World Bank Led Reforms in The Indian Power Sector: A Critique

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World Bank Led Reforms in The Indian Power Sector: A Critique

- Context
- Critique
- Limitations
- Beyond the World Bank
Major Stages in Electricity Sector

- Growth 1950–75: Major Growth, Public Ownership
- NTPC, Agri 1975-90: Increased Access & Federal intervention
- Electricity Act 2003: Trading, Competition, Unbundling

-Crisis in 1990s

-Market Oriented Reforms taken up

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Reform: The Paradigm Shift

- **Policy**
  - Self Reliance $\rightarrow$ Globalisation (Technology, Fuel)
  - Electricity, a Development input $\rightarrow$ a Marketable Commodity, with Cost based/Market based Tariff

- **Utility Structure**
  - Integrated $\rightarrow$ Unbundled, Corporatised, ‘Independent’ Regulation

- **Ownership**
  - State $\rightarrow$ Private
Quick Replication with Increasing Scope

- **WB states**
  - Orissa
  - Haryana
  - Andhra Pradesh (AP)
  - Uttar Pradesh (UP)
  - Rajasthan
  - Karnataka

- **ADB states**
  - Gujarat
  - Madhya Pradesh (MP)
  - Kerala
Orissa Reform Timeline

- 1993: Reform Plan
- 1995: OSEB Unbundled
- 1999: Distribution, Thermal Generation Privatised
- 2001: State Review (Kanungo Committee)
- 2001: RC terminates license of one DISTCOM
- 2004: WB Implementation Completion Report
- 2006: RC gives notice to three DISTCOMs
- 2007: RC finds DISTCOMs performance unsatisfactory
Orissa Reform - Review

- Kanungo Committee (2001)
  - No improvement in T&D, Revenue Collection
  - Capital works not complete - no benefits so far
  - Private DISTCOMs not committed
  - Very high expense on external consultants
  - GRIDCO financial crisis
  - Review Asset re-valuation
  - Rs 32,400 m in next 5 years needed

  - Overall outcome: Unsatisfactory
  - Remained as ‘work in progress’ at the end of project
Orissa Reform - Lessons

- Hasty, non-transparent, non-participatory process driven by World Bank
- Attempted to build consensus around a model, rather than creating a consensus through consultation
- Aggressively attempted replication without sufficient tests - And failed!
- Regulatory system could not do mid-course corrections
Orissa Reform: Projections & Results


1. Energy Input

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan (MU)</th>
<th>Actual (MU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>10,000</td>
<td>15,000</td>
</tr>
<tr>
<td>1998</td>
<td>15,000</td>
<td>20,000</td>
</tr>
<tr>
<td>1999</td>
<td>20,000</td>
<td>25,000</td>
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<tr>
<td>2000</td>
<td>25,000</td>
<td>30,000</td>
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<tr>
<td>2001</td>
<td>30,000</td>
<td>35,000</td>
</tr>
<tr>
<td>2002</td>
<td>35,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

2. T&D Loss

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>40</td>
</tr>
<tr>
<td>1998</td>
<td>30</td>
</tr>
<tr>
<td>1999</td>
<td>20</td>
</tr>
<tr>
<td>2000</td>
<td>10</td>
</tr>
<tr>
<td>2001</td>
<td>10</td>
</tr>
<tr>
<td>2002</td>
<td>10</td>
</tr>
</tbody>
</table>

3. Electrification Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Poor</th>
<th>Non-poor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>5</td>
<td>-10</td>
<td>5</td>
</tr>
<tr>
<td>1998</td>
<td>10</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>2000</td>
<td>15</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>2002</td>
<td>20</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

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Andhra Pradesh

- Reform Plan: 1999-2009, $ 4.46 Billion, WB driven with $1.0 Billion from WB
- 5-Stage Loan, suspended by GoAP in 2003 after Stage-1
- Many conditions, not all followed
## AP: WB Conditions

<table>
<thead>
<tr>
<th>Item</th>
<th>Condition</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Tariff hike</td>
<td>12-15%</td>
<td>Only in first Year</td>
</tr>
<tr>
<td>Subsidy Reduction</td>
<td>Gradual</td>
<td>Followed, but agriculture free power in 2004</td>
</tr>
<tr>
<td>Unbundling, RC</td>
<td>1999</td>
<td>Carried Out</td>
</tr>
<tr>
<td>Distribution Privatisation</td>
<td>By 2007</td>
<td>Not Followed</td>
</tr>
<tr>
<td>Generation &amp; Transmission Privatisation</td>
<td>By 2003-5</td>
<td>Not Followed</td>
</tr>
</tbody>
</table>
AP: Analysing Achievements

- Investments
  - Questionable, returns not clear
- Capacity addition
- Reduction of T&D losses
- Revenue Improvement
- Control of theft and malpractice
- Better consumer servicing

Not linked to WB Model
Critique of WB Model

- Failure in Orissa which strictly followed the WB Model
- Failure in many other States
- Good show in AP, despite deviations from WB model
Critique of WB Model

- **Non-participatory, Hasty process**
  - Creating consensus on a prescribed model
  - Replication before gaining experience

- **Regulatory System: An opportunity, but Sabotage prone**
  - Potential for transparency, accountability, participation
  - Can turn Investor friendly rather than Public interest oriented

- **Impact on disadvantaged**
  - Electricity treated as a commodity
  - No explicit pro-poor stand: Rural Electrification neglected

- **Lack of accountability by WB**
  - Orissa failure shows lack of robust design
  - Not accountable to Indian Public
  - Limitations of WB internal accountability measures

Prayas
Critique of WB Model

- WB as a double edged sword
  - At times applied international norms, such as TAP and making industry structure more competitive
  - Aggressively pushed privatisation & commercialisation, neglected governance issues
  - In effect, prevented development of alternative paradigms (such as public control model)
Limitations of WB Model

- Incomplete sector analysis
  - Ignored issues not fitting its framework; Alternatives not sufficiently explored
  - No study of Cost of IPPs, Working of Private Distribution
  - Not promoting Integrated Resource Planning
  - Focus on Financial and technical efficiency; Equity, Environmental sustainability and Governance dimensions neglected

- Ignored situational requirements
  - Dependent on international stand
  - Improving SEBs neglected

- Positional bias
  - Promoted privatisation efforts, silent on gross mistakes
Indian Power Sector: World Bank and Beyond

- There is significant role of other IFIs, ECAs
- Current Government policies not much different from that of WB
  - Electricity Act 2003 & Policies
  - Public Private Participation for Growth
- What reform do we need? Need to work out alternative models