

The ADB and the Indian Power Sector

Norly Grace Mercado

I. India Amidst Darkness

India is the world's sixth largest consumer of energy (Shaw, 2005) and has formulated plans and strategies for major energy infrastructure developments in order to keep up with the increasing energy demand as the country becomes more industrialized and the economy expands. The delivery of basic human needs such as potable water, sanitation, primary health and basic education are all dependent on the provision of efficient energy sector operation.

Pricing of electricity is highly politicized in India (Allison, 2001). Rich and influential farmers use electricity heavily, however they pay almost nothing. Moreover, a lot of electricity is wasted because charges for irrigation pump use, for example, are based on the capacity of the pump, not its usage. There is no incentive to conserve electricity. Another problem is the high level of electricity transmission and distribution losses. The average utilization of generating capacity is only a little more than 50 percent.

The economic strategy of India in the early 1990's has put energy supply at the center of its economic agenda. Central to India's foreign policy is energy security, which includes growing oil and gas investment abroad, focus on sea lanes, and political ties with oil suppliers, among others (Shaw, 2005).

India's energy strategy include the restructuring and consolidation of state-owned oil and natural gas companies, opening up of the petroleum industry, the creation of greater flexibility and capacity in Indian refining company, diversification of imported supply sources, oil and gas price rationalization, reforms in the power sector through the participation of IPPs, reforms in the coal sector, emphasis on nuclear power generation, and fiscal and policy incentives for renewable technologies.

The energy sector in India is being restructured consistent with overall macroeconomic interventions and other reforms. Oftentimes, this involves rapidly unbundling government-owned utilities, increasing private sector involvement and developing competitive markets. These changes will have repercussions on social, economic and environmental aspects of the energy sector.

II. ADB and the Power Sector

ADB's annual lending program for India is expected to increase from about US\$1.5 billion this year to over US\$2 billion annually in the next few years. Currently, the ADB has 29 project loans and 18 proposed projects in India. The Country Strategy and Program (CSP) Update in 2004 targets an annual lending level of more than US\$2.1 billion for 2005-2007. Thirty eight percent (38%) of said amount is allocated to the transport sector, 15% for energy and urban infrastructure, and 12.4% for the financial sector (ADB, 2004).

The main sector and thematic priorities of ADB's operational strategy in India as discussed in the CSP for 2004-2006, include: 1) fiscal consolidation, which calls for improved tax administration; 2) infrastructure development in roads, water transport, railways and power; 3)

private sector development via financial sector interventions; and 4) agriculture and rural development, which includes support for irrigation and agribusiness. ADB funds will come in through methods of infrastructure financing to meet the country's needs, including public-private partnerships. Currently, two (2) energy divisions in the ADB are focused on creating conditions conducive to private investment in the energy sector of countries (ADB, 2004).

Central to ADB's strategy for India's power sector is pushing for reforms in the energy sector (ADB, 2000). In the language of the ADB and other IFIs, reforms would necessarily lead to the involvement of the private sector through the privatization of power generation and distribution services. The bias for this type of reform poses serious financial threats to Indian citizens. In Madhya Pradesh, poor communities have already had their power cut off. Tariff subsidies to farmers have been abolished as a result of energy sector reforms mandated by the ADB.

As of December 2004, ADB-funded energy project in India total to 28, constituting 34% of the amount of total projects in the country. This represents the biggest chunk in the financial pie from the ADB (ADB, 2005).

Among the more recent projects under the power sector (ADB, 2005) are:

Uttaranchal Power Sector Project (formerly Uttaranchal Power Sector Inst. Strengthening)

The proposed Project will support optimized power system expansion of the northern grid and increase the pace of economic development in less-developed regions in Uttaranchal State.

Power Grid Transmission (Sector) Project

The objective of the Project is to help strengthen and develop India's national transmission grid, to improve system reliability, facilitate interstate and interregional power transfers, reduce transmission losses, facilitate efficient utilization of existing and planned power plants, facilitate development of a national power trading market, and hence, promote increased private sector participation through open access to the national transmission grid.

Assam Power Sector Development Program (Project and Policy loan)

The loan aims to improve the quality and quantity of electricity supply by strengthening transmission and distribution systems, introducing revenue management system, and rehabilitating rural distribution network.

State Power Reform Project

The ADB will provide loan assistance to the selected sub-borrowers to meet part of their financing requirements needed to reduce system losses, enhance operational flexibility and efficiency, and improve the delivery of services to consumers.

Madhya Pradesh Power Sector Development Program (Policy and Project Loan)

The program will facilitate the restructuring of the power sector in Madhya Pradesh to improve sector efficiencies and to reduce the financial transfers from the State Government into the power sector. The project loan component will finance investments for metering, and transmission and distribution systems strengthening and upgrading.

Gujarat Power Sector Development Program (Project and Policy Loan)

The immediate objectives of the Program are to (i) establish independent tariff setting and regulation; (ii) rationalize the imposition of tariffs, duties and imposts in the sector to maintain equity among consumer categories; (iii) change management practices and enhance efficiency in the power sector by introducing competition and commercialization; and (iv) improve conservation of water and electricity on a pilot basis through improved irrigation systems.

Power Transmission Improvement (Sector) Loan

The Project's strategic objectives are to support power sector reforms through (i) enhancing private sector participation in the power sector; (ii) strengthening the newly established regulatory bodies by pricing bulk supply and power transmission on a sound economic basis; and (iii) enhancing autonomy of Powergrid.

III. India: Unplugged?

The energy sector policies of the ADB promoting privatization and corporatization had led to exorbitantly expensive power production by private corporations. This can result to darkness for the people of India and loot of public money. For example, the privatized Maheshwar Project in the Narmada Valley which will receive funds from the Power Finance Corporation, which was funded by the ADB and the World Bank, will produce power at the rate of Rs. 7-10 per kWh (FRN, 2001). This is several times higher than the government produced power!

Seemingly, the Indian power sector was being sought to be deliberately dismantled and destroyed by a set of unworkable prescriptions that have failed disastrously in some states of India, like Maharashtra, and will only lead to more disastrous results.

Privatization of the power sector would disempower India's poor communities since they would not be able to afford the prohibitive electricity rates imposed by the private power corporations. This would result to unplugging the electricity source for the rural poor.

IV. Not Another Enron

The civil societies in India have expressed their deep apprehensions about the impact of funding from the multilateral institutions such as the ADB. The civil society is also wary of all the efforts of the government in defending and protecting the corporate interests.

The Indian government should learn from its past lapses. The ADB projects stated above can result to another Enron Experience. This experience brought to light the total failure of the model of electricity generation through private promoters. The Power Purchase Agreement (PPA) between the Maharashtra state government and Enron was an agreement that was against the interest of the public and common sense. The clear non-viability of the project and the enormous financial burden that it has put on the state of Maharashtra should not be forgotten (Allison, 2001).

The rural poor communities don't want another Enron. They seek for a form of power which can bring empowerment to their communities.

Sources:

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