The politics of electricity reform: Evidence from West Bengal, India

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A B S T R A C T

Across many developing countries, the power sector persistently underperforms despite years of market reform efforts. India, where de facto responsibility for the power sector rests with subnational (state) governments, provides a useful laboratory to examine why. The state of West Bengal provides an example of public sector reform as an alternative to the so-called “World Bank template” for electricity liberalization, and a lens on the political preconditions for reform success. Drawing on 30 elite interviews in 2016 alongside comparative evidence from other Indian states, this article documents the reform design and assesses its success. West Bengal’s reforms aimed at internally strengthening the utility against political interference. The study finds that this reform model delivered initial performance among the best of any Indian utility, and that successful reforms in several other states were also more statist than often recognized. However, longer-term sustainability remains challenging. While weak rural lobbies had some effect, the study explains this trajectory as the result of the transition from one-party dominance to intensified party-political competition, a finding that resonates with evidence from other Indian states. In contrast to influential political theories developed in the Global North, this suggests that party-political competition does not make Indian politicians more likely to deliver public services, but rather leads to short-termism and political capture of utilities. Conversely, under some conditions one-party dominance can encourage longer-term reforms. The study thus assesses the promise and limits of public sector reforms as an alternative to liberalization, and suggests how electoral competition can influence development priorities in Indian states.

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1. Introduction

Access to reliable and affordable electricity is critical for virtually every dimension of economic and human development. Recognizing this, many developing countries have experimented with power sector liberalization in order to improve the efficiency of their struggling power sectors. In 1991 the Government of India took the first steps towards electricity liberalization. Yet, although the following quarter-century of intermittent reforms brought dramatic surges in generation capacity and rural electrification, India’s electric power industry remains troubled. Voltage fluctuations and power outages are frequent, while 240 million Indians lack power altogether. An estimated quarter of all power generated continues to be lost, much of it to theft, worsening the sector’s already precarious finances. By 2011 power sector debt had reached 5 percent of India’s total GDP; in 2015 the central government announced a bailout program, the third since 2001. The liberalization process has similarly brought disappointments from Brazil (Tankha, 2009) to Uganda (Gore, 2017). Faced with persistent underperformance despite more than two decades of liberalization efforts, scholars and practitioners alike have begun to debate why power sector reforms have proven so difficult.

Electricity underperformance is not uniform across India, however. Constitutional responsibility for the crucial “last mile” of distribution to end consumers rests in the hands of India’s state governments.1 This arrangement has helped to create wide regional variations in power governance, and thereby opens up opportunities to use India’s federal system as a “laboratory” for subnational comparisons.2 In this vein, this article provides a comparative examination of the overlooked yet relatively successful case of electricity reforms in West Bengal, an eastern state of around 90 million people, lower-middle-income in Indian terms.3 Based on 30 elite interviews

1 Electricity falls on the constitution’s “concurrent list” of subjects shared between the central and state governments. Long-term planning, key project approvals, and considerable generation and transmission capacity rest with New Delhi and its agencies. Distribution, and thus effective responsibility for much policy implementation, rests with the states.
2 On the value of the subnational comparative method, see Snyder (2001).
3 In 2012–13 West Bengal’s per-capita gross state domestic product was roughly twice that of the poorest state, Bihar, and half that of the highest performer (outside Delhi), Maharashtra. Figures from Open Government Data Platform India, https://data.gov.in.
carried out in 2016 in the state capital, Kolkata, alongside comparative evidence, it draws out key determinants of power reform success within India.

The dominant power reform prescription in India drew inspiration from the so-called “World Bank template” for electricity liberalization, as it came to be pejoratively labelled. Pioneered in England and Wales and disseminated internationally under the Bank’s aegis, this aimed to improve utility efficiency through institutional restructuring, the introduction of independent regulators, and the disciplining effects of market competition.4 In the 1990s and 2000s several Indian states adopted elements of the template, as did many other governments in the Global South, and in 2003 a related conception of liberalizing reforms was enshrined nationally with the passage of the Electricity Act. The results have been mixed at best. In Asia, Latin America, and sub-Saharan Africa, a number of analysts have outlined the flaws and unforeseen consequences of electricity liberalization, arguing that power deregulation ill fits settings outside the affluent, energy-rich societies where it was pioneered (Xu, 2004; Dubash & Singh, 2005; Tankha, 2009; Gore, 2017). The template’s advocates maintain that this is the result of its incomplete application, often because “interest group pressures” inhibit reform (Joskow, 2008, 39).

These diagnoses open up two sets of questions: on reform design and the reform process, especially the deeper political preconditions that can facilitate reform success. The first critique challenges the ability of power liberalization to bring performance gains in Indian settings. Are there more effective power reform designs? The second foregrounds the significance of “interest group pressures” and other political obstacles. What explains the successful initiation and sustainability of reforms in some Indian states but not others?

In combination with comparative material from other Indian states, the West Bengal case illuminates both these questions. In 2005 West Bengal initiated a distinctively gradualist mode of power reforms with continued public ownership. This study first uses West Bengal to demonstrate the promise and limits of public sector reforms as an alternative to liberalization. Over the last two decades the reform of public sector enterprises has gradually risen on the international development agenda, accounting for a small but increasing percentage of World Bank initiatives, for example. Yet public sector reforms remain less well analyzed than liberalization experiences. While some scholars suggest that reinvented public sector enterprises amount to a powerful alternative economic model that successfully solves older problems of state interference (Muscachio & Lazzarini, 2014), others argue they can never shake off their political masters to perform efficiently (Bremmer, 2010).

This study shows that West Bengal’s public sector reforms brought striking initial gains, as did the surprisingly similar reform trajectories pursued by the state of Gujarat, yet the longer-term protection against political capture that they provided was real but limited. Second, the study examines various explanations for West Bengal’s reform trajectory—initial gains that plateaued—alongside India-wide regional variations in power reform success. While the comparative weakness of rural lobbies had some effect, it finds a more compelling explanation in the transition from one-party dominance to intensifying party-political competition. Promoted by fiscal pressures, West Bengal’s reforms were initiated under India’s longest-lived state-level administration, headed by the social-democratic Communist Party of India (Marxist) (CPI(M), governed 1977–2011). Later reform backsliding coincided with increasing competition from the left-populist Trinamool Congress, which displaced the CPI(M) in the state elections of 2011. Against developed-country theories which link party-political competition to improved democratic accountability,5 this study suggests at the Indian state level it is positively related to delivery of short-term, exclusive subsidies but inversely related to long-term power governance. This analysis is again reinforced with evidence from other Indian states. High electoral volatility correlates with short-term usage of electricity as a political sop. Conversely, power reforms, which deliver visible benefits more slowly and often bring tariff rises for key constituencies in the short term, are linked to electoral stability and the increase in politicians’ time horizons it permits. However, power reforms are often motivated more by the drive to attract lucrative industry than to widen consumption, and so may not correspond with improved delivery of public services like health and education.

West Bengal’s power experience thus suggests the promise and limits of public sector reform as an alternative to liberalization, and the importance of party-political competition in conditioning reform trajectories. Section 2 provides a note on methodology. Section 3 outlines Indian and international experience with power sector liberalization, the dominant model to which West Bengal is contrasted. Section 4 documents West Bengal’s alternative, statist reform design, and assesses its success in improving power sector performance. Drawing on comparative evidence, Section 5 turns to consider the effects of party-political competition on power reforms, and draws some tentative conclusions for the study of subnational development as stable electoral regimes emerge in several hitherto-underperforming Indian states.

2. Methodology

This research began as part of a comparative collaboration that aimed to provide a state-level perspective on electricity governance across 15 major Indian states, home to 87 percent (1.06 billion people in 2011) of India’s population and thus providing broad if not representative coverage of the country. Our team of power specialists together developed a shared methodology designed to provide accounts as readily comparable as possible. This comprised, first, a shared quantitative evidence basis based on key economic and electricity sector indicators. Second, we drew up a list of interviewee categories (such as locally significant energy activists) from a review of the secondary literature. We then developed a regionally customizable template to provide a flexible starting point for semi-structured interviews. Questions focused especially on power sector performance, the reform process and its effects, and the politics of the distribution segment (for example, tariff setting or government–utility relations).

In accordance with this shared methodology, the author conducted 30 semi-structured interviews in West Bengal’s state capital, Kolkata, in July and August 2016. Interviewees were selected according to the preselected categories, with a preference for seniority where possible, facilitated by opportunistic “snowball”-style gathering of contacts. While the number of interviewees was comparatively small, with the obvious limitations that this entails, they included most of the key figures in West Bengal’s “reform team” (senior civil servants, consultants, electricity regulators, and donor agency officials) as well as representatives of other constituencies (former power ministers, energy bureaucrats, utility officials, regulators, consumer representatives, business associations, union representatives, academics, and journalists). Interviews varied from 30 min to two hours in length—the median length was one hour—on a not-for-attribution basis to encourage candor. This data was supplemented with qualitative observations from a regional “energy conclave” hosted by a nationwide business

4 For an overview, see Joskow (2008). Its advocates always denied that it should be treated as a rigid ‘template’, though its application often resembled this in practice.
4 The most famous progenitor of this theory is Key (1949).
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