

**Some Comments on  
the Timing and Sequencing of Power Sector Reforms,  
and the Preconditions of Reform.**

**by  
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“Reform” in the power sector can mean different things in different contexts: it might mean unbundling with or without privatisation; or separating the “wires” from the “supply” business; or merely privatising; it might mean replacing Government control by independent regulation, or it might mean deregulating. In developing countries (and most certainly in South Asia) the key element, regardless of the model adopted, is the relinquishment of Government control both over the management of utilities and over regulatory decisions.

If we are to understand the motivation for reform, we have to appreciate its political nature. The mere fact that the power sector within a given political jurisdiction is performing badly, whether in terms of its commercial performance or even of the quality of service and coverage of the population, will not *by itself* result in a decision to reform. Reforms may be introduced in the expectation of further improvement even where there is no widespread demand for better service and no crisis to be anticipated from not reforming (as in the U.K., U.S. and other developed countries) and Governments may fail to introduce them where the situation obviously cries out for drastic reform (as in much of South Asia).

That reform requires “political will” has become a cliché, but it is a misleading one when it is taken merely to imply effective leadership. The real issue is whether reform is an effective demand of the political system, i.e. whether those who exercise the power to take the relevant decisions see a political reward in reforming, and/or a political penalty for failing to reform—or possibly neither. Numerous factors may influence a Government’s perception of this, including the nature of local politics and political culture; and the political importance of power supply, which may vary depending on factors like the level of development and of public expectations; a Government’s perception of what will benefit it may also be influenced by its ideological preconceptions, if it has any. Further, in democratic political systems, a Government is likely to consider the possible rewards or penalties with reference to the next elections, i.e. with reference to the possible consequences of its decisions within the limited time span of the remainder, at any given moment, of its term of office: it follows that it may not be actively interested in a programme of reform that is likely to bear fruit only in the very long term, and that its potential interest in initiating a reform programme is likely to diminish as elections approach.

It does not follow that a Government absolutely cannot be induced to accept a reform programme in the absence of endogenous political pressure, but reforms that are driven mainly by the necessity to accommodate external pressures, such as conditionalities for assistance, or (in a Federal set-up) the necessity for State Governments to comply with Federal legislation, are less likely to be followed through

beyond the minimum from time to time required for compliance with the pressure that is brought to bear. In such a case it is far less probable that all the bold and hard decisions necessary to successfully privatise distribution—which is no easy task in South Asian conditions—will be taken.

Our thesis so far is illustrated by contrasting the case of Delhi with other “Reforming States” in India, clubbing the latter together as a group and stating a “typical” case at the cost of some oversimplification (particularly in regard to Orissa):

<u>Delhi</u>	<u>Other Reforming States (typically)</u>
Government reformed because it expected an electoral reward for doing so.	Power sector performance, supply quality, not as crucial in State politics, under rather different socio-economic conditions.
No external intervention or financial assistance for the reforms.	External assistance supported by external pressure (from external agencies and/or Central Government) were essential factors.
Privatising distribution the clear objective: no intermediate stage of public sector corporate functioning of unbundled distribution utilities.	Privatising distribution at best a long-term objective; unbundling in stages, attempt to run unbundled utilities without privatising them.
No financial benefit to Government within its term of office (as reforms involved cash outflow for three years, payoff thereafter.)	Current financial benefit to Government in the form of assistance from external agencies.

Thus, the approach to timing and sequencing reform in any particular case will have to take the political context into account. Where reform is a political objective of the Government, it may have to be pushed through as quickly as possible all the way to privatisation, as it was in Delhi. Where the conditions for this to happen do not exist, the approach will have to be to create an appropriate climate for it, by means of external pressure and persuasion, and to use such pressure to create the necessary framework. This could include unbundling, legislation, the creation of regulatory institutions and the like; new institutions could influence public opinion, and the mindset of decision-makers, over time as greater transparency leads to better accountability. Legislation may also aim at exposing the existing distribution licensees to the threat of competition, and make it possible for some investors to bypass the existing distribution utility altogether, as in the case of India’s new (2003) national Electricity Act: this is an attempted shortcut, the actual outcome of which is yet to be seen.

To sum up, reform has to be a political decision, and the most important preconditions for it, and the most important determinants of its timing and sequencing, are likely to be political. When discussing reform, it will always be necessary to take into account the political forces, interests and concerns that are likely to be at work.