

**Division of Economic Powers in India:**  

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*Testing the Dogma of Decentralization*

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**by  
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## Acknowledgments

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**Glossary of Acronyms**  
**associated with**  
**the Electric Power Sector in India**

CEA	Central Electricity Authority
CERC	Central Electricity Regulatory Commission
CMNAPP	Common Minimum National Action Plan for Power
ED	Electricity Department*
IPP	Independent Power Producer
kWh	Kilowatt-hour
LDC	Load Despatch Center
MOU	Memorandum of Understanding
MW	Megawatt
NEEPCO	North Eastern Electric Power Corporation
NHPC	National Hydro Electric Power Corporation
NTPC	National Thermal Power Corporation
PFC	Power Finance Corporation
PLF	Plant Load Factor
PPA	Power Purchase Agreement
R&M	Renovation and Modernization
REB	Regional Electricity Board
REC	Rural Electrification Corporation
SEB	State Electricity Board
SERC	State Electricity Regulatory Commission
T&D	Transmission and Distribution
UT	Union Territories

\*State-level organization in states/UTs where SEB does not exist.

# 1. Introduction

The purpose of my research is to examine trends in the division of economic powers in post-colonial India and determine how these trends affect economic development. For purposes of this study, *economic powers* are defined as the power to make and administer laws in the economic and social planning arenas and the power to finance objectives of economic and social planning. Based on interviews with Indian policy makers and a review of the literature, I have observed the evolution of a “dogma of decentralization” in response to the highly centralized nature of the Indian federation. While decentralization has many virtues, any “dogma” warrants close examination prior to joining the ranks of its believers. Indiscriminate application of this dogma is not the solution to achieving greater economic development *in an All-India context*.

The economic reforms of 1991 have changed the Indian landscape, thereby demanding a reevaluation of the division of economic powers in the Indian federation. What are the trends? Are they helping or hindering the country’s economic development? In response to these questions, this paper provides a timely analysis of the evolution of the dogma of decentralization in India. Furthermore, use of a *sectoral* lens allows us to better understand the difficulties inherent in applying decentralization to India today.

## 1.1 Hypothesis and Approach to Analysis

My hypothesis is that as much as decentralization is touted in the context of Indian economic development, it may not be the panacea for all sectors of the economy. I concede to the proponents of decentralization in India that further centralization *on the whole* may not be the correct approach, but discussions of decentralization call for greater specificity on a sectoral basis with respect to determining which responsibilities are best carried out at the state (and local) levels and understanding where the center adds the most value.

Sector-by-sector examination is crucial for determining the appropriate transfer of power between different levels of government for at least three reasons. First, in any country, each sector has a different *priority*. The prioritization of sectors is the product of a never-ending debate between contending values in society. For example, in the context of economic development, this may depend on what premium the country places at any given time on development of large-scale industry versus cottage industry and agriculture, industry and infrastructure development versus environmental concerns, and infrastructure development versus investment in human resource development (e.g., health, education, poverty alleviation). Second, each sector has a different set of *inputs*. Thus, the nature of the input—whether indigenous resources or imports, or water resources that cross boundaries of subnational units—will affect the level of control necessitated at different levels of government. Third, the *distribution* of goods or services produced by each sector will have different implications in both political and socio-economic spheres, particularly in terms of relations between subnational units and different classes of society. This issue highlights how decentralization of economic powers may aggravate socio-economic disparities on regional and class bases, thereby threatening internal security.

Finally, simply decentralizing to the state or local governments may not solve a particular functional problem because (1) subnational units may replicate the bureaucracy of the national government, (2) there is no consensus among subnational units as to how much decentralization is warranted, and (3) the real problem may lay in “dominance” of various community, caste, or class groups in society.

As a case-study, I test the “dogma of decentralization” on the Indian electric power sector due to its critical role in economic development. Global trends in the electricity sector point

toward greater decentralization—furthermore, in developing countries, it seems there is a view toward the concept of “leap-frogging” and decentralizing provision of public goods in general.<sup>1</sup> Still, the Indian electric power sector is one in which some economic power might be transferred from state-level political institutions to public, non-political institutions both at the state and central levels. Furthermore, financing growth of this highly capital intensive sector needs special attention in the All-India context. The legislative, political, and economic developments in this sector during the 1990s and, particularly in the past several months, provide an opportune moment for its study.

## 1.2 Research in US and India

Following a basic literature review in the US in the fall of 1997, I conducted interviews of numerous policy makers in India in January of 1998. These included the Secretary for Power, members of the Planning Commission, the director and staff of the Tata Energy Research Institute (TERI), and faculty at the Centre for Policy Research (CPR) in New Delhi and the Indira Gandhi Institute of Development Research in Mumbai. In addition, I met with representatives of the Dabhol Power Company, including the Managing Director (who is also Country Manager and Principal of Enron International in India). These interviews were leads to key sources of information including government documents, India-specific literature on the power sector, and recent publications pertaining to this subject which otherwise might not have been obtained.

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<sup>1</sup> See Manisha Shahane and Ellen Shaw. *Illuminating India: Renewable Energy Technology's Role in Rural Electrification*. Paper presented to William Moomaw for the Energy and Environment Class at The Fletcher School of Law and Diplomacy, Spring 1998. Also Chandra Shekhar Sinha and Tara Chandra Kandpal. “Decentralized v grid electricity for rural India,” *Energy Policy* 19.5 (1991): 441-448.

The remainder of the paper is divided into seven sections. Section 2 provides a review of the literature examined in the course of my research. Section 3 presents the generic model for decentralization as proposed in India. Section 4 describes the current division of economic powers in India. Section 5 examines the evolution of this dogma and identifies the spheres in which it exists today. Section 6, outlines the aims of decentralization, and assesses the benefits and costs of achieving them in the Indian context. By examining the links between the aims, benefits, and costs, I develop a framework for testing the decentralization model in Section 7 on the electric power sector in India. In conclusion, Section 8 discusses the complications involved in completing this study and makes suggestions for how future analyses of decentralization may build on the concept of sectoral analysis presented in this paper.