



Down to the Wire

The Impact of Transnational Corporations on Sustainable Electricity Provision in Developing Countries: Case studies in Argentina and Peru

Executive Summary | June 2009

This report addresses the impact of electricity provision by Endesa, SN Power and AES on sustainable development in Latin America. On the basis of a theoretical framework of indicators for sustainable electricity provision, the report examines the corporate social responsibility (CSR) policies and practices of these three transnational corporations. Each company's headquarters-level policies are analysed and then compared with the results of empirical research in four case studies of the situations on the ground in Argentina and Peru. Through the analysis and the formulation of conclusions and recommendations based thereon, the report aims to improve the quality, the poverty-reducing capability, and the contribution to sustainable development of electricity provision in developing countries.

Increasing access to affordable electricity is vital for achieving sustainable development in accordance with the Millennium Development Goals. However, the electricity industry is also a major source of air and water pollution and one of the world's largest emitters of greenhouse gasses. In fact, there is hardly another industrial sector that has such potential to contribute to economic and social development that at the same time can potentially have such negative impacts for people and planet. A rapidly changing climate and steeply rising electricity demand in

the developing world underline the urgency of addressing the general absence of normative standards for sustainable electricity provision by identifying the critical issues that must form the basis for more transparent and effective normative-practical guidelines for providing 'quality kilowatts'.

After the wave of liberalisation and privatisation in the 1980s and 90s, transnational corporations (TNCs) began playing an increasingly important role in the electricity systems of developing countries. Although optimism initially abounded about the unlimited positive impact of foreign direct investment (FDI) from TNCs in developing countries, it is now generally recognised that the positive developmental effects of FDI are not self-evident and that some current TNC strategies are actually having a negative effect on the development of infrastructure in developing countries.

As a result, the past few years have seen a sharp increase in interest in the topic of CSR in electricity provision from governments, multi-stakeholder groups, unions and civil society, as well as businesses themselves. Yet despite the increased interest, there is little empirical knowledge as to how the CSR policies of electricity TNCs are developed and implemented in developing countries. Furthermore, 

there remains a lack of clear normative standards for sustainable electricity provision. Wilde-Ramsing¹ recently conducted a wide survey of relevant literature and identified the critical social, environmental, economic, and cross-cutting issues that must form the basis for such normative guidelines. The thirty critical issues identified form the basis of the analysis in this report.

Argentina was one of the first countries in the world to embark on liberalising reforms in the electricity sector including privatisation of state-owned electricity companies. The electricity generation and distribution companies that were privatised in 1992 partially came into the hands of European and North American TNCs. The current market share of private operators in relation to state-owned enterprises (SOEs) is high with 75% of the country's installed capacity in private hands. Only a few years after Argentina's devastating economic crisis in 2001, the country suffered an equally debilitating energy crisis as the macroeconomic measures taken by the Argentine government to mitigate the economic crisis led to conflicts with electricity companies who felt that their profits and return on investment were threatened by the measures. The lack of investment in electricity infrastructure exacerbated the situation as demand from the country's recovering industrial sector quickly outstripped supply. In Peru, the past two decades have seen significant developments in the electricity sector that have completely reconfigured the industry. The country undertook a process of privatisation of SOEs in the 1980s that resulted in TNCs playing an important role in national energy policies. The discovery of the Camisea gas fields in the late 1980s led to major changes in the country's energy resource base and its fuel mix for electricity generation. Peru's recent economic growth has led to increased demand for electricity, primarily from industrial actors such as mining and construction companies. This increased demand, combined with the lack of investment in Peru's vast renewable energy potential, has caused an energy crisis that is predicted to worsen in the coming years.

The analysis of the three companies' CSR approaches reveals that, although all of the companies claim that sustainable development is among their top priorities, their approaches to sustainable electricity provision in developing countries vary widely. Endesa's approach to sustainable electricity provision is characterised by a thoroughly developed CSR policy and is highly based on existing international standards. For a company as young and as small as it is, SN Power has a remarkably well-developed CSR policy. Instead of being defined by international standards, SN Power's approach to sustainable electricity provision seems to be based more on an old-fashioned, deeply ingrained conception of development. AES' approach to electricity provision in developing countries seems to be less motivated by CSR issues than by the hard business imperative of profit.

Despite the differences in approach to sustainable electricity provision, the empirical field research in four case studies in Argentina and Peru reveals that all companies have some difficulty in translating CSR policy into practice on the ground. In Argentina, researchers examined the operations of AES' Central Dique electricity generation station and its Edelap distribution company, as well as on Endesa's Central Dock Sud and Central Costanera electricity generation facilities. The Peruvian case studies investigate the operations of Endesa and SN Power, both of which have invested in electricity generation, transmission and/or distribution companies in Peru. The findings and analysis of the case studies lead to a number of important conclusions about the impact of TNCs on sustainable electricity provision in developing countries.

❑ **Many communities adjacent to electricity infrastructure benefit little from proximity to TNC operations**

Many of the communities situated near electricity infrastructure live in precarious situations, putting into question TNCs' commitment to local economic development and the effectiveness of their CSR policies aimed at fostering sustainable development in the communities in which they operate. With regard to access to electricity, the case studies show that TNCs are generally not serving the communities closest to their electricity generation facilities, despite touting CSR policies that claim to support and develop local communities. Furthermore, several of the communities studied reported negative environmental and public health and safety impacts from the TNCs' activities. Another crucial aspect of local economic development is hiring local labourers, but that also seems to seldom be the case among the TNCs investigated.

❑ **Lack of investment in infrastructure endangers public health and safety and disrupts supply**

AES has received particularly harsh criticism for its lack of investment in electricity infrastructure, which has endangered public health and safety in Argentina. Local residents have complained about electricity poles falling down, sub-stations exploding, and transformers short-circuiting. Disruptions in supply due to inadequate or insufficient infrastructure have also caused power outages that have negatively impacted the local economy and led to the company being fined numerous times by Argentina's electricity regulator.

❑ **Working conditions are generally good, but concerns about outsourcing and job security remain**

Workers reported that sufficient occupational health and safety measures seem to be in place at the electricity facilities investigated in this report. With regard to unionisation, only SN Power's Cahua station lacks a union for its workers. However, there were a

large number of lay-offs, redundancies, and forced retirements following the privatisation of electricity companies in both Argentina and Peru, and workers identified a continuing overall trend in the industry toward outsourcing of personnel. Interviews with workers and union leaders revealed that contracted workers receive less pay and benefits, are not unionised, and in general endure poorer working conditions than workers employed directly by the companies.

□ **High potential for clean, sustainable energy generally left untapped by TNCs, who instead rely heavily on fossil fuels and large-scale hydro**

Both Argentina and Peru have high potentials for sustainable sources of energy for electricity. However, this potential is left largely untapped by the local electricity generation units of AES and Endesa, who make widespread use of fossil fuels. SN Power stands out against the other companies, as it has pledged only to develop renewable hydraulic sources of energy. However, while SN Power does currently have a mix of large-scale and small-scale hydropower facilities in Peru, its plans for expansion exclusively involve large-scale plants that can have significant environmental and social impacts. In fact, the operation of several large-scale hydroelectric plants by all three companies in both Argentina and Peru and the companies' plans for new, even larger hydro facilities should raise warning flags for the critical issues of biodiversity, ecosystem impact, and climate change and GHG emissions, as well as for indigenous rights and community lifestyle impact.

□ **Electricity TNCs generally recognize responsibility for occupational health and safety among contractors, but product chain responsibility goes little beyond that**

The three TNCs generally seem to acknowledge their responsibility for ensuring good practices among their direct contractors, a positive development given the increase in outsourcing in the industry. However, little evidence was found to indicate that the companies' concern for product chain responsibility extends beyond this first step. For example, none of the companies has policies to address the potential impacts of product chain activities such as sourcing (e.g. mining and extraction) and transport of fuels.

□ **TNCs' 'engagement' with communities is often limited to charity and philanthropic activities rather than meaningful engagement that addresses critical issues**

All three TNCs claim to place high value on stakeholder engagement and public participation in decision making. However, what companies put forth in policy

often contrasts with claims by local municipal authorities and community residents that companies seldom seek out meaningful relationships with the communities adjacent to their facilities. This was particularly the case with Endesa's CSR initiatives that are perceived by locals as being more focused on philanthropic activities in the communities than sustained engagement with communities and governments on local planning and development issues. SN Power Perú's engagement policies fared somewhat better among local citizens, but the company also engages in many philanthropic activities such as Christmas gift-giving in remote communities and health campaigns. The authors posit that there is nothing wrong with TNCs undertaking philanthropic and charitable activities in affected communities and among its stakeholders, but note that these activities all too often take the place of or distract from meaningful stakeholder engagement and public involvement in decision making when critical issues are at stake.

The major areas of concern expressed by local communities, workers and other stakeholders in this study's field research substantiate Wilde-Ramsing's normative framework of social, environmental, economic and cross-cutting issues, revealing that these are indeed critical issues for the electricity industry. The lack of clear criteria for sustainable electricity provision and the inconsistent application of the various social, environmental and economic standards by TNCs in both policy and practice reveal a clear need for external standard-setting and monitoring at the international level. In the absence of such international normative standards for electricity provision, TNCs should develop policies on the critical issues in the framework used in this study. In general, the study found that when a TNC had a well defined policy and implementation mechanism for a particular issue, the company tended to perform better on that issue in practice on the ground, although it should be noted that there were some important exceptions to this generalisation. CSR policies must be accompanied by programmes for ensuring and monitoring the implementation and translation of the policies into practice on the ground in developing countries. Such monitoring must involve representatives of key stakeholder groups, particularly local communities, workers and their representatives, and local energy planners.

Endnote

- 1 J. Wilde-Ramsing, *Quality Kilowatts: A normative-empirical approach to the challenge of defining and providing sustainable electricity in developing countries* (Amsterdam and Oslo: SOMO and ProSus/SINTEF, 2009, forthcoming) <www.somo.nl>.

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Text: Joseph Wilde-Ramsing & Tim Steinweg

Design: Annelies Vlasblom

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Stichting Onderzoek Multinationale Ondernemingen
Centre for Research on Multinational Corporations

Sarphatistraat 30
1018 GL Amsterdam
The Netherlands
T: +31 (0)20 639 12 91
F: +31 (0)20 639 13 21
info@somo.nl
www.somo.nl

In collaboration with:



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