

Rural Policy Advice of MERC: Concerns and Suggestions by Prayas

Presentation before MERC

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20th December 2005

Main Elements of the Recommended Solution

Main arguments and conclusions in the advice:

- ◇ MPEDCL (Maha Vitaran) is beyond repair (for RE)
- ◇ Need for promotion of DG options
- ◇ Need for making radical structural changes and institutional innovations like
 - 2-Layers of Franchisees in entire rural Maharashtra
 - a separate multifunction authority for RE (REAM)

The Overall Comments

Need more explanations / justifications for assumptions or conclusions (implicit or explicit):

- ◊ Conventional big-size utilities have “significant disincentives” for giving good service to rural consumers
- ◊ Once health of franchisees is ensured, then interests of the whole sector and of consumers would be automatically protected, provided some safeguards are introduced
- ◊ Findings of a single Mula-Pravara study provide adequate basis to recommend proliferation of franchisees in all rural parts of the state

Comments & Concerns:

Franchisee & a separate REAM (1)

- ◇ Reform experience shows limitations of “Dramatic” structural changes as a solution to the governance crisis in the sector
- ◇ Drawing-board innovations need to be given a reality-check for their relevance & utility in ground conditions
- ◇ More balanced assessment of the franchisee option and REAM (i.e., discussion of their disadvantages) is needed
- ◇ Both the innovations need to be checked for the factors mentioned in discussion in the draft advice over “adequacy of institutional framework” (p. 10).

Comments & Concerns:

Franchisee & a separate REAM (2)

- ♦ The assumption that a separate REAM would not lead to urban-rural divide needs to be explained properly
- ♦ Giving developmental, operational, and quasi-regulatory roles to REAM appears similar to old government controlled MSEB model
- ♦ While relying heavily on “well-defined contractual arrangements”, various practical problem need to be considered: such as capturing of the contracting process (a la Enron), of the franchiser (being public-owned), of the quasi-regulatory functions.
- ♦ In the given ground conditions, involvement of local cooperatives or PRIs cannot be termed as true “local community involvement”

In essence, . . . 1

- ♦ Danger that franchisees at both levels would be effectively controlled by politically and economically powerful local sections, having influence on state-level politics
- ♦ Resulting in non-transparent & unaccountable behavior, leading to
 - capturing of Maha-Vitaran,
 - siphoning of government subsidies,
 - neglect of local infrastructure
 - silencing of consumers and citizens

In essence, . . . 2

Necessary to assess the need to create another behemoth in the form of REAM

- ♦ Huge size combined with multi-functionality would make it inefficient
- ♦ Clubbing of different types of functions would make it susceptible to influence of different vested / selfish interests
- ♦ Less clear / un-established accountability linkages would make it difficult for citizens & consumers to tame REAM (or hold it accountable).

Suggestions . . . 1

Improve analytical foundation of advice by conducting studies of:

- ◇ Advantages and disadvantages as well as feasibility of the neglected options, e.g., by improving performance of the current utility or by creating separate internal entities under MPEDCL to handle RE
- ◇ Other aspects of franchisee (other than techno-economic)
- ◇ Experience of performance of cooperatives and PRIs on efficiency and equity criteria
- ◇ Option of improving performance of Maha Vitaran by increasing its accountability to citizens and by enhancing capabilities of communities to participate in governance
 - Considering the dangers in the franchisee and REAM model

Suggestions . . . 2

If Franchisee-REAM option is unavoidable, then at least take proper precautions:

- ◇ In the beginning, experiment only with 1 or 2 village-level, 1 taluka-level, 1 circle-level franchisees
- ◇ Involve only local institutions with demonstrated track-record of efficient management and responsiveness to equity concerns
- ◇ Entire design should automatically be open to review after a set period and open to reversing, if needed
- ◇ Simultaneously, work to increase knowledge-base of all aspects of rural electrification, especially institutional, procedural, governance, and political-economy

Suggestions . . . 3

However, before finalizing, have a state-wide debate by:

- ◇ Revising the advice, by bringing in insights from additional studies
- ◇ Preparing a summary of the “revised” advice in Marathi, in simple language and with lot of explanations
- ◇ Making efforts to reach out to a large number of rural people from different sections of population
- ◇ Inviting written comments and conducting hearings at various places in the state

Taking people into confidence is necessary, considering immense economic, social, and political implications of the advice