Full circle on power sector reform?

Have we come full circle on power sector reform, given that we are back to the old days of severe load shedding, high subsidy by taxpayers, lack of investment in the power sector, and the widening gap between power tariff and cost of supply?

M. FOUZUL KABIR KHAN

THE power sector across the developing countries in the nineties was characterised by universal public ownership and integrated utilities involved in power generation, transmission, and distribution. There was extensive political intervention in all aspects of activities of the sector.

Shortage of generation capacity together with poor transmission and distribution systems resulted in low access and supply interruptions causing discomfort in the life of citizens and loss of production. There were high levels of transmission and distribution losses and poor collection performance.

The power sector was kept afloat through significant subsidies from taxpayers. Major investment needs for increased generation, rehabilitation of transmission and distribution infrastructure were unmet.

Against this backdrop, the standard model for power sector reform involved unbundling of vertically integrated utilities into generation, transmission, and distribution companies, reduction of system losses, setting up of independent regulators to regulate price and quality of service involving the private sector, moving towards competitive markets, ensuring operational improvements and financial solvency of power sector entities, and adopting power tariff reform -- aligning rates with cost of electricity supply.

The model was implemented in Bangladesh primarily to meet donor conditionalities under various credits received from the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank.

Three new power generation companies were created by transferring some of the generation assets of Bangladesh Power Development Board (BPDB). Transmission was separated from BPDB through creation of Power Grid Company of Bangladesh. Five new distributions companies joined BPDB and Rural Electrification Board, each assigned with the responsibility of distributing power in different geographic regions.

Unbundling resulted in reduced system losses (technical and non-technical) and better revenue collection. Distribution losses have fallen remarkably from 30 percent a decade ago to around 14 percent now. The lone transmission company, PGCB and some of the distribution companies, such as Desco and DPDC, are earning profits.

Unbundling, however, was supposed to create a framework for competition and private participation. But power generation companies do not compete with transmission or distribution companies, and even distribution companies remain monopolies in their respective areas. Transmission, with some justifications, remains a monopoly.

Like other developing countries, Bangladesh adopted single buyer model-for buying power from generation companies. Although the government of Bangladesh issued Policy Guidelines for Enhancement of Private Participation in the Power Sector, open access to the grid continues to be an objective not a reality. Captive power plants have proliferated, aggravating the gas supply situation further.

The Bangladesh Energy Regulatory Commission (BERC) has become operational after long delays. It has passed both bulk electricity tariff and retail power tariffs with moderate increase in electricity prices. The challenge for BERC is to make itself relevant, since western regulatory models do not cater to situations with large supply shortfalls. BERC needs to insulate itself from the continuing political sensitivity surrounding increase in power tariff.

Regulators in emerging markets often see their role as one of keeping prices down at all costs and are unwilling to respond to fuel price increases. Regulatory commissions have either become de-facto extensions of the government or have been subject to regulatory capture by the utilities. In fairness, utility regulation was always going to be a challenge.

Private sector participation in the Bangladesh power sector, particularly in electricity generation, increased significantly. Independent power producers (IPP) are generating about 2,000 MW of electricity, nearly 40 percent of total electricity generation. Although a small group of Bangladeshi power entrepreneurs has been created, our major entrepreneurs are yet to come forward to implement power projects.

PGCB and Desco have offloaded 25 percent shares in the capital market. Power sector companies are increasingly outsourcing their activities like repair and maintenance, and billing -- creating scope for private participation. Worldwide, since 2002, international investors have shown less interest in power projects.

Moreover, all projects implemented to date by IPPs have been base load plants. Private sector participation in transmission and distribution has been limited to offloading of shares and rural electricity cooperatives, or to Palli Bidyut Samities under the Rural Electrification Board.

RAJ ANIKA / DRIKNEWS

Back to the old days?

The key question is; has the power sector reform program produced its objectives? At a fundamental level, the main objectives of the power sector reforms agenda remain unfulfilled; load shedding is hurting the public and affecting production; investment needs of the power sector remain unmet; subsidies to the power sector from taxpayers are again steadily increasing.

Notably, power sector reform failed to achieve the desired objective in not only Bangladesh -- access to power remains limited and power supply shortfall is common in entire South Asia, perhaps with the exception of Sri Lanka. In neighbouring West Bengal, shortfall in recent months is about 1,000 megawatt.

Total power generation, according to Pakistan Electric Power Company, was 11,000 megawatts in Pakistan while demand stood at more than 15,000 megawatts in recent months -- leaving a shortfall of 4,000 MW. Cities in Pakistan are suffering from more than 12 hours of power cuts. In smaller cities and rural areas, the blackouts are going up to 20 hours. According to Nepal Electricity Authority, until recently, people are reeling under power cuts for up to 84 hours a week. Public patience is wearing thin in most of South Asia.

The South Asia Regional Initiative for Energy (a USAID program) estimated needs and levels of subsidy in South Asia. According to the study in 2006-07, Bangladesh subsidy loss in the electricity sector was $125 million. In Sri Lanka electricity sector is directly subsidised to the tune of $150 million.

Pakistan bore a $1.6 billion subsidy in 2006-07. India incurs subsidy losses of $7 billion per annum. Subsidy levels would be much higher in some South Asian countries if one included implicit subsidy given through input prices below the long-run marginal costs. Subsidy levels have also increased in recent years due to fuel diversification and procurement of rental power projects.

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To the defenders, power sector reform remains a work in progress. Some would also blame developing countries and vested interests within the power sector for lack of progress.

However, reforms are not ideological or theoretical ideals but doable programs that would bring about perceptible and meaningful changes. To the detractors, the reform agenda was misconceived to begin with, and they would like to roll back the reform and go back to publicly owned integrated utilities.

In the next article, we intend to analyse significant changes in the power sector over the past two decades, discuss the reasons for lackluster performance of power sector reform programs, and provide a contour of a future power sector reform agenda.

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Political stability: Still a pipe dream

The spectre of political showdown can be seen through the mist of time. By any reckoning, our politics will remain in the eye of the storm for the foreseeable future -- whether we like it or not.

M. ABDUL HAFIZ

IN spite of all the positive efforts of the authorities to bring the country out of its power crisis the power sector does not seem likely to show any improvement any time soon. So grave is the extent of the deficit in the country! So we will have to come to terms with the unpleasant reality, even if grudgingly.

However, the long summer of discontent may compel the citizenry to take to the streets, thanks to the readily available support for an agitation by a disgruntled opposition. But then, achieving political objectives through movements has never been the forte of the BNP, neither does its leadership have much appetite for it.

But the hard issues of the polity, like scarcity of pure drinking water or gas as well as the dearness of the essentials, seldom lack the dynamics to be pushed to a boiling point. This, as well as umpteen law and order problems, will continue to be challenging, notwithstanding the government's seemingly right prioritisation and steps for their resolution.

Once bitten twice shy, the AL's power wielders are sufficiently circumspect as to their weak points and are striving hand to remove them, although their successes so far are few and far between in this regard. Their achievements, if any, are being seriously undermined by the hoodlums of the BCL, ironically one of the front organisations of the AL itself.

The recalcitrant BCL, which has virtually become an albatross around AL's neck, has been embarrassing a well-meaning prime minister who is busy cleansing the Augean Stable she inherited. Also embarrassing are the assorted lot of adulators who, in the performance of the art form, often put their foot in their month.

Although there seems to be no visible sign of trouble for the incumbent dispensation an invisible storm is brewing under the combined impact of chaotic law and order situation and a spate of known and unknown corruption at each layer of officialdom, which has gone berserk in amassing wealth -- which is perfectly in keeping with the maxim "make the hay while the sun shines."

The power wielders have a tendency to relax, thinking: "Well we have a mandate, and a huge one at that." But then there are lots of gray areas in the mandate, which are not understood in the corridor of powers. If a fraction of the corruption and irregularities reported in the newspaper is to be believed, the AL government is making another horrendous record of crimes.

True that the BNP, with it hands equally soiled, is a weak opponent. Its

lackluster performance in the Bhola by-election may embolden the ruling regime to deal with it with a heavy hand. That will only quicken the pace of the regime's descent because it will spark a quick riposte from the BNP, which may not be able to drive out the government but can bruise and incapacitate it beyond repair.

With that, an agonising time, like several we witnessed earlier, will ensue. Sheikh Hasina, therefore, has to tread carefully even with the defeated party and treat it with compassion, or else a long dark night of instability and uncertainty may be due. We are pretty much accustomed to all this, but no one would like to have a taste of it. Yet, the country seems to be inexorably heading in that direction.

In its hubris of ruling the country with a huge electoral mandate the AL has been roaring like a lion while the BNP, with its large following, is baring its fangs. Defeated and down it remains defiant.

The AL, which spearheaded the country's independence, wants to avail the chance to settle its scores with the BNP, whom the AL considers usurpers of power since the political change of 1975. As a result, the only viable scenario for the future is a clash of titans.

The spectre of political showdown can be seen through the mist of time. By any reckoning, our politics will remain in the eye of the storm for the foreseeable future -- whether we like it or not.

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Postal service goes electronic

In sync with the "digital" concept of the prime minster, and to be more dynamic and service oriented, the Bangladesh Post Office has also introduced EFT. Prime Minister Sheikh Hasina launched the Postal Cash Card (a plastic prepaid card) on Independence Day to improve the postal money order services.

STAR FILE PHOTO

RIAZUL KARIM

THE phenomenon of electronic commerce has permeated into every related aspect of our life today. The internet is revolutionising the way companies around the globe conduct business. Internet-based electronic commerce is playing a critical role in addressing business needs of the companies and hence they are making it an integral part of their business strategies.

Globally, according to a survey conducted by IDC, the current volume of electronic commerce over the internet is some $26 billion, while it is expected to reach about $1.5 trillion by 2008-09. These mind-boggling figures are sufficient for any individual, even vaguely connected to indus-try, trade or commerce, to understand the potentially radical influence that E-commerce is hav-ing on human society. All this is because of the Internet, a network of networks of computers across the globe, linked through cable, satellite, telephone lines etc. based on the TCP/IP proto-col.

This network has not only altered the way we conduct trade and commerce, but also funda-mentally altered the way we communicate, the way we live and to some extent, the way we think.

Simply, E-commerce is buying and selling on electronic networks. The World Trade Organiza-tion (WTO) distinguishes six main instruments of electronic commerce -- telephone, fax, televi-sion, electronic payment and money transfer systems, electronic data interchange, and the internet.

The transformation from traditional brick-and-mortar banking to E-banking was brought about by the automatic teller machine (ATM); and the retail banking industry witnessed a sig-nificant and extensive change. Formally, E-banking comprises various formats or technologies, including telephone (both landline and cell) banking, direct bill payment, electronic fund trans-fer (EFT), and PC or internet banking.

Power, (2000); Weitzman, (2000); Ehou and Chou (2000); Lassar, Manolits and Lassar, (2005) identified five basic services associated with online banking -- viewing account balances and transaction histories, paying bills, transferring funds between accounts, requesting credit card advance, and ordering checks.

The dimensions are no longer limited now. EFT, from the day one, has significantly changed the shape and impact of money transfer. Day after day, institutions had been conceptualising the need of saving time as well as maintaining reliability in transferring money. The platform was set and EFT provided all of them the answers that they were looking for.

In sync with the "digital" concept of the prime minster, and to be more dynamic and service oriented, the Bangladesh Post Office has also introduced EFT. Prime Minister Sheikh Hasina launched the Postal Cash Card (a plastic prepaid card) on Independence Day to improve the postal money order services.

IT Consultants Limited (ITCL) and Bangladesh Post Office are rolling out this project under joint collaboration and on revenue sharing basis. ITCL is giving the total technology solution for these services. ITCL holds the largest independent EFT network in Bangladesh, with 23 member banks sharing it for their own EFT operations.

ITCL was awarded this massive project by the evaluation committee of Bangladesh Post Office against the EOI (Expression of Interest) issued in 2008. This leading third-party electronic pay-ment service provider (Q-cash ATM and POS network operator) has deployed EFT POS (Point of Sale) terminals initially for post office branches located in Comilla district and a few locations in Dhaka city. All these branches have stocks of prepaid postal cash cards for instant issuance of electronic money order using these POS terminals.

The EFT solution and postal cash card can also be integrated with the mobile payment plat-form. Moreover, The EFT POS terminals are GPRS-enabled, as a result there is no limitation on mobility. Postal cash card can be used by all the government entities and subsidiaries to facili-tate value-added services by tagging this card with their system. Unique and dynamic services like card to card (P2P) transfer, account to card, card to mobile, government to person (G2P) subsidies/pension/grants and person to government (P2G) taxes/levies can also be facilitated.

The postal EFT services shall be available with an extensive network of nearly 10,000 post of-fices across the country and different valued-added EFT solutions shall be provided through this network for the post office clientele as well as for banking clients. In addition to the POS net-work, Q-cash ATMs shall be deployed at post office branches in near future, according to the managing director and CEO of ITCL Dr. Kazi Saifuddin Munir.

He says that the EFT solution for the Bangladesh Post Office was developed to automate the disbursement of postal money order/remittance delivery system as well as all the financial transactions of the post office. This initiative will enable people to remit money to any corner of the country within minutes through a postal cash card, instead of almost a week taken now. Sender and/or receiver can have the postal cash card to enjoy this facility.

- Bangladesh Post office has a huge base of depositors, and with the help of postal cash card the money will be circulated within the economy quickly.
- The postal department will serve as a hassle-free, interest-free zone for the customers.
- The rural people are mostly into receiving services from the post office, the postal cash card will enable them to have a freedom of choice.
- The rural women will feel more independent than ever before as they will own their card and be operating on their own.
- Bangladesh Post Office itself will be able to deliver a greater level of service to its clientele and the mass people.
- There are 23 banks connected to Q-Cash network (ITCL), people who are far away from bank branches will also be able to have access to banking services through post offices.
- The backlog which has been created in the postal department will be eased through the postal cash card with faster circulation of money, especially in the rural areas. The economy in the villages shall also be uplifted.

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