

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

Independent People's  
Tribunal on the World Bank

Group in India

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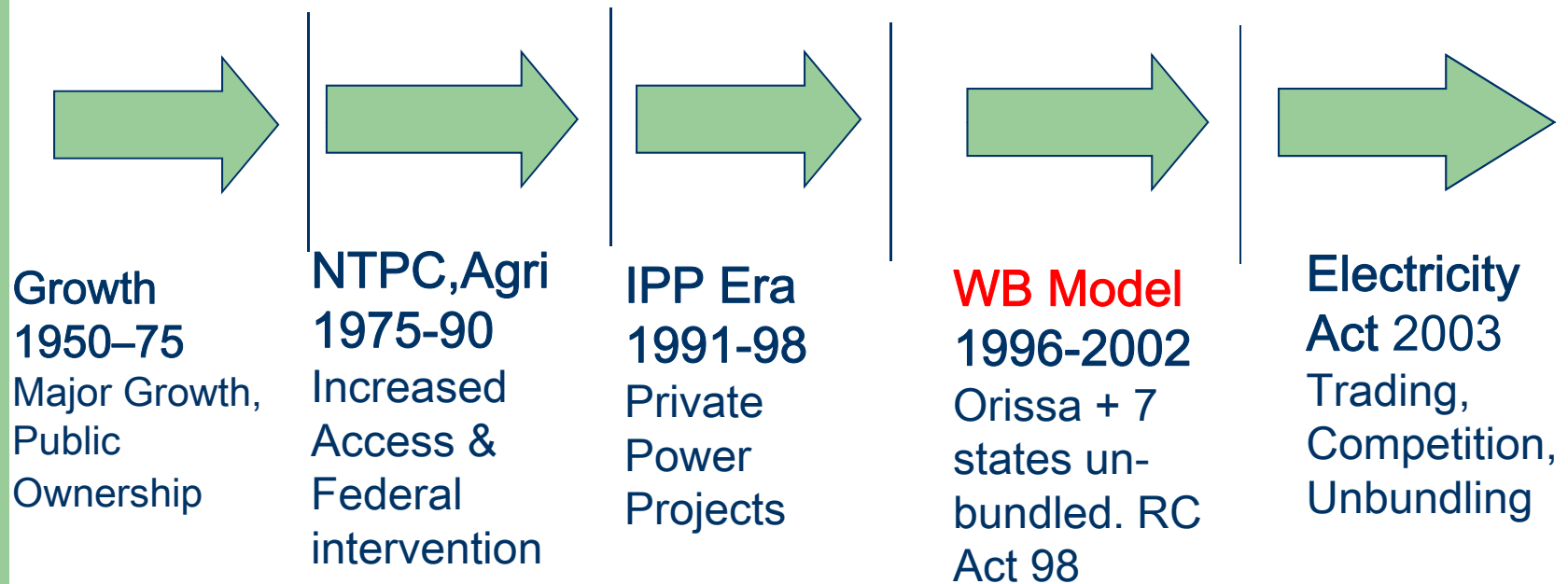
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## World Bank Led Reforms in The Indian Power Sector: A Critique

- Context
- Critique
- Limitations
- Beyond the World Bank

# Major Stages in Electricity Sector



-Crisis in 1990s

-Market Oriented Reforms taken up

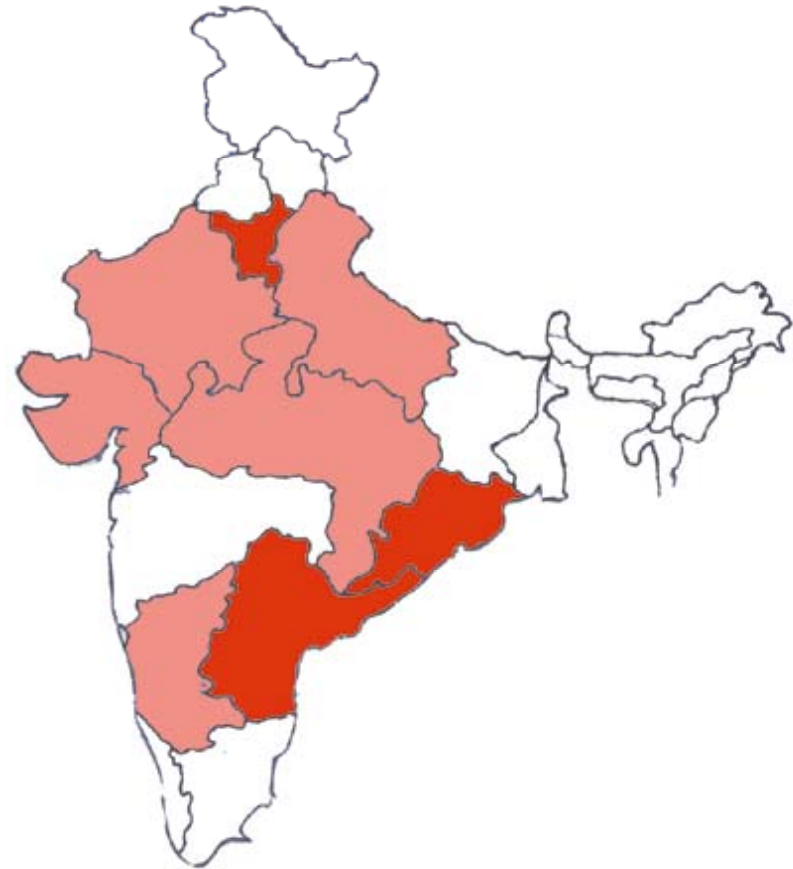
Prayas

## Reform: The Paradigm Shift

- Policy
  - Self Reliance → *Globalisation (Technology, Fuel)*
  - Electricity, a Development input → *a Marketable Commodity, with Cost based/Market based Tariff*
- Utility Structure
  - Integrated → *Unbundled, Corporatised, 'Independent' Regulation*
- Ownership
  - State → *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
- 1996: Reform Act, WB Loan (1996-2002)
- 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
- WB Implementation Completion Report (2004)
  - Overall outcome: Unsatisfactory
  - Remained as 'work in progress' at the end of project

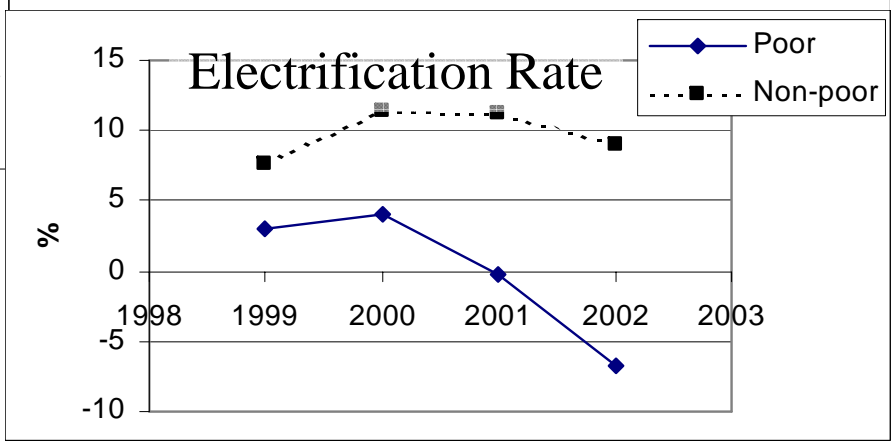
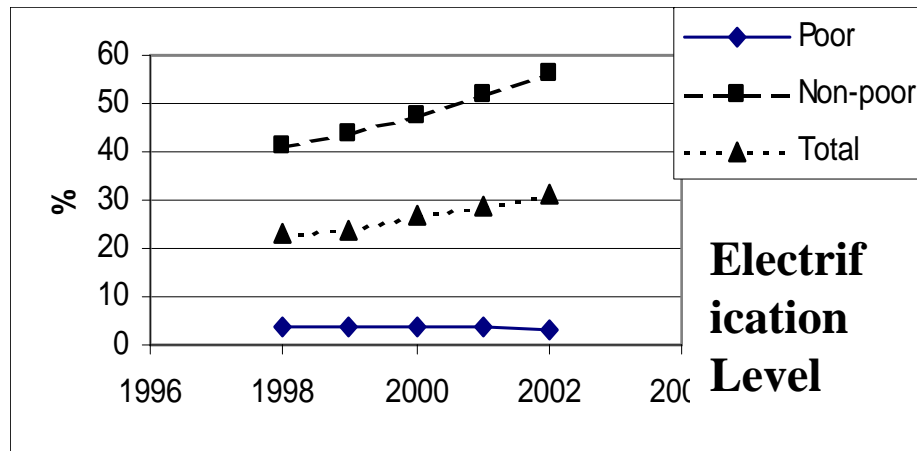
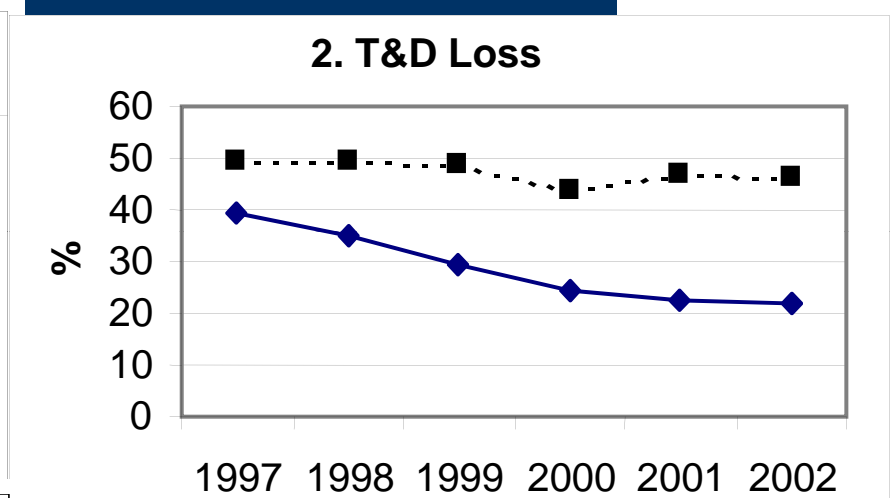
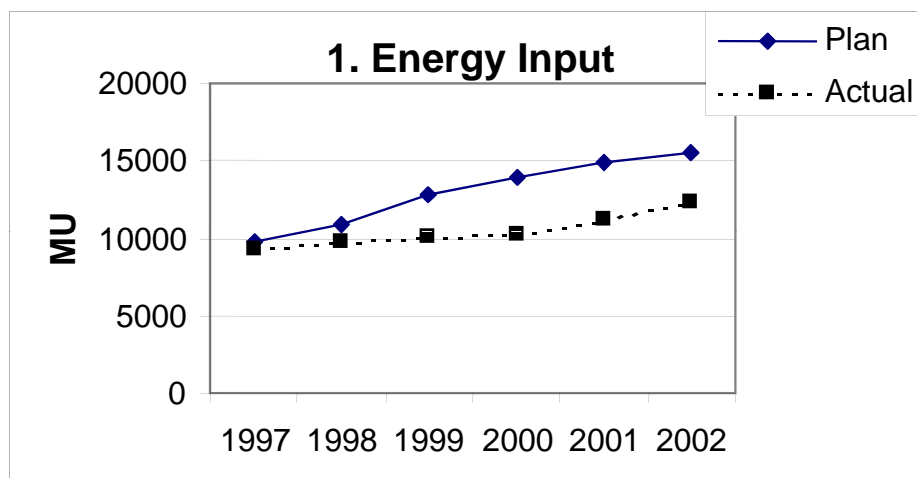
## Orissa Reform - Lessons

- 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

Ref: RC orders, Reform Plans, & 'Power sector reform and its impact on the poor', Energy for Sustainable Development, December 2004, Bangalore, India



## 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

Item	Condition	Remarks
Annual Tariff hike	12-15%	Only in first Year
Subsidy Reduction	Gradual	Followed, but agriculture free power in 2004
Unbundling, RC	1999	Carried Out
Distribution Privatisation	By 2007	Not Followed
Generation & Transmission Privatisation	By 2003-5	Not Followed

## 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

## 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