

INDIA'S POWER SECTOR REFORMS: UNDERSTANDING LEGAL  
AND INSTITUTIONAL BARRIERS FOR THE DEVELOPMENT OF AN  
EFFICIENT ELECTRICITY MARKET

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## **Abstract**

India initiated structural reforms in the energy sector as a key economic objective while transitioning from a closed to a market based economy in 1991. The Power Sector was opened for private participation in generation of electricity. This paper analyzes the current situation in the Indian Power Sector, taking into account factors such as trends of electricity supply and demand, financial problems of the State Electricity Boards and factors responsible for the weakness of these Boards, to show their impact on Independent Power Producers. The paper examines the key issues arising in the process of implementing the reforms in the power sector, especially those involving privatization of the state-owned enterprises and barriers to the development of electricity market. The paper focuses on how India, given the 1991 legal, regulatory and institutional reforms can and should do now to develop an electricity market that is economically efficient and socially responsible. The analysis identifies the need for Foreign Direct Investment in the sector and the need for the state to disjunct its wealth generation activities from its wealth distribution activities. Specifically the present policies of the government tend to promote centralization, whereas the most pressing need is in rural areas, to fulfill which decentralization initiatives must be pursued. This in turn involves tackling developing country dynamics and using a dual policy perspective so that both the urban and rural needs can be balanced so as to achieve the twin objectives of power sufficiency and efficiency.

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