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Guaranteeing costs

Counter-guarantees will perpetuate the basic problems of the power sector and impose other costs, says Uttam Gupta

AT the time of the visit of US energy secretary Hazel O'Leary, power minister N K P Salve is reported to have said that the government has already cleared the proposed counter-guarantees to seven joint venture private power projects involving foreign capital, including the much publicised Dabhol gas-based power project in Maharashtra. He further maintained that "there was no going back on it because of any controversy or criticism."

Interestingly, the criticism is from none other than the finance ministry, which would be required to foot the bill that might run into billions of dollars. Already, the finance ministry is facing an uphill task in managing the fiscal budget.

Apart from the persistently increasing mis-matches between revenue on the one hand and expenditure, in the normal course, on the other, the fiscal budget has been made to bear the brunt of suddenly surging heavy demands such as augmentation of the capital base of commercial banks, restructuring of regional rural banks and spurt in a variety of subsidies. All these unprecedented liabilities have been assumed by the exchequer primarily because banks and PSUs and other services have not been properly managed.

The hard fact is that invoking of the counter-guarantee, in the event the generating company is not paid its dues by the concerned SEBs, will impose an unprecedented liability on the central exchequer. And the fact that we are agreeing to arbitration in respect of counter-guarantees in courts of the foreign investor would mean that the payment by the government will be on a fast track.

Why does the need for a counter-guarantee arise? Simply stated, this comes up because the state governments, which are the first guarantors, being the owners of the SEBs, may not be in a position to pay. That their financial position is in dire straits is not hidden from any one. But, a more serious problem is that the financial position of the electricity boards themselves is in a mess.

The plant load factor of a majority of the boards being low, there are substantial losses in transmission of electricity (mostly by way of leakages through unauthorised connections). The supply of power, either free or at highly subsidised rates, to agriculture only compounds the problem. Serious difficulties also arise on account of non-recovery of outstanding dues from the users of electricity.

The implication is thus pretty straightforward. Since it is not possible to recover the rightful dues for the electricity generated by the private company and because the state, in view of its financial bankruptcy, is unable to honour the commitments under the Power Purchase Agreement (PPA), the central government makes a provision for counter-guarantee, duly incorporated in the PPA to satisfy

the MNCs that their financial interests are not compromised. For India, it means that the government will ultimately pay not only for the transmission losses, due to technical snags or even pilferage, but also for electricity not paid for by the users.

Moreover, it would give a signal to the user that he need not improve his record of payment, to the SEB management that they need not work hard to improve the recovery of dues, and to the state authorities that they need not make efforts to set things right.

The situation for the foreign companies, however, presents a sharp contrast. The entire electricity generated by them will be purchased by the SEBs at an agreed price and they need not bother about the fluctuations in demand. They are assured of a good return, which increases with every increase of 1 per cent in the plant load factor above the stipulated 68.5 per cent (at this level, they are assured of 16 per cent post-tax return). The return is instantly convertible into dollars. And, finally, they are free from the hassles of having to deal with a large number of users and facilitating recoveries which is otherwise the normal business function of any enterprise.

Why do we need to do all this knowing very well that this will have catastrophic fiscal dimensions? The apparent reason seems to be that we do not have the required funds. For setting up an additional 30,000 MW capacity, the investment requirements have been estimated at about Rs 130,000 crore. It may be clarified that technology and management expertise is not a problem. We are seeking the cooperation of the MNCs and the domestic private sector primarily for the sake of resources. Herein also, the perceptions are totally misplaced.

A close look at the utilisation record of aid commitments in the power sector will bring out that the funding problem has been exaggerated. According to a recent official assessment, of the overall undrawn balance of Rs 36,356 crore from the multilateral agencies, the power sector alone accounted for 33 per cent. Of the total unutilised bilateral aid of Rs 29,319 crore, 58.5 per cent was in the power sector. A staggering amount of Rs 29,282 crore is, thus, the level of unutilised aid for the power sector. The problem is clearly one of inability to take necessary steps for commissioning projects in time.

For coping with the challenge on the power front, we should not get carried away merely by the problem of funds. The latter is the manifestation of a much deeper malaise. And, this has to do more with the management of our power generation, distribution and use systems. A thorough overhauling of the system is called for. The power minister's conference in January 1993 had recommended increase in the power tariff charged to agriculture, from the existing 17 paise per KWH to 50 paise per KWH. This has to be implemented urgently in all the states.

Second, the SEBs have to be reorganised and restructured. They should concentrate on power generation. Distribution should be transferred to private companies. Such a step will be very crucial from the view point of ensuring better recovery and even checking losses through unauthorised connections.

Third, all projects for which aid commitments are lying unutilised should be implemented expeditiously. These three steps should help in minimising apprehensions on account of the timely payments of dues and obviate the need for counter-guarantees. While we must give reasonable incentives to MNCs to supplement the domestic investment efforts, let us not put them in a situation where they do not take any business risks.

An objective and dispassionate consideration of the interest of the national economy will mean that the government keep away from the proposed counter-guarantee. It is a dangerous precedent and there is already talk of giving counter-guarantees for investments in highway projects too. We need to work the hard way to remove the apprehensions from the minds of the foreign investors and create a situation wherein the demand for counter-guarantee is not raised in the very first instance. This may be difficult, but, certainly not insurmountable. The alternative of only giving a counter-guarantee will be nothing but catastrophic.