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Emerging Market Energy Sector Transformation: 7 Keys to Retaining U.S. Influence

BLUF: The destruction of the U.S. Agency for International Development (USAID) and cuts to the Millennium Challenge Corporation (MCC) have left the U.S. without critical tools to impact emerging market energy transformation. USAID's 60 years of energy sector reform programming established an organizational and programmatic blueprint with essential elements that must be preserved in the Department of State or a future USG foreign assistance entity.

The Trump Administration's deconstruction of U.S. foreign assistance calls into question its ability to achieve the goal of global energy dominance.

Given the America First mandate, it is no surprise that much of the administration's initial focus is on finance, risk mitigation, and transaction support to give U.S. energy and technology companies a competitive chance in the global marketplace.

But the goal of global energy dominance will not be achieved without strengthening emerging market energy *systems*. Viable energy sectors, run by capable energy sector institutions, are non-negotiable prerequisites to the private investment the Trump Administration wants to encourage. In fact, research has found that the strongest determinant of private infrastructure investment in Africa is the quality of institutions.[1] The status quo in many countries — characterized by poor planning, bankrupt utilities, nascent legal and regulatory frameworks, and non-transparent procurement practices — limits quality investment and enhances susceptibility to the PRC as an investor of last resort.

The demolition of USAID and proposed cuts at the Millennium Challenge Corporation have left the U.S. government with no institution optimized for or experienced at doing this work. And it puts us at serious risk of losing our ability to influence the "rules of the game" in the world's fastest-growing energy markets.

The Department of State will likely be tasked with picking up some of the pieces of USAID's expansive energy sector portfolio, but success will require retooling. Historically, most energy sector programming at the Department of State has been managed by Washington-based bureaus focused on advancing diplomatic objectives. By contrast, USAID's portfolio was optimized to drive institutional and system reform. USAID helped dozens of countries establish the legal and regulatory framework for private sector energy investment, restructure inefficient

[1]Chinzara, Dessus, and Dreyhaupt, "Infrastructure in Africa, How Institutional Reforms can Attract more Private Investment", World Bank Group, 2023.

vertically integrated utilities into corporatized components, and establish the legislation, regulations, procurement rules, and operational strategies to scale low-cost, reliable energy sources.

The Key Capabilities We Lost with USAID

Which aspects of USAID's mandate, operations, and authorities were particularly effective in driving energy sector transformations central to a wide range of foreign policy objectives?

- **Structured program designs.** USAID invested heavily to develop internal capacity to design programs that established a theory of change, analyzed constraints, and engaged with local partners to map and mobilize a comprehensive effort to address them. This isn't just programmatic AID-speak; it's crucial to ensuring U.S. resources are invested for the greatest impact and return. For instance, when India established a target of 100 GW of solar capacity,[2] USAID helped identify grid constraints, supported demonstration projects to help the private sector overcome these barriers, and helped enact the legal and regulatory reforms required for those solutions to scale.
- **Breaking down silos.** Energy sectors are an ecosystem of critical stakeholders at the national and subnational level — utilities, regulators, ministries, project developments, financial institutions, technical institutes, consumers. Achieving transformative change requires working directly with them all to form coalitions for action. In Ghana, USAID brought energy sector players together to develop the first integrated energy sector planning process, plotting a path towards lower-cost power sector development. In Jamaica, USAID brought together the utility, ministry, regulator, and project developers to overcome challenges with distributed generation adoption.
- **Boots on the ground.** USAID allocated over 90% of its energy budget to overseas field Missions directly implementing energy assistance projects. USAID Mission programs were typically managed by locally hired staff, combining world-class technical expertise with invaluable local knowledge and connections. These local staff provided acute, real-time political economy savvy that is a demonstrated requirement for effective energy sector reform programs.[3] They also played a key role in helping the Development Finance Corporation (DFC) identify, vet, and advance transactions and provided the U.S. government with high-level access to partner country energy sector decision makers.
- **Multi-year programming horizon.** Everyone loves quick wins, deliverables for the next global conference, and an impressive success story for reporting in an annual report to the Hill. Unfortunately, structural changes to the energy sector rarely conform to short-term deliverable deadlines. For most USAID priority countries, energy sector partnership extended for decades — a timeline commensurate with the time needed to establish the legislation, policies, and institutional capacity required for market transformation efforts. This longer term programmatic approach has been validated by

[2] India achieved this goal in January 2025.
[3] See for instance, Eberhard and Godinho, "A Review and Exploration of the Status, Context and Political Economy of Power Sector Reforms in SubSaharan Africa, South Asia and Latin America," EEG State-of-Knowledge Paper Series.

other development institutions as a key element of successful energy sector reform programming.[4]

- **Strategic foresight.** USAID's typical energy sector budgets were small — $1-5 million per country per year. Staying relevant and effective required USAID to be strategic, establish partnerships, and focus on emerging sectoral priorities. For instance, USAID's longstanding work to establish the preconditions for the Ukraine interconnection to the European grid allowed for the quick synchronization following Russia's invasion.[5] USAID's early adoption of competitive auctions as the procurement vehicle of choice for renewable energy enabled 15 countries to adopt the practice, resulting in lower cost, less corruption, and higher efficiency for $27 billion of new renewable energy capacity.
- **Practitioners to practitioner partnerships.** Emerging market energy institutions have international consultant fatigue. USAID drove impact through extensive use of practitioner-to-practitioner learning, pairing U.S. utilities, systems operators, and regulatory commissions with emerging market counterparts to address issues of mutual interest and expertise. Program evaluations highlighted that many of these partnerships sustained well after USAID financial support had ended.
- **Unbiased expertise.** USAID had unprecedented access to emerging market energy decision-making processes because its partners trusted it to provide world-class expertise without an ulterior motive. Influencing energy market development requires the establishment of an institutional firewall between reform activities and export promotion efforts.

Three Recommendations for the Department of State

Developing a U.S. entity fit for purpose to drive global energy sector transformation is critical to achieving U.S. development, diplomacy, and security objectives. In the short term, the Department of State can do three things to enhance its ability to make America stronger, safer, and more prosperous through global energy investment.

1) **Empower embassies to design and manage energy programs with local hires.** State Department reform proposals suggest a restructuring of pillar bureaus and a strong regional bureau role in programming foreign assistance. But, for a select number of priority countries, Embassies should be the front line in designing and implementing bilateral energy sector programs and coordinating whole-of-government efforts with technical support from Washington-based staff. On-the-ground staff with sectoral expertise will also be invaluable to help identify and vet energy sector transactions for DFC support. USAID employed over 100 Foreign Service National energy specialists at Missions throughout the world who should be rehired by the Department of State to meet this need.
2) **Expand the department's mandate and time horizon.** The Department of State has typically utilized yearly planning exercises to program a large portion of its energy

[4] Public Utility Reform, What Lessons can be learned from IEG evaluations in the energy and water sector? 2020, World Bank. IEG.
[5] https://medium.com/usaid-2030/advancing-ukraines-energy-independence-fb27dceb400b

sector budget. While flexible budget resources can enhance response to strategic opportunities, maintaining the USG's track record of energy sector transformation will require a larger portion of the budget to be programmed on longer time horizons and a broader sectoral mandate. While USAID typically utilized 5-year strategy and program cycles, many energy sector reform timelines extended beyond a single program.

3) **Create structured program design protocols.** Program designs are critical to identifying the underlying structural reforms required to expand energy markets and strengthen institutions. The Department of State should develop the internal capacity to conduct program designs and subsequent evaluations, or partner with MCC to conduct such analysis, as proposed by the Energy for Growth Hub's Energy Security Compact proposal. While a variety of design methodologies can be effective, the core components include:

    a) Identify a goal for USG energy sector programming that aligns U.S. interests with the partner country's ambitions for sector-wide transformation
    b) Clearly articulate a theory of change
    c) Identify key constraints and corresponding programmatic inputs to address them
    d) Designate indicators to measure success.

    The identified theory of change and program goals should drive programmatic components, resources, and implementing partners. Political economy analysis[6] and local expertise are critical elements of effective energy sector reform design.

[6]Moerenhout, Gencer, Arizu, Lee, and Braun "Political Economy Analysis and Communications for Energy Subsidy Reform," World Bank, ESMAP 2024.