Chapter I
Introduction

1.1 Background of the Study

In recent years, the concept 'governance' has attracted immense attention of the policy makers and researchers as a development strategy. Many studies have found that it is the quality of governance, which is important for the success of the development programmes (Kauffman et. al. 1999; Smith 1999). Many countries adopted a development model of governance in which ‘command economy’ or state playing a prominent role as owner, policy maker and regulator to produce and deliver goods and services was an important characteristic (Spulber 1997, World Development Report, 1997). Since 1980s, however, there has been a paradigm shift of ‘command economy’ to the ‘market economy’ with the increasing realization of the fact that the state involvement in economic activities has been proved to be a failure. State-owned enterprises or subsidized private firms have failed to deliver sustainable productivity growth (Boardman and Vining 1998; Boubakri and Cosset 1998; Earle and Estrin 1998; Ehrlich and others 994; Frydman and others 1999a; Magginsone Nash and Van Randenborgh 1994; Pohl and others 1997). With the state assuming the catalytic role of development in most of the developing countries, bureaucracy - the instrument of state action - exercised enormous power and came to be associated with inefficiency and corruption (Ghuman 2001:711; Klitgaard 2000; Jain 2003; Hussain 1990; Maheswary 2000, Sangita 1995). Service delivery by state has not been satisfactory in many cases (Punyaratabandhu-Bhakdi et. al. 1986; Paul 1995). As a result, the recent times have been witnessing a debate on ‘government failure’ and ‘crisis of governability’. This ‘government failure’ debate on the part of scholars has come up with the recommendations for the change of both the structure and the functioning of the government (Osbern and Gaebler 1993; Lane 1997:4-10; NPM Approach in Ghuman 2001:769-779) as well as the change of the macro-policy governing the economic activities (Lane 1997: 5-10; World Development Report 1994:2). These theoretical recommendations have been/are being applied in action worldwide through the initiation of reforms in the form of privatization, downsizing the government structure, contracting out, public-private partnerships, deregulation, debureaucratization, independent regulation and so on. With this changing idea of
public-private intervention in economic activity many reforms have been initiated redefining the role of the state, market and civil society with an objective of achieving expected outcomes.

The question of governance of power sector is an important question before researchers, policy makers and administrators for the obvious reason of its being an important input for socio-economic development of a nation. Power sector involves complex activities like generation, transmission, distribution and final delivery of service to end users i.e. consumers. Initially, private sector was the main player in the power sector when the electricity came to be used in India during the pre-independence period. Thereafter, from independence to the year of 1991, state entered the arena and now there is a U-turn with the initiation of pro-privatization reforms since 1991. Power sector, an important segment of the infrastructure has been subjected to comprehensive reform programme in recent years. So we find two types of governance processes functioning in two different points of time – pre reform and post reform. During pre reform period, we find a governance process in which state was the dominant actor, and then comes another governance process after reforms in which market dominates. Though reforms in the sector are underway, the debate over the question of why to reform, whether or not to reform and how to reform is being debated. What policies are to be framed and what institutions are to be created to execute the set policies is still the subject matter of contestation. Whether this question can be addressed through the state-market synergy or state being given an important role or market being allowed an upper hand in the sector or adopting any other strategy is undecided. Which institution can best address the question of equitable distribution of goods and services in the society and the question of efficiency of the utility has become a subject matter of concern for policy makers and researchers.

The trajectory of power industry, from its inception to the present, has been complex rather than being simplistic for the reason that the pendulum of industry’s ownership and regulation swings between privatization and nationalization. The reason for the debate on reforms has originated with the fact that the reforms have not improved the sectors’ performance in many cases. Naturally, the question arises as to how the vital sector like electricity is to be governed? How the interest of the stakeholders (equity, efficiency and quality service) is to be protected? Whether it is ownership of the sector or the nature of its performance crucial for the expected outcome? These are
some of the questions, which need examination. How this crucial sector has to be
 governed so that the sector becomes efficient, the benefits of the sector become
equitable, the delivery of the service become effective is the central research question
around which this dissertation deals with. This study is a humble attempt to examine
different governance processes, structures and underlying policies cutting across
different periods (pre and post reform) and their outcomes with a view to developing a
governance model, which can address the issues raised above.

1.2 The Issue of Reform

It can be said that the success of reforms in the sector is related to its success in
achieving three objectives – efficiency, equity and quality service delivery, which will
bring sustainability to the sector. In a governance model with state playing a central
role, the prevalent structure and nature of the accountability and participatory
mechanisms in that system failed to achieve these objectives. The neo-liberal ideology
advocates for competitiveness, which it believes, is an efficient and sustainable means
for allocation of scarce national resources. With the reforms having been initiated in
the infrastructure sector, the governance system of the sector has changed wherein
state instead of playing the role of policy maker, producer, distributor and regulator of
the services, retains the responsibilities of only policy making and the rest of the
activities are left to market, regulatory entities and people. In the former system,
government took decisions and implemented them through the respective ministry and
the department. The accountability of the service provider i.e. government was
indirect. The ministers were accountable to the legislature and the accounts of the
department were subjected to occasional audit. The people or more specifically the
consumers or service recipients had no role in the decision making and the ministers
were subjected to accountability of their deeds through periodical elections. The
bureaucrats were accountable to ministers and ministers were accountable to
legislature and the government was accountable to the general public through the
mechanism of elections. In the latter case, the reforms have carved out a space for the
consultative process involving consumers, service providers and other parties or
actors or stakeholders. The regulatory bodies have been constituted and are serving
the purpose of direct accountable mechanisms to regulate the activities of service
providers. Efforts have been taken for the constitution of consumer to participate in
the decision-making process starting from policymaking to the policy execution, which serves the purpose of yet another accountability mechanism in power sector. Apart from these measures, the governance model structured by the reforms in the sector intends to bring efficiency, provide better service delivery and ensure equity in the sector with the assumption that the participation of private sector can achieve these objectives as private participation will encourage competition and competition will lead to price reduction of the service and again, this will also increase accessibility of the service when more and more private players compete for the service provision.

The ongoing reforms in the sector are substantiated on this theoretical premise. Now, the focus of this study is based on the following question: Has the present governance structure redesigned by the reforms with independent regulatory mechanism, with institutional participatory mechanisms in the decision making process and with the large presence of the private entities as the service providers produced expected results in expanding services in reasonable price and in facilitating accessibility (equity concern), in delivering quality service, and in enhancing the efficiency of the sector?

1.3 Statement of the Problem

The power sector activities like generation, transmission and distribution of electricity in India are being carried out by the public sector organisations namely State Electricity Boards (SEBs) in India (barring a few metropolitan areas and in states like Orissa where the distribution business has been privatised) and these organisations are financially non-viable. During 1980s the SEBs started facing problems of poor technical, commercial and managerial efficiency (Report on India’s Power Sector 2003, Rao et al, 1998, Morries, 1996). Problems relating to SEBs were their poor financial health, huge Transmission & Distribution (T&D) loses, political interference, inadequate billing, poor collection, huge theft, lack of proper management, lack of commercial orientation on the part of the SEB employees (Reports on India’s Power Sector 2003). The consumers of electricity also faced a lot of problems in terms of high frequency of power cuts, low & fluctuating voltage, lack of responsiveness of service providers, inadequate grievance redressal mechanism, and speed money (Paul 1995; Balakrishnan et al 1998). The SEBs failed to pay the bills for the electricity they purchased from the power generators. According to
Expert Group 2003, the dues of SEB accumulated to Rs. 41,473 crore of credit consisting of Rs. 25,727 crore of principal and Rs. 15,746 crore of interest (Reports on India’s Power Sector 2003). There was a huge gap between availability and demand of electricity. The total energy shortage during 2001-02 was 39,816 million units amounting to 7.8 per cent and peak shortage was 10,157 MW translating to 13 per cent of peak demand (Reports on India’s Power Sector 2003). In Uttar Pradesh the deficit is 19.9, Jammu & Kashmir it is 5.1 per cent, Punjab 8.3 per cent, Haryana 5.4 per cent. Gujrat 11.7 per cent, M.P, 8.8 per cent, Maharashtra 9.5 per cent, Tripura 7.7 per cent, Meghalaya 9.9 per cent, Assam 5.1 per cent and Karnataka 4.3 per cent deficit and if region-wise it is seen the figures are: North Eastern Region 5.8 per cent, Eastern Region is 1.3 Western Region 9.3, the Northern Region of India has a power deficit of 8.6 per cent and all India power deficit is 6.3 per cent (www.indiastat.com). The capacity utilization of hydro potential in the countries like Norway, Canada and Brazil is 58, 41 and 31, respectively, whereas that of India it is only 17 per cent so far as the hydro potential is concerned (Rejikumar 2004). The annual losses of the SEBs have reached a level of 26,000 crore. SEBs are the defaulters in paying the dues to the Central Power Sector Utilities (CPSUs) and the dues have accumulated to Rs. 40,000 crore and every year an amount of Rs. 20,000 crore is lost due to theft with technical and commercial losses being 15-20 per cent and 20-25 per cent, respectively, in India (Report on India’s Power Sector 2003).

So far as the rural electrification is concerned a lot has to be done. Forty two per cent in Uttar Pradesh, 53 per cent in Bihar, 78 per cent in Jharkhand, 50 per cent in Meghalaya and 23 per cent in Assam has to be electrified. The household electrification is dismal. Only 43.5 per cent of households in India have got electricity connections. Thus a substantial percentage i.e. 56.5 of the households in India have no access to electricity (www.indiastat.com)

1.4. The Orissa Power Sector

In accordance with the provisions of Electricity supply Act 1948, the Orissa State Electricity Board (OSEB) was formed in 1962, which became the only institution for carrying out three major activities such as generation, transmission and distribution of electricity in the state. The state government of Orissa served the financial requirements of OSEB for all these activities. However, in early 1990s the state government was in a poor financial condition. The revenue deficit of Government of
Orissa (GoO) stood at 1877.1 million rupees in the year 1991/92 as against a surplus of 279.8 million rupees in the year 1982-1983 (www.orissagov.com). The state domestic product was second lowest and 48.56 per cent of the population was living below the poverty line during early 1990s. Therefore, the government of Orissa could not make budgetary allocations for the state’s power sector as per the requirement. This affected the power sector activities in the state.

The installed generation capacity of the state was 1632 MW in the year 1991/92 which was inadequate for catering to the need of the demand in the state (Ramanathan and Hasen 2005). The state’s peak deficit was 23.9 per cent and an energy deficit of 7 per cent (Planning Commission 2001). At the national level the deficit was 18.8 per cent and 7.8 per cent in respect of peak and energy, respectively (Ramanathan and Hasen 2005). The gap between the average cost of supply and average tariff was increasing in the state. It increased from 8 paise in 1989/90 to 1991/92 to 18 paise (Ramanathan and Hasen 2005). The OSEB was overstaffed which is evident from the fact that in Orissa the number of employees per million units of energy sold was 6.2 as compared to the national average of 4.5 (Ramanathan and Hasen 2005).

In order to address these problems in the sector, as in different countries of the world, a series of reforms have been initiated in the power sector in India. These include competition through private sector participation, unbundling of the SEBs, corporatisation and independent regulation through regulatory commissions.

1.4.1 The Reform Process

The Power sector Development Policy of the Government of Orissa states, “As a pioneer among the states in India, the government has embarked on a radical programme of reform to address the fundamental issues underlying poor performance. We have decided to restructure the state power sector and substantially privatize the power sector in Orissa to make power supply more efficient and to be able to meet the investment needs of the sector. The government’s ultimate objective is to provide an appropriate policy environment for growth of power sector and withdraw from it as an operator of facilities, having instead privately-managed utilities operating where feasible in a competitive environment under an appropriate regulated power market. Power sector industry and market structure being established under the reform
programme have been defined so as to facilitate the realization of this ultimate objective. Significant private sector participation is has to be achieved during the implementation of the proposed bank loan which we are seeking to support our power sector reform programme” (Government of Orissa, 1996).

Orissa is the pioneering state in India to introduce reforms in its power sector since 1991. The important components of reforms in power sector includes the unbundling of OSEB by structural separation and corporatisation of generation, transmission and distribution, establishment of Orissa Electricity Regulatory Commission (OERC) for power sector regulation and the protection of the interest of the consumers and the privatisation of distribution business of electricity by four companies like Northern Electricity Supply Company of Orissa Limited (NESCO), Western Electricity Supply Company of Orissa Limited (WESCO), Central Electricity Supply Company of Orissa Limited (CESCO) and Southern Electricity Company of Orissa Limited (SOUTHCO) through the passage of the Orissa Electricity Reform Act, 1995 coming into force on 1st April, 1996 (Report of the Committee on Power sector of Orissa, 2001). The other components of reform in the sector which provides an opportunity for the participation of the consumers in the decision making as well as in the service delivery process include the constitution of the Village Electricity Committees (VECs), State Advisory Committees (SAC), District Level Electricity Committees. A detailed discussion on the institutional aspect of reform in the state power sector has been given in the second chapter in this dissertation.

In brief, the aim of reforms in Orissa is to bring economy and efficiency in the power sector, to bring accountability on the part of the service providers, to attract private sector investment, to establish an independent transparent regulatory regime. Besides these objectives, providing reliable, adequate and qualitative service to the consumers as well as protecting their interests through an effective grievance redressal mechanism has been the important objective of the reforms of the power sector. With this background of power sector reforms, the following issues can be raised.

- Whether the objective of reforms in the sector to provide the quality service in terms of reliability, adequacy and the effectiveness has been fulfilled or not?
- How effective has been the service delivery system in terms of the consumer satisfaction?
What has been the level of responsiveness and the accountability of the service providers in delivering the services?
- What are the strategies taken to make the delivery system effective?
- How the grievances of the consumers are redressed?
- What has been the financial status of the power sector?
- How the regulatory commission, the distribution companies and the middle as well as the lower level institutions are working?
- Whose interest are involved in the reform process?
- How the equity aspects have been addressed in the reform process?
- Who are the losers and gainers of the reforms in the sector?

Precisely, the questions of efficiency of the Orissa power sector, the quality of service delivery, impact of reforms on different categories and the role of consumer participation are important ones which need to be assessed within the context of reforms which can help in delineating the broader question of effectiveness of state and market as the actors to deliver infrastructure services.

1.5 Researchable issue

The generation and distribution of power need to be operated simultaneously as it is a non-storable good. Thus, transmission and distribution is a big problem in the power sector. The T & D loss is one of the reasons for the non-viability of the sector. After the supply of the power there is a need of proper billing and collection of the revenue. The reduction of theft is another task in the power sector. Thus, the issues like T & D loss, Billing & Collection, and Theft are the important indicators to measure the efficiency of the power sector. All this is about the question of efficiency.

Another important question is relating to the equity in the power sector. The power being a very essential service, which has taken the form of a merit good must be available/accessible to all irrespective of poor and rich and region. If some section is poor and needs special treatment for maintaining equity, then the subsidy issue becomes important. Who needs subsidy, how the needy can get the subsidy and who should provide subsidies are the aspects requiring special treatment. Again, some section of society use power for industrial and commercial purposes earning greater profits. These categories of consumers are charged more than the price required for
the cost of production in order to cross-subsidise the other category of consumers like
domestic and agricultural. The subsidy, which is given to the needy, is reaching them
or not requires examination. This is the question of equity.
Third major question is on the question of effective delivery of services to the
ultimate consumers. Power cut, fluctuating voltage, low voltage, electrical accidents,
mechanical breakdowns, technical defects due to burn outs etc. keep the consumers
dissatisfied and many areas remain dark due to prolonged power cuts particularly in
rural areas. As a consequence of repeated power cuts and low voltage, the consumers
spend extra money for alternative arrangements for lighting. Billing arrears and meter
problems cause untold sufferings on the consumers. Lack of proper response on the
part of service providers and long time taken for the redress of the grievances and
repeated visit by the consumers to the offices add to the worries of the consumers.
Therefore, the question of effective delivery of services is another major issue in the
power sector.
Regulation of the power sector constitutes another important dimension of its
governance. The generating, transmitting and distributing utilities are to be regulated
properly so that they comply with the rules and regulations of the contract in the areas
of tariff, service standard, grievance redress, maintenance of power equipments etc.
Proper regulation can ensure efficiency, equity and effective delivery of services.
Thus, the above-mentioned issues like efficiency, equity, and delivery of service and
regulation are the important questions in the governance discourse of the power
sector. As per the literature and findings of some committees, the reforms have failed
to achieve the desired results. If State Electricity Board (SEB) failed in pre-reform
period which compelled the states to reform the sector with institutional as well as
policy level changes, the privatisation and other reforms in the sector in post-reform
period have also failed to achieve the expected results (though there are variations
from case to case). This has helped the rise of the ongoing debate on reforms
worldwide. The present research, therefore, aims at exploring the reforms initiated in
the Orissa power sector and its impact on service delivery, equity and efficiency.
Now, the research problems are - whether these objectives are achieved or not? If not,
for what reason/s? Is there any study to explore these questions? What are the causes
of poor functioning of the power sector? Has the status of the service delivery
improved? How the electricity service can be equitably distributed? The following
literature review will through some light on these questions.
1.6 Review of Literature

1.6.1 Studies on Efficiency

The major concern for the power sector has been the declining efficiency. But the question is what the reasons for such declining efficiency are? Whether the nature of the regime i.e. public or private control is the explanatory variable, which can be attributed to efficiency issue in the sector? There are many studies on the issue. Pollit (1995) found the evidence of productive efficiency of private plants taking the data from 768 power plants of 14 countries. Thus, he finds that the power sector does well in terms of efficiency while within the control of private utility.

Some studies found that privatisation helps in poverty reduction (World Development Report, 2002; Anand and Ravallion, 1993; Barro 2000; Dollar and Kraay 2000; Gallup, Radelet and Warner 1998; Gugetry and Timmer1999; Ravallion and Chen 1997; Ravallion and Dutt 1999; Roemer and Gugetry 1997; Srinivasan 2000; Timmer, 1997) and privatization in broadly competitive markets, in a large number of cases across all types of countries yielded better results than the alternative to state ownership and privatization has improved, in many instances, productivity and profitability of firms (Bernal and Leslie1999;Boardman and Vining 1989; Bobakri and Kosset 1998; d’Souza and Megginsion 1998; Earl and Estrain,1998; Frydman and others 1999a, 1999b; Havrylyshyn and Mcgettigon 1999; Jones, Jamel and Gokar1999; Laporta and Lopez-de-Silanes,1997; Megginsion,Nash and Van Rodenbourg1994; Newbery and Politt 1997; Pohl and others, 1997; Sachs, Zinnes and Eilat 2000; Sheshinski and Lopez, Calva 1999, Shirley and Walsh 2000).

Financial difficulties of the State Electricity Boards are mainly due to the burden of providing power at subsidised rates to some sections of consumers particularly to farmers and residential consumers without compensation from the government and where governments have provided compensation it has led to fiscal crises of the governments so providing. Inefficiencies of the organisations partly facilitated by the state ownership and lack of autonomy, accountability (Kannan and Pillai, 2002). The Committee on Power (1980) found inefficiency of the SEBs and attributed it to the work culture of its employees and the nature of the accountability of its employees. Some studies find the problems of the power sector in the nature of their internal functioning, and the time and cost overrun are the two major reasons for the problem.

However, some studies like Kwoka (1996) Pescatrice and Trapani (1980) Newberg (1977) DeAlessi (1974) Meyer (1975) found the evidence of cost efficiency and profitability of the public owned utilities by comparing the data from both the publicly as well as the privately owned utilities.

Shankar (2003) attributes the failure of the sector to comprehensive mismanagement of commercial aspects, liberal tariff for agricultural consumption and issues of governance at the distribution level. Sarkar (2002) studies the Privatization of the infrastructure services and opines that success of this depends on the reforms in Indian legal system, introduction of the competition laws, reforms in labour laws and the strengthening of the civil society. Phadke et.al (2003) studied the Electricity reforms in India and suggests that the change in ownership through privatization alone cannot bring efficiency in the sector. Ganesh (2001) studied privatization of the power sector of India and suggested for the removal of corruption and inefficiency by increasing transparency, accountability and making autonomous regulation. Kannan and Pillai (2001) shed light on the significant aspects of inefficiency cost involved in SEBs functioning, by focusing on the technical, institutional, organizational aspects of the SEBs. According to this study the problem of the sector lies in the ineffective functioning of the sector, which is internal, and the reforms, which give priority to privatization, cannot solve the problem of inefficiency in the sector. Krishaswamy et. al. 2003; Bhattacharyya 2007) conclude that focus on comprehensive commercialization, tariff reforms, reliable and fair regulatory mechanisms, improvement of governance structures and corporate governance must precede emphasis on restructuring and privatization of the sector. Michel et al. (2003) suggested that in order to achieve success in reforms the measures like adoption of a legal and regulatory framework based on the principles of efficiency through competition market governance structure including an independent regulator based on the principles of transparency and non-discrimination have to be taken.
Thus, on the basis of this brief review of literature on efficiency of power sector, three factors relating to the efficiency issues can be outlined. First, in some cases the efficiency of the sector is achieved when the private utility is the owner. Second, contrary to this, some studies found that public ownership leads to efficiency. Third, some other studies take a different stand highlighting the factors like commercialization, tariff reforms, reliable and fair regulatory mechanisms, improvement of governance structures and transparency are crucial for the increased efficiency of the sector.

These brief reviews of literature reveal that privately owned enterprises lead to efficiency and profitability. It can be said that the profitability and the efficiency of the enterprises do not always lead to effective delivery of services and consumer satisfaction. Thus, the public or private ownership and its relation to efficiency is inconclusive as contradictory evidences are found. That means the problem is more with the nature of the functioning of SEBs rather than the nature of ownership (private/public).

1.6.2 Service Delivery

Some studies reveal that lack of cooperation, coordination, stakeholders’ participation and bureaucratic hurdle are the hindering factors for making service delivery ineffective (Punyaratabandhu-Bhakdi et. al. 1986) and suggests for the participation of the voluntary organizations, associations, groups, replacement of the purely bureaucratic structure, extensive coordination, high level of motivation, decentralizing the power etc in order to make the service delivery effective.

Some studies on service delivery systems of different departments like power, water, sanitation, transportation and communication found the problems like lack of efficiency and responsiveness, corruption, delay, staff misbehavior and customer harassment (Paul et. al. 1995, 1999; Balakrishna et.al.1998).

Klein et. al. (2003:160/161) found that in the societies where governance is characterized by lack of credibility, incidents of corruption, subsidies promoted by populism, reforms like privatization is hindered and resources are inefficiently used or abused by vested interests.

Improving the delivery of public and collective services require closer partnerships with the private sector and civil society. Such partnership is to be encouraged
especially when the link between the state and civil society is underdeveloped (World Development Report, 1997). Klein et.al. (2003:129) view that even after reforms in infrastructure services, the quality of the government institutions determine service standards. Bray (1999) De Silva (2000) view that community organizations and other non-profit organizations can help in the process of contracting out and monitoring of service delivery. Klein et.al. (2003:128) observe that the free entry of the entrepreneurs and threat to exit on the part of the consumers increases their interests and provides the incentives for the entrepreneurs to upgrade the practices and be responsive to consumers’ needs. Guiso, Zingales and Sapienza (2000) view that institutional characteristics such as good governance, social capital and trust are important for the improvement of the service delivery through privatization. These studies of the delivery systems in different sectors in different countries basically give importance to the factors like coordination, cooperation, community participation, NGO & private sector participation for the success of the delivery system. Interestingly, the above literature has brought Civil Society as an actor in facilitating delivery of goods and services. After reforms in the power sector some actors representing civil society like village Electricity Committees, Commission Advisory Committee and District Level Committees and Consumer Associations (detailed discussions are given in the next chapter) have been brought to the scene. As far the literature is concerned there is not enough study regarding the operations and the impacts of these organizations. Moreover, the service delivery in electricity sector is different from that of the other services as it is monopolistic in nature due to the fact that it applies to the economies of scale (more the production less is the cost of production, so multiple provider is discouraged). The present study intends to study the delivery process in the sector, which is not adequately studied so far.

1.6.3 Losers or gainers of reform/Cost-Benefit Issue
Very often reforms are opposed by certain sections of society as the reforms are apprehended to affect the interests of the section those who oppose. Sometimes, if the reform implementers feel that the reforms will cost them power and authority do not
properly implement the reforms. In power sector the reforms have created a lot of space for the markets and reduced the state power. Its implication is the reduction of the power of the bureaucrats. This is why, in many cases, the employees’ association opposes reforms. In case of politicians, they will not be willing to initiate reforms if they think that reforms will hinder the prospects of winning elections. These are some of the non-economic factors, which are important to understand why certain reforms fail and why reforms are initiated.

Within the scope of cost-benefit of reforms and its impact on reforms, the following questions can be raised.

1. What factors facilitate/hinder reforms?
2. Who are the losers/gainers of reforms?

In this respect Jenkins (1999) writes in a democratic state, reforms are opposed by
(i) farmers fearing the loss of subsidy
(ii) protected industrialists fearing competition
(iii) party leaders fearing the illicit spoils of the office

The reforms initiated by Rajiv Gandhi in India failed due to these factors. The reforms by Rao government, however, could sustain. The reasons given by him are
(i) the realisation on the part of the political leaders of the fact that reforms have no hard and fast rule and they can dictate the course of reforms
(ii) the adoption of the divide and rule tactics by the rulers by providing some kind of incentives to the powerful interest groups (reform by stealth)
(iii) the working of both the formal and informal institutions in the states in a favourable manner

What is implicit from Jenkins study of the Indian reform process is that reforms are half hearted, incentive driven, not properly sequenced and adoption of the deceitful tactics by the actors who were convinced that their interests will not be hampered.

Thus, it remains much to be seen what are the impacts of reforms in power sector: how the interests of different actors involved are safeguarded or hampered and whether or not it has been properly sequenced

Myrdal (1970:229) finds the inability of Indian State to reconcile economic development with redistribution, as it is a “soft” state. He writes “The soft state is characterised by a general lack of social discipline … signified by deficiencies in … legislation and, in particular, in law observance and enforcement, lack of obedience to
rules and directives handed down to public officials on various levels, often collusion of these officials with powerful persons or groups of persons whose conduct they should regulate and, at bottom, a general inclination of people in all strata to resist public controls and their implementation. Within the concept of soft state belongs also corruption”.

Myrdal’s idea is that a weak state characterised by corruption, lack of compliance to rules and lack of proper co-operation between officials and citizens cannot register economic development. Reform is a means to an end and the end is development. Power being a very essential commodity, which is indispensable for socio-economic development, is often considered as a political good. Elections are fought on the promises made for providing electricity free of cost to the electorate. The net losers are those poor who are not in a position to avail electricity services on account of lack of purchasing power (Kannan and Pillai 2001). Enron’s power project disaster in Maharashtra and other power sector contract deals in different states in the name of reforms tell the story of corruption and non-compliance to rules and regulations in which bureaucrats and politicians are involved (Transparency and Accountability issues).

Frankel (1978) studies the political economy of India’s Development from a neo-Marxist perspective and documents that government policies are determined by political compromises made by influential political leaders to the powerful interest groups and factions that made up India’s ruling policies in rural India, the relative power of the propertied interests in bargaining and negotiating and marshalling votes for political support resulted in the victory of conservative forces. She attributes these factors to the question as to why reformist and distributive efforts failed in India, despite strong commitment of national political leadership to guide the society towards the socialistic pattern of society.

If these forces mentioned by Frankel hinder the redistributive reforms, then the question arises as to how we can think of any reform at the present stage without addressing the present status and solution of the above-mentioned problems or whether these problems have faded away so that the present reforms would be fruitful. This is an interesting question for investigation.

Rudolph (1987) depicts India as a political and economic paradox, a rich-poor nation with a weak-strong state. It is strong because, it controls the commending heights of the economy and it is weak because of its incapacity to govern wisely and well which
stems from the personalization of politics and the deinstitutionalisation of political structures, of procedural norms of parliament, of courts, of police, of civil service and of federal system. The solution to Rudolph is principled politics with responsive leadership and strong grass-roots organisation committed to liberal democratic norms and procedures of governance, accommodating political aspirations and economic needs of all the groups in the society.

Thus, any reform initiated according to Rudolph must take these factors into consideration. In other words, the reforms cannot be successful in a regime characterised by weak governance.

Kohli, (1978) emphasizes on the variables like regime types and state characteristics so far as society’s development is concerned. For Kohli, the failure to achieve growth with distribution in India is rooted in the weakness of the democratic regime. The solution to him, lies in the strong autonomous developmental state, or state which is strong with stable leadership and pro-poor ideology and a closed organisational structure with a disciplined party cadres that can facilitate economic development with redistribution in India (West Bengal).

Present reforms, so far as power sector is concerned are pro-market rather than being pro-state. State is retreating in the sense that instead of rowing, it has taken the role of steering. Whether only the regime types and characteristics of state or the other factors like ideology, economic interests, political policies and ground realities do affect the reform results, demands a focused study.

The success of economies of East-Asian countries and others like Japan, Germany, South-Korea, Taiwan has been attributed to the developmental state, with its interventionist stand to govern markets effectively and the synergetic action between markets and state. The growth has been registered with redistribution in these countries (Amsdem, 1989; Wade, 1990).

Some have attributed the failure to administrative and bureaucratic inertia and corruption (Malaviya, 1954; Jannuzi, 19974; Neale, 1962 and Uppal, 1983) some others have attributed the failure to inconnectivity of soft state and political will (Myrdal, 1968; Moore, 1966; Tai, 1974) so far as the failure of reforms are concerned. Herring (1983) argues that it was at the village level where the socio-economic power the rural elite is mostly visible, that the reforms were emasculated and gutted.

Other radicals argue that rural land reforms failed because the rural castes and classes, given their traditional authority and hegemonic power to manipulate and control the
provincial state apparatus, systematically undermined the reformistic measures (Beteille, 1974; Joshi 1975, 1982; Thorner, 1976)

Kohli, (1987) writes “the failure of the Indian land reforms were essentially a political failure, because the congress elites in aligning themselves with the rural power configurations ipso facto allowed these elites to capture political power and subvert the reformist policies at will”.

Sharma (2003) criticises the conventional idea that democracies are ill suited to reconcile growth with distribution. Making a comparative study of both India and Chile’s economic reforms taking the issue why Chile succeeded in reforms with human face and India failed in doing so both being the democratic states, he points out that it is politics or state’s institutional capacities that matter for the success of reforms with human face or social justice by equitable redistribution.

The manner in which the distribution of costs of economic reforms among different sections of society affects the pace of reform has been the focus recently of a number of studies. Fidrmuc and Noury (2002) provide a review of literature on this issue. Shantakumar (2002) studied cost-benefit analysis of Kerala power sector reform and found the evidence of middle class household getting maximum benefit & reforms propelled by political populism.

Roland (1997) used median voter preference to explain why governments are reluctant to institute marginal cost pricing in the case of publicly owned electricity utilities, in the context of Canada. The institutional issues and options for reforming Indian power sector are discussed in Dossani and Crow (2001). The performance of the state level public utilities in Indian power sector is analysed by a number of studies including Rao et al (1998) and Morris (1996). There are a number of writings critical of ongoing reforms in power sector in India including Phadke and Rajan (2003) and Kannan and Pillai (2001).

Upadhaya (2000) studied the power sector reforms in India, U.S.A, U.K., Chile & Argentina and found the success of power sector reforms in these countries. However, he finds the problems like ineffective distribution, employee’s resistance to reforms and poor rural electrification in India.

There are indications that pressures from different sections of society and their impact on political decision-making are major factors for the not-so successful attempts to reform the power sector in Indian states.
Non-economic factors such as the quality of leadership (at the political and bureaucratic levels), quality of the performance of bureaucracy, level of social capital and ideology of political party in power affect the pace of reforms (Fernandez and Rodrik (1991) and Dewatripont and Roland (1992a, 1992b).

The discussion on whether left wing or right-wing parties can implement reform easily can be seen in Williamson (1994), and Cukierman and Tommasi (1998). Rodrik (1996) and Fidrmuc and Nouri (2002). Rodrik (1996) distinguishes one set of empirical studies that focuses on myopia and irrationality of actors from the other set, which tries to explain how the interaction of rational actors itself could block even those reforms that are beneficial to society in overall terms.

Fidrmuc (2000) notes that support for reform is negatively affected by unemployment and by the proportion of retirees and blue-collar and agricultural workers, and positively affected by size of private sector and the higher white-collar workers. However, the situation can be different in countries such as India for particular reforms where white-collar workers and some sections of private sector can be the beneficiaries of non-reform. Similarly, it is to be seen whether poorer people can positively affect reform even if they are numerous and beneficiaries of reform. The risk-taking role of leadership is discussed in Weyland (2002). The concept of social capital is developed in Coleman (1990), and Putnam (1993) and recently reviewed in Dasgupta and Serageldin (2000). Government can influence the nature, extent and pace of reforms. Though quantitative data analysis on such issues are difficult in any context, a case study of Orissa power sector reforms will be helpful to understand the non-economic factors in contexts where reforms are being implemented.

The following questions are relevant in this regard.

1. What are the key achievements in power sector reforms in Orissa?
2. Which are the key variables (including non-economic variables) that could explain the performance of power sector reforms in the state?
3. How does reform in the power sector affect different sections of the society in the state?

There are the following three levels of costs (and benefits) to each individual or household:

1. The subsidy they receive for the electricity they consume.
2. What the consumers lose (or suffer) for the poor quality of supply of electricity or what they would be willing to pay for better quality of supply.
(3) Extent of loss (or gain) on account of non-viability (and inefficiency) of the power sector.

As noted by Bardhan (1997), the use of incentive analysis as part of political economy to analyse the governance problems of developing countries has started only recently. He has analysed issues such as corruption, centralisation and ethnic conflicts.

For example, Weyland (2002) analyses political decision-making in terms of general economic reforms in the context of a few Latin American countries. Krueger (1993), and Hellman (1998) discuss the role of interest groups. The discussion on whether autocratic governments or democratic ones are better positioned to implement reforms is elaborated in Williamson (1994) and Cheung (1998).

The importance of non-economic variables in explaining the pace of reform has been recognised by the economists themselves. For example, Roland (2002: 46) notes that it becomes necessary to have a more comprehensive picture of initial conditions, including political and sociological variables, to have a more precise idea on their effect on the initial choice of institutions as well as on economic policies. The net benefit (or net cost) is determined by the direct costs (for example, potential loss of subsidy due to reform), indirect gains in term of electricity consumption (for example, the reduction in expenditure on supplementary equipments due to the improvement in quality supply), and also the indirect gains in economy or public service as a whole due to the improvements in power sector. It is assumed that reforms would provide net positive gains for the society as a whole in the long run. However, specific sections of society may lose in the immediate context and there can be institutional problems in providing them compensation or giving credible commitments to compensate them ex-ante. (The uncertainty at the aggregate level on future benefits would determine the expected future benefits and influence the assessment of net benefit)

A review of the literature on the role of lobbying by interest groups can also be seen in Fidrmuc and Noury (2002). A few multi-country studies have used variables such as crises, shocks, democracy, and demonstration (learning) to explain the differential pace of reforms (Nelson, 1990; Lora, 1998; Abiad and Mody, 2003; Quinn, 2000; Simmons and Elkins, 2001; Rajan and Zingales, 2002). There are wide differences in political and institutional factors in the Indian states, variations in their political and social structure -- the incumbency of a regional as against a national party at the state
level, the relative independence of a chief minister, aspects of civil society such as social capital, literacy rate, and so on. Therefore, a specific case study of a particular state will help in assessing the determinants of power sector reforms and its conditions of sustenance.

There are some studies which reveal that the consequences of the power sector reforms have gone against the interests of the workers who lost their jobs, the poor who suffered due to the tariff hike reducing their purchasing power and thereby affecting accessibility of this essential service, service and reliability has come down affecting the interests of the general consumers and have increased their cost in making alternative arrangements due to power cut, increased pollution, small businessmen due to rate increase and blackouts, households due to rate increase, blackouts and less equity (Beder 2003).

Thus, if a reform is initiated there may be losers and gainers. While reforming a sector (particularly in privatization) during the reform process itself, the bureaucrats and ministers at the helm of affairs may get big amount as kickbacks by favouring certain bidders and awarding certain contracts to certain parties. This nexus between the private party and the ministers and bureaucrats affects the general citizens in the form of high cost of the service delivered by the private party which has happened in case of Maharashtra power sector reforms where Enron was given contract to generate and supply electricity to the consumers of the state after it paid heavy amount as kickbacks to the then ministers awarding the contract to it. The result was high price of the electricity it charged the consumers in order to recover the cost of kickback (Kannan and Pillai 2002). That means the corruption at this level is passed on to the consumers. So the general consumers lose in a reform process if it happens in this manner. After reform if the private service provider does not improve the quality of service, the consumers lose by making arrangements for the alternative service (in case of power sector, if there is power cut, the consumers make alternative arrangement by purchasing candle, kerosene or emergency lamp or generator). Another circumstance where the consumers may lose is if and when the service is not expanded (as private providers may not be interested in expanding the service which may be commercially discouraging). To what extent these factors influence reforms is an interesting factor of analysis so far as the ongoing reforms and their sustenance is concerned.
The issues of implementation are very important for the success of the reforms. The official responsiveness and accountability plays a great role in this process of implementation. The bureaucrats are not only important actors in policymaking; they are also key decision implementers. Therefore, the role of bureaucracy is crucial. Aligned with this is the issue of corruption.

From the above discussion on the issue of losers, gainers of the reforms process and the need of the accountability and responsiveness on the part of the bureaucrats, it can be said that a particular reform process may generate some losers and some gainers. Again, the implementation of the rules and regulations is important for the success of reforms and if bureaucrats feel that the reforms will affect their interest, they may oppose the reforms or/and will not implement effectively which is evident from the above literature review. So far as the assessment of the performance of bureaucrats in the implementation of the reforms is concerned in the state power sector, there is no specific study. This study seeks to examine this angle. The question of losers and gainers will highlight the issue of equity in the sector.

1.6.4 Studies on Orissa Power Sector


Out of these studies, the Kannungo Committee Report (2002) is a comprehensive one on Orissa power sector restructuring process, which studies all relevant aspects of the sector after the initial period of the reforms in Orissa. The report is basically a study of the Orissa reform process based on purely secondary data. The World Bank study (2002) is also a comprehensive one on the Orissa’s power sector. The study points out the Orissa power sector’s performance in terms of financial and operational aspects. This study is mainly based on the data collected from the OSEB’s office, which are secondary. Shankar et al (2000) study the tariff regulation of Orissa Electricity Regulatory Commission (OERC). The Kannungo Committee Report (2001) does not include the ground level realities of service delivery, the impact of reforms on poor
consumers and the responsiveness and accountability of service providers. The study also does not look at the functioning of the micro-level institutions that have been set up for grievance redressal and service delivery. World Bank (2002) is basically a study of the sector during pre-reform period and therefore, is not an assessment of the impact of reforms at all. Mostly these studies are the assessments of the supply side and the consumer aspect is not covered. The study by Rajan (2002) is a process restructuring study in which the whole process of the restructuring is reported and moreover, it is completely a supply side study. The study by Rao (2003) is an assessment of the regulatory institutions of Indian power sector. Ruet (2005) highlights the concept of ‘cost’ and ‘property rights’ which is alien to SEBs and finds that the SEBs are mere administrations. According to the study, procedural rationality followed by the SEBs and the lack of capacity on the part of the field officials to take independent action is one of the important reasons for waste and delays in the implementation of the decisions. The study attributes the failure of the reforms to this nature of the SEBs and prescribes for the enterprisation of SEBs before going for privatisation.

The above review of literature suggests that there are different factors associated with the failure and success of reforms. The role of government, bureaucracy, and political leaders as well as the civil society and the consumers are very effective variables while studying reforms. With regard to the Orissa power sector reforms, the studies found that the reforms in the Orissa power sector have failed. The present study, therefore, seeks to examine whether these factors have any impact on the reform process in the state and if yes then how. Again, it is found that some studies are on the functioning of the state electricity boards, some are on financial status of the sector on the basis of the cost benefit analysis, some are on transmission & distribution loses and some studies are on the functioning of the state electricity regulatory commissions. However, these studies do not cover the governance process and the service delivery system in the power sector. Rarely has any study dealt with the consumer aspect, which is the central aspect of the reform. Furthermore, most of the studies have been conducted on the basis of secondary sources. However, no study has highlighted the functioning of the office or officials at the grass-roots level, which directly deals with the consumers in day-to-day life. In the present study, an effort has been made to find out how the local electricity office solves the consumer problems, redresses their grievances and contributes for the viability of the power sector in terms
of billing, collection and metering and checking theft, the special treatment for the poor, impact of tariff rise on the poor consumers, the issues of rural electrification, the status of service delivery to consumers and the staff responsiveness, performance of regulatory structure, the role of consumer forums in the service delivery and service quality are the issues which the present study intends to examine as the studies reviewed above have not looked into these issues.

1.7 Objectives of the Study

The study examines the implications of governance reforms in power sector on service delivery, efficiency, and equity in Orissa.

The sub objectives of the study are:

- To study the institutional dimensions of governance (policies, laws regulations) in power sector
- To study the role of electricity regulatory commissions in tariff setting and dispute resolution.
- To study the effectiveness of the service delivery by assessing the level of the consumer satisfaction in terms of reliability, adequacy and responsiveness of the service provider across different categories of consumers.
- To study the implications of reforms on the disadvantaged groups and the poor
- To study the role of village electricity committee (VEC) and Franchisee (micro-privatisation) in delivery of services.

1.8 Theoretical Framework of the Study

Traditionally, we find two important and different theories/approaches on the state action in delivery of the goods and services in society. These are classical/liberal/individualistic approach to state action seeking active market involvement in the provisioning of goods and services to the citizens. Another philosophy of the state action is neo-liberal/neo-classical theory, which prefers state involvement.

Classical theory of state action holds that the market is the best institution, which can promote efficiency and productivity in economic activities. The classicalists like
Adam Smith (1776) Bentham (1789), J.S. Mill (1844), Spencer (1884) argue that free competition increases productivity, ensures efficiency and maximizes economic well being and the self-interest of the consumers leads to the demand for the things that are most useful to society, while the self interest of the producers leads to their production at the least cost.

The other theories within the classical framework, which advocate for increased competition and market involvement, are the Public Choice theory advocated by Duncan Black (1958), James Buchanan and Tullock (1962), and New Public Management advocated by Lane Jan Erik (2000), and Osborn Gaebler (1992). Rational Choice Theory generally applies the principles of neo-classical economics to political behaviour. The main assumption underlying this theory is that the political and economic actors calculate actions to maximize their utility or self-interests, and thereby act ‘rationally’. The unit of analysis here is the individual, whose behaviour is motivated by self-interest. Public choice is a variant of rational choice theory. Gordon Tullock and James Buchanan were the first to conceptualize it. Public choice theory can be understood as a more concentrated version of rational choice. The Public Choice approach is predicated on the axiom that individual political actors (voters or politicians) are motivated by their own self-interest in choosing a course of action to their best advantage. This basic hypothesis about human behaviour then extends itself to a complex series of related hypotheses to explain various aspects of public-policy making. Elections become an arena for competing politicians to serve personal interests in terms of status, income and power gained by being voted into office and the policy packages that politicians and political parties offer are designed to attract voters. Furthermore, the self-interest of intermediary actors such as bureaucrats leads them to enhance their budgets to the maximum, as grandiose budgets are in themselves a source of prestige, higher incomes, and other associated benefits. The subsequent monopoly they enjoy and the lack of competition for the most part enables these political actors to realize their self-interest, who continue doing so because citizens and elected officials lack the know-how and expertise to monitor such activities.

It can be inferred that if self-interest is the driving force for voters, parties, and politicians in the policy process, then voters will constantly seek more programmes from government, constrained only by their willingness to pay taxes, and that politicians, parties and bureaucrats will be willing to supply the programmes because
of their own self-interest in power, prestige and popularity. This can be seen in
democratic governments such as India, where perpetual electoral campaigns affect the
decision making process correspondingly – i.e., free power offer to the voters by
politicians without giving much thought on the consequences of this popular offer on
economy and on the power sector. The result is increasing state intervention in the
economy and society. Public choice theorists advocate the development of
institutions to restrict such utility maximizing behaviour, which serves the interests of
a few but, has adverse affects on society at large. Because people tend to act in their
own self-interest and maximize their own utilities, public choice theorists call for the
development of institutions, which are designed to channel such individualist
behaviour towards a common good, i.e. the interests of the group. Thus, they do not
consider all government actions to be undesirable, but instead argue that government
intervention should be limited to implementing and creating property rights where
these are inadequate or non-existent in order to facilitate the operation and
management of market forces in a manner that benefits all. In short, the government
should intervene only to supplement the market in a manner that benefits society at
large.

1.8.1 State failure – principal agent problem

Those who advocate for market playing a dominant role in delivery of goods and
services, take shelter under the Principal Agent theory to strengthen their argument.
Sappington et al (1991) makes a discussion on this. Principal–Agent theory is one of
the explanatory theories of the state failure in service delivery. Principal theory is
about how to get the employee or contractor (Agent) to act in the best interests of the
employer (principal) when the employee or contractor has an informational advantage
over the principal and has interest different from those of principal. If people are
principals as a group their representatives are their agent, if people’s representatives
are the principals, bureaucrats are their agents, if top bureaucrats are principals, the
employees in the department are their agents. The agents act on behalf of the
principals and the agents have information advantage over the principals. This helps
the agents to fulfill their respective interests at the cost of the principals. The natural
solution for this kind of situation is the institutionalization of rules. Those who see
this problem mostly associated with the state dominance, prescribe for privatization
leading to market dominance with the rules of property rights etc. It is argued that markets facilitate decentralized decision-making, maximize the benefits of resource allocation, and provide incentive for innovation.

1.8.2 Crisis of the State

The failure of the state often described as the ‘crisis of governability’ which has resulted from the factors like increasing lawlessness, inefficient and unresponsive bureaucracy, pervasive corruption both at political and bureaucratic level, ineffective judicial system, criminalisation of politics, use of money and muscle power in elections, political instability and erosion of legitimacy of authority etc. A survey of local entrepreneurs in sixty-nine countries shows that many states are performing their core functions poorly; they are failing to ensure law and order to protect property, and apply rules and policies predictably. Investors do not consider such states credible, and as a consequence growth and investment suffer (World Bank 1997). High levels of crime and personal violence combined with an unpredictable judiciary are described as the “lawlessness syndrome.” Weak and arbitrary state institutions often compound the problem with unpredictable, inconsistent behavior. Far from assisting the growth of markets, such actions squander the state’s credibility and hurt market development. The states were facing acute financial problems and therefore, could not provide so many services to the teeming millions. For example, in 1980 the number of people living on less than US$ 1 a day was 850 million and in 2001 it was increased to 880 million. In the education sphere, out of 155 developing countries of world, only half have built sufficient schools to educate 100 per cent of their children. According to a report of the World Health Organisation, 1.1 billion people are without access to safe water and 2.4 billion without adequate sanitation. A majority of the world population has been out of the infrastructure and health services. As governments were facing financial problems to make provision for such wide variety of services demanded by growing population they felt the need for the participation of the private actors and the NGOs to help them in dealing with the service delivery process. According to (Dowdeswell 2001), current attention to governance reflects the understanding that institutions have not kept pace with changes and challenges. This condition led to the erosion of state authority and its legitimacy. The germane
questions are whether the state is the only actor or the important actor or one of the actors to provide goods and services to people. Above discussions explain vulnerability of state action or the loopholes of the state role within the framework of classical theory of state action. There is another brand of theorists, which supports the state role in the delivery of goods and services. The theories, which explain the utility of the state role, come under the Neo-Classical theory of state action.

Neo-classical theorists like Green 1928 (in Nettleship 2006) and Laski (1948) have, on the other hand, argued in favour of state ownership of means of production and distribution of goods and services in society as according to them the state is the best institution to effectively address the questions of social justice and market failure situation. The scholars like J.S.Keynes (1936) supported state intervention in economic sphere. The neo-classical theorists of state action resort to various instances of market failure. These are: (a) Imperfect information access to consumers and investors could result in decisions, which are not rational, and maybe harmful. For example, unregulated pharmaceuticals are not compelled to reveal the negative side effects of drugs thereby causing citizens, who lack expertise knowledge, to become vulnerable, (b) Externalities or production costs not borne by producers, but instead passed on to those external to the production process is another instance. For example, effects of pollution from factories on surrounding residential areas and the environment (c) Tragedy of the commons or the exploitation of common property resources, which may have short term gains for the individual but, has long term negative implications for society is yet another instance of market failure. To take the example of depleting levels of scarce resources such as oil, water and forests posing serious threats to a sustainable future is cogent one in this regard. (d) Destructive competition between aggressive firms can have harmful effects on workers as they drive down profit margins, degrade working conditions, and reduce overall social welfare. MNC’s shifting bases to third world countries to exploit available cheap labour, including child labour, exemplify this failure.

The supporters of state action argue that activities with positive externalities such as education, art and culture, research and development; social peace and stability have a high demand in society but cannot be adequately supplied by the market.
Taking the above-mentioned points into account, welfare economists argue that the
government has a responsibility to correct market failures because the lack of
coordinated decision-making by individuals prevents optimal social outcomes.
According to this perspective, government should identify if a market failure is
causing a social problem, before it intervenes. It must evaluate its own capacity to
correct the market before doing so, in order to prevent government failures – such as
the inability to meet programme costs, excluding more viable market-based products
and services; or substituting public goals with private or vested organizational ones –
all of which only increase inefficiency.
The state intervention in economic sphere is justified mainly on two grounds: to
correct market failures in the provision of public goods and services and in the
presence of externalities and natural monopoly, and (ii) to ensure the execution of the
ideal of the welfare state. It is argued within the neo-classical framework that if the
benefits of productive efficiency outweigh the costs of the allocative efficiency, then
the society has a welfare gain. This is possible by maintaining a natural monopoly
organisation of a public utility. (Kannan and Pillai 2002).
It can be argued that a reform should be undertaken if it would have a positive welfare
economic impact. However, governments, as per the available literature, do not
necessarily perform social cost-benefit analysis prior to reform. One of the main
policy objectives of reform in developed market economies was to promote
efficiency. There are different theoretical arguments as to why private ownership and
market-oriented reforms might lead to greater efficiency. Pollitt (2002) classifies the
main relevant theories as: (i) property rights theories, (ii) bureaucracy theories, (iii)
influence theories, (iv) economic regulation theories, and (v) commitment theories.

In developing countries, the main policy objective is more likely to be a rise in the
rate of investment and a reduction in the cost to the public budget. Increases in
efficiency that reduce costs certainly help, but if prices are not able to cover both
running and capital costs, investment will be either curtailed or financed at the
expense of increasing public deficits. The counter-argument is that such privatisation
requires the government to create credible regulatory institutions and restore prices to
cost-reflective levels, and if it were able to do that, then the sector’s problems would
have been solved. Much, then, depends on whether public sector regulatory prudence
is better sustained with private ownership, or whether any government sufficiently
capable of successful restructuring, regulation and privatisation would also be able to manage a publicly owned electricity industry competently. Nevertheless, a poorly designed regulatory framework and lack of government commitment may negate the expected benefits of reform. Galal et al. (1994) stresses that arguments such as those explored by property right theories or by public choice and bureaucracy theories, are not applicable to all market structures. Furthermore, De Fraja (1993) shows that, within the framework of principal-agent theory, public enterprise performance evaluation and optimal contracts can be more efficient than the profit incentive of private firms. In addition, Pint (1991) suggests that regulated private companies and public enterprises exhibit higher inefficiencies, the former in the form of excessive use of capital and the latter in the use of labour, than the second-best efficient solution in the presence of natural monopoly. Besides, Megginson and Netter (2001) in their assessment of empirical studies on the privatisation experience world over suggest that there exists strong evidence that privatisation improves operating performance. Indeed, most of the reform measures being implemented have been known for sometime and their recent spread can hardly be explained as a consequence of theoretical innovations alone. Instead, the pressure to privatise has been underpinned by a combination of long running problems of underperformance in state owned enterprises and observation of the successful privatisation of leading reform countries such as the UK, Chile and Argentina. This has facilitated the paradigm shift in the relationship between the state and infrastructure and network industries can also explain a ‘push’ element toward the reform trend.

Schneider and Jäger (2003) identify three types of theory for the withdrawal of the state from infrastructure industries. They classify them into three main categories: (i) dynamic theories of diffusion and contagion - emphasising the inter-relationships and co-evolution of economies, (ii) structuralist and functionalist theories - stressing the inevitability of the withdrawal of the state as a consequence of structural changes in the economy and technological evolution, and (iii) actor-centred and institutionalist theories of political scope of action - opposing the notion of inevitable convergence across the countries and emphasising the feasibility of multiple and country-specific paths and models.

It can be argued that in all developed economies, state and interventionist policies played an active role and there is no theoretical reason that a more liberalised
economy will achieve higher allocative efficiency, or that higher allocative efficiency will necessarily lead to higher economic growth. As discussed, the predictive power of theory is limited with regard to the outcome of the reform of natural monopolies (such as the network businesses of the electricity sector), as this is dependent on how the sector is structured and regulated. Therefore, in order to enhance our understanding of the reforms, it is useful to examine and compare existing experience and evidence on the performance and determinants of reform (Jamasb, 2002; Pollitt, 1997). In particular, there is much work to be done on the detail of best reform policy. Empirical studies, especially those of the type reviewed in Megginson and Netter’s survey, tend to focus on simple comparisons of pre- and post-reform situations using narrow measures of financial and operating performance. As both reform and performance are multi-dimensional, it is important to examine the details of how each reform impacted on socio-economic variables.

Thus, we find two different theoretical arguments so far as the role of state and market in delivery of goods and services to the citizens is concerned. Pro-market theories justify the market intervention; the pro-state theories justify the state intervention in the delivery of the infrastructure services. As the present research is on power sector it is essential to see what are the experiences of state as well as the market involvement in the sector.

The above discussions on the issue of privatization in power sector give contradictory results. From the study of the literature, it can be said that the findings are not conclusive. In certain cases the state owned electricity utility does well whereas in certain cases the market owned. Thus, it can be said the results are location specific and contextual. In India many states have reformed their respective power sector. So far as the performance of power sector is concerned, we find that in both the cases - state and market involvement - has not made a real difference. In other words, the performance has not been satisfactory. The question, then, is what the reasons for such performance of both the market and states are. Therefore, it is important to know how different units of state apparatus really worked under the governance model characterized by state dominance. Similarly, it is important to know how the market institutions really worked under the governance model characterized by the dominance of the market. The next question is as to what has been the model/structure of governance both in the pre-reform and post-reform periods of power sector and what is the accountability, participatory or transparency mechanism prevalent in the
governance models of both the situations. Furthermore, the question of which model of the governance has been more helpful for the achievement of equity, efficiency and quality service delivery. And above all the question as to whether there is any relation of the governance model/structure with the resultant performances of the power sector in both the situation is germane to our analysis. The answers to the above questions may lead us to develop a model of governance, which will be helpful to achieve the objectives of efficiency, equity and quality service.

1.9 Governance: Concept and Development

As discussed above, the approaches adopted to study development process in general and power sector in particular are of two types: State centric and Market oriented. In the former approach the state is considered as the catalytic of development and it is theorized that equity and efficiency is best achieved by direct state involvement in the production and delivery of goods and services whereas in the case of the latter the market is concerned to be the best agent in this regard. However, so far as the power sector is considered the existing literature provide contradictory findings and therefore, the results are inconclusive on whether state and market is the best agent of development as evident from the literature review presented in the preceding sections of this chapter. It is also found in the literature on the power sector that governance is seen as a crucial factor for development in the sector. So governance is a new approach to development of the sector. Now let us examine the concept of governance and how it is crucial for development.

Governance has become a part of the international development vocabulary in recent times. Reforms initiated in the 1980s as a response to the failure of the state to deliver goods and services, gave emphasis more on economic stabilization to control wages and prices, adjustment, privatisation, and trade liberalization. However, these steps could not produce the expected outcomes. Therefore, some more in number and some different kinds of reforms in terms of variety became essential. The governance reforms include budgetary, judicial, legislative, and electoral institutions, at both national and sub-national levels. Reforms to these institutions have been described as a ‘second generation’ reforms, following a first generation reform of economic stabilization to control wages and prices, adjustment, privatisation, and trade liberalization. The second-generation reforms are intended to promote structural
changes in state institutions, particularly the political institutions in charge of economic policy formulation, implementation and oversight. This process focuses upon building sound decision-making processes, building commitment for poverty-reduction, and sharpening accountability systems. It includes institutional reforms that intend to promote macroeconomic management, encourage economic growth, protections for private property, rule of law and enforcement of contracts, deliver results-oriented services, management in the public sector, improved budgeting and auditing, decentralization, and ensure accountability through anti-corruption measures, merit-based recruitment in the public service, judicial reform, adopting anti-corruption, administrative and civil service reform, promotion of e-governance.

A widespread feeling prevailed among the policy makers, development practitioners and scholars that governance is crucial for growth and economic development with the publication of the World Bank Report 1989. In this report, From Crisis to Sustainable Growth, the World Bank mentions, “Efforts to create an enabling environment and to build capacities will be wasted if the political context is not favourable. Ultimately, better governance requires political renewal. This means a concerted attack on corruption from the highest to lowest level. This can be done by setting a good example, by strengthening accountability, by encouraging public debate and by nurturing a free press. It also means … fostering grassroots and non-governmental organizations such as farmers’ associations, cooperatives, and women’s groups”. The failure of the state to promote growth and development and the financial problems faced by the states to carry on the developmental works are the factors which compel the governments of the developing countries to increasingly seek the participation of market and civil society institutions in producing and delivering goods and services to the people. Different national governments also started showing due concern for the promotion of effective governance. Many studies have also found that the quality of governance of a country determines the success and failure of the development schemes and programmes (Kauffman et. al. 1999; Smith 1999). Thus, the concept has immense importance in the ongoing development discourse. In the next section a discussion on definition and meaning of the concept ‘governance’ has been presented.
1.9.1 Defining Governance

‘Governance’ has been defined as a process of governing (Webster’s Ninth New Collegiate Dictionary, 1998). United Nations Development Programme (UNDP 1997) defines governance as the exercise of political, economic and administrative authority in the management of a country’s affairs at all levels. It comprises mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences (www.ausaid.gov.au/publications/pdf/good_governance.pdf). Plumptre and Graham (1999) define governance as the way how governments and other social institutions interact, how they interrelate to citizens and how decisions are taken in an increasingly complex world. The Commission on global governance defines governance as the “sum of many ways individual and institutions, public and private manage their common affairs. It is a continuous process through which conflicting and diverse interests may be accommodated and cooperative action taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest”. Kaufmann et al. (1999) define “governance as the traditions and institutions that determine how authority is exercised in a particular country. This includes (1) the process by which governments are selected, held accountable, monitored, and replaced; (2) the capacity of governments to manage resources efficiently and formulate, implement, and enforce sound policies and regulations; and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them. The World Bank has defined governance as the manner in which power is exercised in the management of a country’s economic and social resources. The World Bank has identified three distinct aspects of governance (1) the form of political regime; (2) the process by which authority is exercised in the management of a country’s economic and social resources for development; and (3) the capacity of governments to design, formulate and implement policies and discharge functions. Organisation for Economic Cooperation and Development defines the concept of governance as the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development. This broad definition encompasses the role of public authorities in establishing the environment in which economic operators function and
in determining the distribution of benefits, as well as the nature of the relationship between the ruler and the ruled.

According to Rhodes (1996) the concept of governance is currently used in contemporary social sciences with at least six different meanings:

(i) The minimal State: As the name suggests, minimal state regulates minimum but crucial sectors like defense and law and order leaving rest of the activities like the provision of goods and services to market institutions.

(ii) Corporate governance: “Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return” (http://www.encycogov.com/WhatIsGorpGov.asp).

(iii) New public management: New Public Management is a management philosophy used by governments since the 1980s to modernise the public sector and enhance the efficiency of the public sector. This approach believes that more market orientation in the public sector will lead to greater cost-efficiency.

(iv) Good Governance: This is the kind of governance, which is participatory, consensual oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.

(v) Social-cybernetic systems: This implies the interconnections of the social organizations and flow of information to participate in the decision making process for better governance.

(vi) Self-organized Networks: Self-motivated group of people with similar interests or concerns interact and remain in informal contact for mutual assistance or support and thereby form networks. The networks, which are
built by different groups, facilitate their involvement and this is considered to be important for governance, as governance is participatory in nature.

These definitions of governance indicate that governance is not the exclusive domain of the state. It does not refer to a specific structure either. It is rather a process, in which different actors in a society cooperate, participate and negotiate for the realization of a cause.

1.9.2 Governance Structure: 20th Century versus 21st century

Traditionally, governance meant the performance of three structures of government i.e. legislature, executive and judiciary. Primarily, this is the 20th century concept. In this model, the governance structure was unitary in the sense that all the powers flow from higher authority to lower ones, centralized means peripheral units of administration were subjected to the regulation and control of the central unit of administration, and bureaucratic based on command and control, close in the sense that no public participation in the decision making, and slow in many cases due to officials rules and regulations. The departments were organized in accordance with the principles of hierarchy (lower officials being accountable to the immediate higher officials and control being exercised from higher to lower officials). Only one actor i.e. government played the role in almost every sphere of citizen’s life. Civil society participation in the governance process was limited and different departments of the government acted as a closed system. These departments were not directly accountable to general public. The accountability was only indirect. The elected representatives were accountable to legislature for the functioning of the respective departments. After the changes in the governance structure in 21st century, governance became federal (lower units of administration enjoying definite powers) or in places it became confederal with definite autonomy being enjoyed by lower authorities or units within the governance structure. Instead of directly engaging in the matters of governance, the government plays a role of steering and not that of rowing. The requisite changes have been initiated with substantial measures having been made for participatory, responsive, accountable, quick, competitive and transparent governance in the 21st century. The term ‘government’ is different from that of the ‘governance’ in the sense that while the former is a formal structure
consisting of legislature, executive, and judiciary being run in accordance with the rules of the constitution of the nation concerned, the latter is a process in which along with the formal structure of government, the other actors like business organizations and civil society institutions participate in the decision making and decision implementation process for the achievement of the set objectives. Governance can be understood from the perspective of policy and institution. The making of certain policy and the implementation of these policies by certain institutions constitute the core of governance. Thus, what we find from the above discussion is that governance is a new way or method of doing things. It is based on the philosophy of ‘beyond government’.

In power sector, the acute problems, which were felt, include: power shortage due to inadequate power generation, poor quality of power supply and other consumer problems. The gap between the demand and supply got widened. Government controlled State Electricity Boards (SEBs) became bankrupt and failed to pay the amount they owed to the Central Power Utilities. There was acute shortage of funds for the investment to generate required power and for operation and maintenance (O&M). With this background a need for private participation in the power sector was felt. Government became helpless in running the sector due to the paucity of funds. Therefore, the reforms were initiated with far reaching changes in existing policies and institutions. The changes in the existing policies and institutions facilitated the private participation in the sector. It also created many institutions for the solution of the consumer problems. The opportunities were given for the civil society participation in the sector in order to strengthen voice of the consumers. Various measures were taken for more transparency and in making the supply side accountable. Thus, in the changed model of governance, the role of the market, state and civil society institutions have been redefined and the present study makes an investigation of the impact of this governance reforms on the power sector from the efficiency, equity and service delivery perspectives.

Governance is a process of doing and getting things done to the satisfaction of the parties/stakeholders involved in a particular process. Therefore, the governance framework does not prescribe specifically whether the state should deliver or the market. Rather the governance framework allows a scholar to get into the whole process of decision making and decision implementation to study the actual
happenings in detail. Instead of focusing on the notion of state or market management or delivery of services, the factors like transparency, accountability, participation, equity, and rule of law are prioritized in the governance process. If the approach to development is participatory and transparent and the decision makers and its implementers are accountable then this process fosters development. Proper emphasis on the need and capacity of the disadvantaged given.

Within the governance framework, the factors like problems of the power sector and the related questions and issues as to why the problems persist, how they can be solved, how the equity issue is addressed, etc. can be studied. This kind of approach will help the researcher to study the sector from different angles, which can explain the realities of the power sector. The findings of the study can be used to link with broad theory in delineating the effectiveness of the actors involved in the service delivery.

1.10 Methodology

Secondary data on reforms, policies, institutions etc. were collected from existing literature, websites, offices, reports of various committees set up from time to time, OSEB annual reports, GRIDCO publications, books, magazines and journals etc. Details of such secondary sources have been given in the references.

1.10.1 Data collection

Demand Side

The primary data were collected from the consumers of the state through the technique of interview schedule and focus group discussion. Twelve villages in all were chosen on the basis of purposive sampling and three villages from each DISTCO were chosen, again, on the basis of purposive sampling. Twenty-five households were selected on the basis of random sampling from each village. The total number of respondents chosen was 300 from all twelve villages from four Distribution Companies like CESCO, WESCO, NESCO and SOUTHCO (these four companies

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1 In order to assess the quality of service in three different institutional settings – Utility (DISTCOs), Village Electricity Committee (VEC) and Franchisee, the villages for study were selected on the basis of purposive sampling as these institutional settings were not existing at all the electricity section in the state. So purposively these were selected from the electricity sections wherever available.
are carrying out the electricity distribution work in Orissa). The rationale for choosing three villages from each zone is that there are villages where village electricity committees are working, there are certain villages where collection and billing is looked after by the entities called franchisee on the basis of commission and there are certain villages, which are under utility control. The three villages, one village with Village Electricity Committee, one village run by franchisee and one village under utility control have been chosen for the study from each Zone to examine the differences of differential institutional impact. Village committees were studied by the method of focused group discussion. Scheduled method was followed to collect data from the households having electricity connection to assess the service delivery in terms of service quality, reliability of the service, staff responsiveness to the problems of the consumers and grievance redressal of the consumers.

**Supply side**

There are certain institutions like distribution companies which distribute electricity to the consumers, electricity section offices which deal directly with the consumers, regulatory commission working as an umpire to set tariff to be collected from the consumers by the distribution companies, to determine the standard of service quality and service delivery and to settle the disputes among/between distribution companies and consumers. In order to assess the performance of these institutions the secondary data were collected on aspects like time taken for disposal of disputes, redressal of grievances and efforts taken to implement the policies etc. Interview method was followed to study the experience/opinions of the officials/engineers/linemen of the regulatory commission, utility and section office and the issues of service delivery, rural electrification, law and order problem, role of government, impact on reforms, regulation etc. The presidents and secretaries of the consumer organizations, experts, members of the State Advisory Commission (SAC) were interviewed for the assessment of different aspects like quality of service, accountability of the service providers, activities of the DISTCOs, rural electrification, manner of the functioning of the SAC etc. Data relating to the transparency and efficiency of the Regulatory commission were collected from the annual reports prepared, tariff orders of different years, public hearings conducted, consumer consciousness programme organised and disputes settled.
1.10.2 Variables for Assessing ‘Governance’ of the Power Sector

To assess the governance of the power sector, the dimensions like service delivery, equity and efficiency and consumer involvement are to be taken into consideration.

- **Service delivery** has been assessed by the factors like service quality in terms of voltage status, reliability of service in terms of prior information given before power cut and frequency and duration of power cut, grievance redressal, complaints lodged and addressed, staff responsiveness (behavior of staff, time taken in correcting the mechanical troubles etc, staff visit to check theft, Linemen visit to the villages,) speed money demanded for providing service. Grievance redressal of the consumers – in terms of time taken, money demanded, restoration of supply, metering & billing, collection.

- **Equity:** Service covered (village & household electrification), subsidy, special treatment *kutir jyoti* scheme under which electricity connections are provided for the people below poverty line free of cost), harijan *basti* (backward castes) electrification, tariff, cost of power cut, irrigation pump sets energized

- **Efficiency:** T&D loss, collection, metering, billing, investment.

- **Consumer Involvement:** consumer participation in tariff setting and setting standards of service, manner of Village Electricity Committee functioning

The standards of service delivery as to how much time the officials take to render a particular service to the consumers, what should be the maximum time limit for power cut and power restoration, how long should the officials take to solve the billing and metering problems of the consumers etc. have been set by the Orissa Electricity Regulatory Commission. However, to what extent these norms are respected by the distribution agents have been studied.

1.10.3 Data Analysis

Collected data were entered into computer and the SPSS and Excel packages were used to create charts, tables, and frequencies. T test was done to compute the significance of the subsidy received and level of income of the consumers in order to assess the gainer and loser of the tariff hike and the gainer and loser of the subsidy.
policy pursued in the reforms in the sector. The analytical framework for the analysis of data adopted in the thesis is descriptive and explorative in nature.

1.11 Timeframe of the Study

The timeframe of the study extends from February 2003 to February 2007. The primary data was collected from the consumers, officials, consumer activists, office bearers of different organizations related to power sector from December 2004 to May 2005. The secondary data was collected from the beginning of the study to the point of completion i.e. February 2007.

1.12 Governance (Policy and Institution) and Expected Outcome (Efficiency, Equity & Quality Service)
1.13 Chapterisation of the thesis

The thesis contains eight chapters. The first chapter is the introductory one, which focuses on background of the study, research questions, literature review, framework of the study, theoretical framework and relevance of the study. The second chapter deals with the institutional dimensions of governance reforms in power sector. The third chapter deals with the regulatory commission in the governance of the sector. The fourth chapter deals with the efficiency issues. The fifth chapter assesses the impact of reforms on the service delivery in terms of efficiency, adequacy, reliability and staff responsiveness. The sixth one discusses the implications of reforms on disadvantaged groups and on different consumer categories. The seventh chapter discusses the enabling factors facilitating or hindering reforms in Power Sector. The final chapter is the overview of the study, findings and policy suggestions.

1.14 Limitations of the Study

The assessment of service delivery in the state has been made on the basis of three hundred samples and while choosing the sample of three hundred, only domestic category consumers have been selected in order to make the study manageable. This is one of the limitations of the study. The data on the efficiency of the Orissa power sector was collected from different sources and with that an overall assessment of the efficiency of the sector has been made. The study has not made assessment of the efficiency of the individual DISTCOs as specific data on different parameters regarding their performance could not be collected. A consistent time series data on efficiency and some of the equity aspects was not available from a single source and was collected from different sources and in some cases the data given in a source differed from other. Therefore, in few tables given in this dissertation, the data source and base year of data are not uniform. This is the third limitation of the study. These limitations are humbly acknowledged.

1.15 Relevance of Study

(A) Power sector reforms are a worldwide phenomenon. While developed countries have reformed their respective power sectors with the intension of bringing efficiency through competition, the developing and transitional countries are reforming their respective power sectors more for the financial reasons. However, the components of
reform are similar for both categories of countries. Moreover, the reforms in developing countries have not been so successful. This gives an impression that the reforms in the form of privatization and restructuring may not offer solution. The non-economic factors like participation, accountability, transparency, law and order, responsiveness of bureaucracy, corruption, quality of regulation etc. may be important variables for the sector. The present study makes an attempt to study these factors, which will be helpful for those who are initiating for reforms in power sector for the fact that these variables have not been adequately emphasized in most of the existing studies.

(B) Market driven reforms are taking place with the assumption that efficiency and accountability can be ensured through markets rather than the state in the production and distribution of goods and services. However, in many cases the state run electricity sector has done well. In some cases the reforms have failed. Thus, it is context specific. Further, so far as the monopolistic service like electricity is concerned, its privatisation is quite different from that of the other services. Thus, this study has made a humble effort to find the factors responsible for making reforms not so successful in power sector.

(C) The issues like what category of consumers have been affected and to what extent, the needs and the interests of the consumers have been properly addressed, what has been the level of efficiency of the delivery system at the end users level and how the equity and social justice issue is addressed in the reform process has been studied by this study and can help policy making. Many studies just compare the macro data of pre-reform and post-reform period and offer conclusions on failure or success of reform. Again, most studies test whether state or market run utility is better performer. In this study an attempt has been made to make a case study of Orissa power sector to explore relatively ignored issues of equity and quality of service.

(D) As reforms are underway in the power sector, the findings of this study may provide practical and valuable insights for the policy makers and researchers for designing the governance model for better results. These points make the present study relevant.