals, to the extent that some commentators have talked about privatisation as a form of denationalisation.

Services and the private sector

What then should be made of the historically polarised debate between the detractors and advocates of international business involvement in development and of the de-politicised nature of the promotion of the private sector as the solution to development problems? This section of the paper discusses one of the main current arenas of intense debate over these issues: the role of the private sector in the provision of basic services such as telecommunications, water, electricity, education and health. This is of particular interest and importance given that the service sector has been the major focus of liberalising and privatising impulses from donors and IFIs recently.

As pointed out elsewhere[8] it is difficult to over-emphasise the size and importance of the service sector, particularly for the informal economy and to the areas of that economy in which female employment is the most substantial component. Service sectors comprise about two-thirds of all economic activity and about 70% of production and employment in wealthy northern economies.[9]

Sinclair defines services as any "product of human activity aimed to satisfy a human need, which does not constitute a tangible commodity".[10] It is this breadth of inclusion that make services simultaneously so potentially profitable to private commerce and inclusive of the vast mass of activities on which the poorest people, communities and businesses depend for subsistence.

The World Trade Organization[11] argues that service sector liberalisation will give consumers in the global South greater choice of supplier, a better quality of service (particularly in relation to improving access to global service providers with high quality products) and also opportunities to develop and expand their own services exports. State investment in basic service delivery (and the quality of service provision) is frequently very low in many parts of the developing world, but is the liberalisation and privatisation of these sectors axiomatically going to ameliorate this situation? Despite the rapid expansion in the flows of private finance to the South during the 1990s, the lowest income countries have generally struggled to attract private investment and most of that has been associated either with extractive industries and large-scale infrastructure projects or service sector projects cherry-picked for profitability. The UK Department for International Development (DFID) has analysed how flows of private finance to the developing world have diminished since the late 1990s and how private investors have become increasingly risk averse:

> The collapse of the PPI [public-private investment] market is not just due to the withdrawal of foreign direct investment but to the lack of opportunities, due to failed utilities, poor regulation and lack of public and aid funds for projects.[12]

Figures for investment commitments in developing countries presented in the *World Development Report* of 2004 also show a substantial decline since the late 1990s. The extent of this decline varied regionally but it does sound warning bells about the likelihood of the international business sector providing sufficient finance in the immediate future to improve the provision of basic services to the world's poorest people. This situation has substantially worsened since the 2008 financial crisis.

Leaving aside the question of the interest of international business in stepping up its involvement in providing basic services in the South, another major problem with the WTO's position is the argument that service sector liberalisation will provide opportunities to develop the capacity of Southern providers of services both within their own countries and also as exporters.

The problem with this theorisation is that high-income countries already dominate many of the most important service sector markets, backed up by a powerful financial services sector adept at providing finance structured and targeted towards giving a substantial competitive advantage. The restrictions on service sector organisations from the South participating in this market are already in place, composed as they are of existing financial services actor-networks controlling the relational space in which the General Agreement on Trade in Services (GATS) will operate.

This should be added to the examples cited in the literature of significant difficulties associated with earlier privatisation initiatives. They include the liberalisation of energy provision under the Suharto government in Indonesia; the development of power purchasing agreements in Pakistan in the 1990s and the development of the Dabhol power company in Maharashtra state in India. Analysis of these projects and the processes by which they were conceived, planned and implemented gives ample evidence of the complex relational spaces and processes which have characterised large project privatisations and determined their impacts; yet these seem to be lessons that the WTO appears determined to ignore.

Other international financial institutions, however, have been more robust in their exploration of the factors affecting the success or failure of privatisation initiatives. The World Bank in reviewing private public partnerships from 1994 onwards identified a series of problems with private finance initiatives including: cherry-picking of projects, private sector fiscal dependency on the state, currency and exchange risks, unplanned-for environmental and social costs and collusion between bidders and sectoral oligopolies.[13] Through the GATS process, the WTO appears to have taken all of these pre-existing empirical realities, done nothing to resolve them and set them in a new legal superstructure in which obligations and restrictions on the state are multiple and onerous, those of the private sector are minimal and local communities have no say.[14] This domination of negotiated financial space generally acts to crowd out small-scale local businesses and capital investment (as we point out below in the case of the Nicaraguan energy sector), in the process frequently concentrating processes of monopolisation, cartelisation and corruption.

This takes on even greater significance in the context of the delivery of basic services. As the Citizens Network for Essential Services (CNES) says: "A different economic logic pertains to basic infrastructure services than to other public goods… because basic infrastructure services are typically structured as natural monopolies…. A different financial logic is also called for”.[15] Our attention needs to be focused not on ideological contestations as to the supremacy of state or market, but rather on the spaces of regulation shaping the environment within which service delivery occurs. We also need to consider how this affects the interests and needs of local communities, the quality of the services that they receive and the degree to which local businesses and capital might be allowed to function and invest in their own localities.

Clearly then, a substantial contributor to the failures of service sector liberalisation to achieve the desired improvements in basic service delivery has been a widespread governmental and institutional failure in regulation and in analysing and forecasting, indicating substantial problems of understanding, planning and implementation. In more detail, DFID identifies what it refers to as the main barriers to successful PPI projects as being:

> …the lack of an appropriate enabling environment (policies, laws, regulations and institutions) and the weak capacity of the public sector to support and engage with private sector involvement.[16]

In other words, strong, accountable and transparent governance are the necessary but not sufficient preconditions for ensuring that private investment can flourish.

Lessons from the World Bank's *Extractive Industries Review*

Interestingly, these pronouncements concerning the necessary conditions for successful private investment received support from the World Bank Group's *Extractive Industries Review* (*EIR*) of 2004, a report which itself attracted a degree of controversy when it was published. The *Review* arose as the result of the growing controversy over the resource curse,[17] which basically referred to a claimed tendency for developing countries with an abundance of natural resources to grow more slowly. The similarities between the extractive industries and services are multiple: a sector in which TNCs control the market and operations, which is dependent on Northern financial services corporations and on which Northern economies are highly dependent. Europe and the USA accounted for 65% of world services exports in 2009 and China and India between them for only 6%.[18]

During the *EIR*, the World Bank Group came under pressure to abandon involvement in extractive industries because of the enormous social costs and the lack of integrated development that arose from them. The conclusion of the *EIR* however was that the World Bank Group could continue to be involved in the extractive industries only as long as it could meet certain initial conditions.

The Executive Summary of the *EIR* identified specific "building blocks of governance" deemed essential preconditions to participation in extractive industry projects. These included:

- the promotion of transparency in revenue flows;
- the disclosure of project documents;
- the development of capacity to manage fluctuating revenues (and to manage revenues responsibly);
- the provision of help to governments to improve policy and regulatory frameworks; and
- the effective integration of the public in decision-making processes.

In order to ensure that benefits flow to local communities, furthermore, the *EIR* suggested requiring companies to engage in constant dialogue with communities to obtain informed consent, share revenues and to help set up independent grievance mechanisms. In essence the *EIR* made the World Bank Group focus closely on the strongly corporatised political economy of the extractive industries and their asymmetries of power.

All of the issues considered by the *EIR* are also central to the large-scale provision of public services. For instance, the *World Development Report* of 2004 on services goes to some lengths in explaining the relationships of accountability needed to underpin the effective and equitable provision of services. It differentiates between what it describes as the "long route of accountability",[19] where citizens are given a voice through the public sector and a "short route", where citizens make providers accountable through market transactions. Whilst this is clearly an advance on the complete silence on these issues within the WTO's promotion of the GATS process, it does not address the asymmetries between these short and long routes and the impacts of asymmetries of power that exist, not only between providers and citizens, but also between citizens and the state. It is the political economy of privatisation that decides where the power in such relationships lies and which will determine how effective relationships of accountability will be.

Exploring energy issues

This section turns to the specific question of energy and energy services. The energy sector is extremely complex and features a broad range of actors and inter-relationships between private and public spheres; it is also incredibly important in developmental terms. Although little mention is made of energy issues within the specific objectives of the individual MDGs, it is inconceivable that those objectives will be met without significant improvements in the access of the poor to reliable and cheap forms of energy. A short paper of this nature cannot hope to do justice to all the issues involved in a detailed exploration of the relationships between private and public sectors in energy services. This final section of the paper, therefore, limits the discussion to an exploration of one of the major issues identified within the preceding sections and its relevance to the specific question of the delivery of energy services. One of the key observations of the preceding section was the distinction between the corporatised processes of privatisation under neoliberal reform programmes of the 1980s and 1990s, and the involvement of the private sector *per se*. The flows of politico-financial power that fuelled the wave of rapid globalisation up to 2007-2008 enjoyed a symbiotic relationship with rapidly evolving global services and financial services structures. This effectively extractive development of global financial services for corporate use was juxtaposed to a substantial global lack of basic banking services for MSMEs and other informal economy actors, through which aspects of accountability and effective service provision would have been far more amenable to citizen control.

How do these issues relate to an energy sector which appears dominated by technocratic discussions of large-scale national distribution systems, hydroelectric mega-dam projects, mineral extraction and large-scale power generation? The answer is that there has long been a discussion of the important role of MSMEs within the delivery of basic energy services, particularly to the very poorest. DFID, for instance, identifies evidence suggesting that "decentralised and small-scale energy services are best delivered by small and medium size enterprises (SMEs)". It continues:

> Local SMEs, financial markets and communities can reduce political and foreign exchange risks, handle specific managerial challenges, such as revenue collection, and develop decentralised energy systems. SMEs are likely to be more flexible in the use of technology, use locally available resources, and to integrate better into the local social fabric.[20]

DFID also identifies a range of barriers to investment by SMEs in energy provision. They include: problems of legal and regulatory frameworks, anti-SME market rules, lack of entrepreneurial experience, high development/market costs, difficulties in accessing finance, discriminatory banking regulations, high commercial risks, limited knowledge of best practices and prejudiced cultural perceptions of off-grid/alternative energy provision.[21] To this list we would add a panoply of other, less-measurable non-technical barriers. These include relational spaces of power within a given socio-cultural environment, particularly those areas concerned with flows and processes of politico-financial power between the state, local elite groupings, service TNCs and national and international financial services actors. The next section explores the interplay of these issues in more detail through a discussion of the dynamics of electricity generation in Nicaragua.

Energy production in Nicaragua: hydrocarbon dependency and energy corruption

The authors held a series of workshops in February and May 2008 in Nicaragua and in October 2008 in Guatemala.[22] When we invited the business, local government and civil society participants to compile the lists of non-technical barriers to the promotion and use of alternative energy, we were struck by the way the same topics kept coming up. These included:

- weak national regulations on the use and production of renewable energy;
- lack of state promotion or understanding of renewable energy;
- lack of incentivising financial policies;
- the often corrupt relationship between state organisations and officials and electricity producers and distributors;
- the superior lobbying powers and political access of hydrocarbon producers and distributors;
- the tendency for external aid and finance providers to work through the state and large producers; and
- the lack of interest in renewable energy amongst those responsible for the education system.

The general theme running through all of these is that they are relational aspects of electricity production and distribution revolving around the business sector/state relationship and the political, legal and jurisdictional structures erected around the supply and distribution of electrical power. In other words, the central issues were not an assumed dialectic between a public/private binary. Rather they concerned what the relationship between state, civil society and the private sector should be, with a central theme of overcoming a state/elite/corporate cartel in electricity production and distribution which excluded local MSMEs and local capital.

Historical background

The alternative energy sector in Nicaragua has been intermittently state- and private-sector dependent and has undergone substantial fluctuations in importance. During the 1940s electricity in Nicaragua was generated by small privately-owned steam and hydroelectric generators. During the 1950s the planning began for the first large, state-owned hydroelectric plants, which by 1963 were producing some 82% of the national electricity supply.[23] Renewable energy supply peaked with the further development of hydroelectric power in 1976 under the Somoza dictatorship, but since then it has undergone a substantial decline under both the strong state intervention of the revolutionary government of the 1980s and the open economy, free market structural adjustments mandated by the IMF (International Monetary Fund) after 1990.

During the 1990s electricity generation and distribution were prepared for privatisation under the assumption that this would be the best way to improve efficiency, reduce prices and also expand access amongst the poorest sectors. In 1994 electricity distribution was separated from the other parts of the energy system and eventually in 2000 bought by the Spanish TNC Unión Fenosa – it was the only bidder.[24] Generating capacity was also largely privatised during the same period to a mixture of local and international companies.

The hoped for improvements from the privatisation of the generation and distribution of electricity in Nicaragua have certainly not materialised. For example, whilst total installed capacity had reached 775.09 MW by 2007 (nearly 3% more than in 2004), effective capacity has been hostage to the investment regime dominant since 1990. Thus, whereas in

2000 the effective installed capacity was 550 MW and the maximum demand at that time 400 MW (resulting in a gross reserve of some 150 MW), by the first quarter of 2007 maximum demand had reached 500 MW, whilst the effective installed capacity had declined to on average 450 MW.

Implications

Because of the socio-historical development of electricity production and distribution in Nicaragua before and after privatisation, at the time of writing only slightly more than half the population has access to electricity, a percentage which has increased only slightly since 1980.[25] As a result of this and the physical and political limitations to the development of a national grid distribution system, actual per capita electrical energy consumption is also directly linked to income, with as much as 70.3% of the population in 2005 using between 0 and 100 kilowatt hours. ECLAC (Economic Commission for Latin America and the Caribbean) figures suggest that the electrification rate in Nicaragua for the access of the population to electricity was 48% in 2005 (compared with 97% in Costa Rica, 87% in Guatemala, 80% in El Salvador and 63% in Honduras) and in 2002, 2.8 million Nicaraguans had no formal electricity supply.[26]

By direct contrast to this dependence on hydrocarbons, CNE[27] (Comision Nacional de Energia) estimated that in Nicaragua the potential for hydroelectric power alone to be 1,760 MW, along with 200 MW for wind power, although a 2003 analysis by SWERA (Solar and Wind Energy Resource Assessment) suggested a potential for wind power far higher than this 1980 estimate. CNE also estimated Nicaragua could generate 1,000 MW from geo-thermal sources and 100 MW from biomass. This does not even include estimates for solar power and these estimates, based on specific project ideas, are likely to be low. Table 1, using figures from MARENA, the Nicaraguan Ministry for Agriculture, Natural Resources and the Environment, shows the glaring gap between actual and potential use. Nicaragua is using a mere fraction of its potential in alternative energy sources, therefore, and the total power production from those sources has been severely eroded since the era of the Somoza dictatorship.

Table 1. Renewable energy potential estimates versus actual use in Nicaragua			
Type of generation	Potential (MW)	Effective capacity (MW)	Percentage utilisation
Hydroelectric	3,280	98	3.0
Geothermal	5,000	37	0.7
Aolic	800	0	0
Biomass	200	60	30
Total	9,280	195	2.1
Source: MARENA, Nicaragua's Minesterio de Ambiente y los Recursos Naturales			

It is difficult to exaggerate the detrimental economic effects of an increasing dependency on hydrocarbons for this small country and its tiny population. Despite recent falls, the rising international prices of petrol over the past few years have seriously affected the costs of production, whilst interruptions in the supply of electrical power have taken place with increasing frequency since Unión Fenosa began operating in Nicaragua. This combination has provoked both steep rises in internal prices and reduced household disposable income.

An increasing dependency on hydrocarbons transmits directly into household budgets: in 2007, inter-annual inflation (13.8%) increased significantly with respect to that of 2006 (9.4%). This related above all to the international prices of petrol, affecting the internal prices of fuels, electric power and transport. Throughout 2007 the Nicaraguan economy experienced a weakening of internal demand owing principally to the high international prices of petrol, with repercussions for production costs and concomitant interruptions in electricity supply. In addition, apart from Honduras, Nicaragua has the highest intensity-through-inefficiency of productive energy use in Central America, its electricity consumption per unit of GDP being 3.7 BEPs per $1,000, by comparison with 1.2 BEP and 1.9 BEP for Costa Rica and Panamá respectively. In terms of competitiveness this puts an already debilitated economy at a distinct disadvantage internationally.

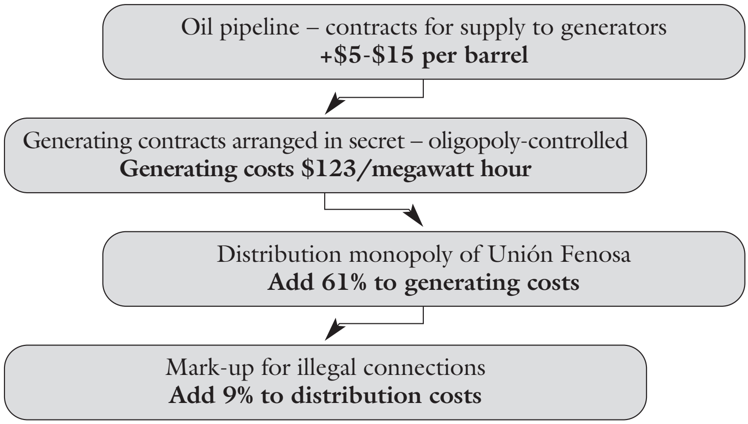
Before the recent concessionary arrangements with Venezuela[28] Nicaragua paid more for its oil than any other

Central American country as a result of the individual contracts arranged by generators to buy and import oil (particularly bunker oil); profit margins were also the highest. This system has evolved alongside the sale of generating plant to the private sector. Each generator secures oil supplies through a supply chain that seems dependent on bribery which, together with the refusal of generators to bargain collectively, is responsible for the elevated costs of fuel oil.[29] In addition, Esso owns the only pipeline bringing oil into Nicaragua and charges $5-$15 extra per barrel of oil refined into petroleum – it would be cheaper to buy it outside the country on the open market. As a result of the above and other factors to do with secret contracts on privatisation and control by elite groups, Nicaragua has consistently had the highest electricity costs in Central America. In 2003 they were $123 per megawatt-hour compared to $117 in El Salvador, $113 in Guatemala, $90 in Honduras and $69 in Costa Rica.[30]

The forms of privatisation introduced in Nicaragua since the first agreement reached with the IMF in 1991 did not introduce the types of corruption that have made the power production and distribution systems so inefficient and malfunctional. But there can be little doubt that they dovetailed into existing clientelistic systems and the interests of local elites, and that the latest phase of the cartelisation of power production over which Unión Fenosa has presided has made things far worse. Putting the distribution of electricity into a monopoly controlled by Unión Fenosa has therefore made electricity even more unaffordable. World Bank figures indicate that electricity distribution adds 61% to the basic generating costs and Unión Fenosa adds an extra 9% for "distribution losses" – Unión Fenosa therefore adds 70% to the generating costs in Nicaragua which seems an extremely high level.[31]

A further substantial contributor to the high cost of hydrocarbons from 1990 has been the increasing concentration of the import market in a few hands. By 2006 Esso, for example, controlled 71% of all of the hydrocarbon imports into Nicaragua by volume and 49% of the market of hydrocarbons sold. This market concentration, combined with virtually no change at all in the capacity for transporting and storing hydrocarbons, has allowed high margins of profit for those controlling these markets, thereby feeding an extremely profitable clientelistic system, as Figure 1 illustrates.

Figure 1. Energy corruption in Nicaragua



Given the massive availability of alternative energy sources which are under-used and whose use has been dwindling, it is difficult to escape the conclusion that Nicaragua is not energy-poor at all – it is resource-rich and energy-corrupt. In the series of workshops referred to previously, energy sector MSME participants expressed frustration with the monopoly of power generation and distribution. They also mentioned a lack of access to financial resources to develop alternative forms of energy generation and distribution, as well as their sense of being locked out of a valuable economic sphere where they could make a major contribution to improving the access of the poor to improved energy services.

The entry of Unión Fenosa into the marketplace, far from opening up choice for consumers and offering more effective service provision, in fact increasingly restricted choice and access whilst at the same time increasing costs. Furthermore, in a country with vast potential in alternative energy and a nascent alternative energy industry with great potential for providing decentralised power supplies for a much-needed rural electrification programme, the take-over of electrical distribution by a powerful TNC has increased the decline of already existing alternative energy projects. At the same time it has, in creating its own legal, jurisidictional and financial monopoly in collaboration with national elite groups, acted to crowd out the very SMEs which could provide vigorous expansion of a decentralised, alternative electrification programme.

To be clear about the implications of this: it is not that the private sector inevitably plays a malevolent role, indeed much of the impetus for current renewable energy initiatives comes from an alliance between the private and NGO sectors regionally. It is rather that the model for universalised, top-down privatisation, driven by the wrong economic model and motivated by multinational agendas, has combined with regional socio-cultural forces and elite interests simultaneously to erode and make more expensive the existing power supply and productive capacity whilst working steadily to exclude potential alternative/renewable energy sources. It has, moreover, created an expanding oligopoly system of elevated tariffs, subsidies and arbitrary billing[32] which the poorest cannot afford.

Conclusions

Hopefully, the issues explored in this paper will raise some questions about the claims currently being made for the potential role of the international business sector in meeting developmental objectives such as the MDGs. At the same time that flows of private finance to the South have continued to dwindle, a global economic crisis must also be factored in which can be expected to have an additional, severe impact, with concomitant effects on employment, productivity and the provision of basic services. The World Bank's World Development Indicators for 2009 point out how skewed private investment and FDI already are:

> In 2007 high-income economies received about 75 percent of global FDI inflows. The 12 largest developing economies received more than 66 percent of the remainder, with China alone receiving nearly 26 percent. Low-income economies received a mere 1.5 percent of global FDI…[33]

These patterns will not change because of the economic crisis. The largest services/financial services TNCs will be anxious to recoup profits to cover lost assets and share price as cautiously as possible. At the same time, as the World Bank also reports, the financial crisis originated in the high-income economies which dominate global services and so the consequences for spending and investment are likely to be severe as credit availability is greatly restricted and global demand for the majority of goods and services has weakened.

The ideological commitment to liberalisation, privatisation and the promotion of transnational investment which has largely dominated development agendas over the past couple of decades, has acted to close off "spaces of services modernity" effectively from local capital and MSMEs. At the same time, there is substantial, under-used and excluded commercial and financial capacity within developing countries, particularly within the vast mass of MSMEs working in and around the informal economy. De Soto, for example, argues that the 92% of businesses, 76% of rural properties and 65% of the dwellings in 12 Latin American countries regarded by the ILD (Instituto Libertad y Democracia) as being in the informal or "extralegal" sector, have a value of more than $1.2 trillion. De Soto refers to this as dead capital because it is excluded from the formal banking and financial services sector.[34]

This paper has argued that a similar kind of exclusion, intimately linked to this local capital and commerce, operates through the functioning of a large range of non-technical barriers to the provision of services, in this case the potential contribution of renewable energy sources to meeting the energy needs of the poor. The current financial crisis represents a great opportunity for Southern MSMEs, but the principal non-technical barrier that prevents them from becoming a powerful economic motor for meeting development objectives is the political, juridical and commercial mind-set that assigns them to a limbo outside modernity whilst refusing to recognise them for what they could be.

Endotes

1 The paper draws upon the authors' involvement in a two year project exploring public and private roles in the spread of renewable energy technologies in Central America, funded through the European Union and the UK's Foreign and Commonwealth Office.

2 See Hopkins (2007) or the UNDP's World Business and Development project.

3 See the Corpwatch (1998); Lewitt (2000); Teitelbaum (2007). In an earlier version of this paper prepared for the Development Studies Association annual conference held in Coleraine in September 2009 we included a more in-depth discussion of the changing approaches of the UN towards TNCs and a review of discussions of TNCs within orthodox development theories and their more radical counterparts. The interested reader is directed towards Tagi Sagafi-nejad's recent collaboration with John Dunning (2008) on the UN and TNCs, (part of the United Nations Intellectual History Project). For a recent general academic treatment of the relationship between TNCs and development see Sumner, Sanchez-Ancochea and Rugraff (2009).

[4] For example, the current meeting series "Harnessing the power of business for development impact" being jointly organised by the Overseas Development Institute, the British government's Department for International Development (DFID) and Business Action for Africa (see http://businessfightspoverty.ning.com/) or the Business call to Action promoted by the UNDP and its partners (see http://bcta-initiative.org/).

[5] Ashley (2009)

[6] Ashley, Ellis and Schramm (2009)

[7] Brown and Cloke (2004); Cloke (2009)

[8] Brown, Cloke and Ali (2008); Cloke (2007)

[9] Javalgi and White (2002)

[10] Sinclair (2000)

[11] See, for example, World Trade Organization (2007)

[12] Department for International Development (DFID, 2007), p.26

[13] World Bank (2004a)

[14] Brown, Cloke and Ali (2008)

[15] Citizens' Network for Essential Services (CNES, 2004)

[16] Department for International Development (DFID, 2007), p.20

[17] For an overview of the literature see Rosser (2006).

[18] Borchert and Mattoo (2009)

[19] World Bank (2004a), p.49

[20] Department for International Development (DFID, 2007), p.22

[21] ibid.

[22] These workshops were part of an EU Intelligent Energy COOPENER project (co-financed through the British government's Foreign and Commonwealth Office) exploring the role of local government in promoting renewable energy across Central America. The workshops drew wide-ranging participation from energy sector MSMEs, local and national government, international and local NGOs, academics and other researchers and local community groups in Nicaragua and Guatemala. Further detailed information on the project can be found at http://www.energy-central.eu.

[23] Selma Herrera (2005)

[24] ibid.

[25] ibid.

[26] Economic Commission for Latin America and the Caribbean (ECLAC), cited in Acevedo (2005)

[27] Comision Nacional de Energia (2006)

[28] See *Oil and Energy Trends*, February 2007

[29] Selma Herrera (2005)

[30] Acevedo (2005)

[31] ibid.

[32] For a detailed analysis see McGuigan (2007).

[33] World Bank, "World Development Indicators 2009", p.322, http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:21725423~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html

[34] See Inter-American Development Bank (IADB) news release, 12 June 2006: "Dead capital" in 12 Latin American countries worth $1.2 trillion, according to report"; study of the informal sector presented at IADB conference on "Building opportunity for the majority", available at http://www.iadb.org/news/detail.cfm?Language=English&id=3123.

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