

Confusing means and ends: framework of restructuring, not privatization, matters most

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Abstract

Although a great deal of emphasis has been put on it, privatization of infrastructure is only a means to an end, and not an end in and of itself. The goal is a more efficient sector delivering quality service while fulfilling its social responsibilities. Privatization is only an effective means towards the achievement of that result if it is done in the context of an appropriate market and regulatory/legal framework. In the absence of such a framework, privatization can, as experience has demonstrated, compound problems. There are a number of explanations as to why privatization has been carried out in the absence of a proper framework. Those explanations are useful to explore because they point to incentives to which many governments have been attracted, but which proved to be dangerous pitfalls. Some of the consequences of these attractions hold lessons for other governments and lenders to learn. The critical issue in reforming infrastructure industries is not privatization, but rather the framework within which restructuring occurs.

It is time to move beyond stereotypes, faith, and ideology and examine infrastructure privatization¹ in the practical and relevant terms of what it is and how it is actually being carried out. In and of itself, privatization is neither good nor bad. It is a means to an end, not an end in itself. Like all means, it should be employed where the circumstances warrant it, and should certainly not be used indiscriminately. Perhaps even more important, it cannot be carried out in a policy, market, and regulatory void.

It has been an article of faith for the past decade that privatization is the correct path for infrastructure in developing (and even developed) economies. Whatever the problems, believers contend privatization is the solution. Indeed, privatization has been viewed as a necessary 'reform' by international lenders, donors, and opinion leaders. There are a number of reasons both micro and macro, for this belief. State-owned infrastructure industries, it is argued, were inefficient, politicized, non-commercial, and costly to the economy, socialized risks, and were unable to attract the capital required to meet the escalating demand for service. In some cases, these characterizations had the ring of truth. However, such views became the stereotypes upon which many policy decisions were premised. Accurate or not, they often helped to justify privatization decisions that were, in fact, driven by circumstances in which governments were burdened by debt and unable to meet social demands. Selling state resources, or at least reducing the demand for state-supplied capital or subsidies, became an essential element of financial salvation for the state itself. In short, stereotyping the public sector, whether accurate or not, justified decisions that were mostly driven by macroeconomic circumstances.

Unfortunately, these stereotypes became a kind of indiscriminate motivator for many policy makers throughout the world. Critical variables such as the effectiveness of state stewardship, the social demands made on infrastructure, the availability and cost of private capital, the effective utilization and allocation of natural resources, legal and regulatory frameworks, and even cultural mores, were often reduced to secondary or tertiary considerations at best. Thus, the drive to privatize became an article of faith. One high-ranking official of a large multilateral lender pronounced Brazil's troubled efforts to privatize its energy sector a 'success to be emulated' simply because

¹ The term 'privatization' is used in the broadest sense for the purposes of this paper. It contemplates the full spectrum of options ranging from attracting private capital into state-owned enterprises, through entry of fully private projects into a heretofore state-dominated sector, and continuing through the sale of state-owned assets.

privatization had been carried out. Presumably, in his view, no further inquiry was required.

There is now a significant base of experience around the world from which we can derive lessons that need to be learned. One of these lessons is that privatization works well only where an appropriate restructuring framework exists into which privatization can fit. The importance of the restructuring framework cannot be understated in determining the ultimate success of the entire effort. For that reason, it is important to examine two critical matters:

- why the framework is either non-existent or inadequate in so many cases; and second
- what the consequences are for attaining objectives where the framework has proved deficient.

The restructuring framework

In privatization, it can be persuasively argued that getting the contextual framework right is the most crucial element of success. Similarly, a case can be made that in ascertaining the value of privatization, the sequence of decision-making is also essential. Leaving aside political considerations, merely privatizing government assets is not a particularly complicated matter. What is complicated is weighing and successfully balancing all of the relevant interests that will be served by privatization, and creating the policy framework, particularly regulatory and market, within which those interests can best be served and protected. The sequence and timing of these decisions are absolutely critical to the success of privatization.

To be successful,² privatization must be conducted transparently and be disciplined by either competition or independent regulatory oversight, or both. It requires that the public policy, regulatory, and market structures be articulated, or perhaps even better, be in place before private capital is deployed. The track record of infrastructure privatization in the absence of those frameworks is dismal. Notable examples are Dabhol in India, Hub River in Pakistan, Rio Light in Brazil, and several private power agreements in Indonesia. In each of these cases, contracts were entered into, or licences granted, in an almost complete policy, regulatory, and market structure void. With the exception of Rio Light, the contracts were let in the absence of a transparent competitive process. In all of the examples, there was no effective regulatory oversight of the transactions. When subsequent

² 'Success' is defined as improvement in productivity, quality of service, continuing ability to attract capital, and meeting services demands.

events called these transactions into question, there was nothing other than a contract/licence to fall back upon, and, in all cases, those documents proved to be rather unreliable.

In notable contrast are the relative success stories of infrastructure privatization in Argentina, Chile, New Zealand, and Spain. The common denominator that links these experiences is that the governments decided and articulated, either before or concurrently with privatization, the policy objectives, market structures, and regulatory systems.³ Additionally, the actual privatization process was disciplined by transparency as well as by competition or regulatory oversight, or both.

The logic behind the need to make policy, market, and regulatory decisions before or at least concurrent with privatization seems incontrovertible from both an investor's and a society's point of view. Society's interest, of course, is to assure that a nation's resources are efficiently deployed, that social needs are met in a reasonably efficient manner, that the availability and quality of service meet expectations, and that sufficient resources are available to meet new demands. A private investor's interest is to understand fully the regulatory and market rules, social expectations, incentives, risks assumed, and the sustainability of the proposed system. These factors are key in deciding whether an investment is worth undertaking, and the amount of capital that can be put at risk. Therefore, for both the private investor and society, the advantage of conducting the actual privatization in an open, transparent manner, subject to the external discipline of either competition or independent regulatory scrutiny, or both, seems self-evident.

If conducting transactions and sequencing decisions openly and transparently are so obvious, why do so many governments and private investors deviate? Unfortunately, there is no single reason, but there are a number of explanations worthy of mention. The first is that the motivation for privatization is often derived from a country's macroeconomic position, rather than a sector-specific problem. If the government is so burdened by debt that it cannot meet its pressing social needs, it may decide that its only alternative is to sell state-owned assets. The inherent incentive in such circumstances, of course, is to derive the maximum revenue from the sale of the assets. This incentive constitutes a temptation that is extremely difficult for governments, especially finance ministries and central banks, to resist. The incentive is greatly intensified by pressure from multilateral

³ New Zealand elected not to have any regulatory agency, but that decision was taken in advance of the privatization. The decision is now being reexamined in several quarters.

lenders to get state-owned assets off the government's balance sheet quickly. The temptation, then, is to offer terms and conditions so attractive that prospective buyers are willing to hike up the price. Stated differently, short-term considerations such as the revenue contribution to the treasury overwhelm longer-term considerations such as efficiency, service quality, accountability, and the sustainability of the new regime. The greater the burden of obligations placed on an investor, presumably the less money the investor will put on the table. In short, the desire to sell assets at the highest possible price makes many governments reluctant to impose terms and conditions that might reduce the price. Interestingly, in several situations, the attraction to investors has proved unsustainable over time. Many investors have not done as well as they originally believed. Controversies in Argentina, Australia, Brazil, England, India, Indonesia, and elsewhere, bear witness to this phenomenon.

A second explanation why governments are often tempted to get the decision-making sequence wrong is simply that an opportunity may present itself in the form of an investor who has a specific proposal. Indeed, such 'opportunities' may not only present themselves, but the prospective investors, often with the support of their own government, may well pressure the government to take up the transaction. The controversial Dabhol Power Station in India (discussed below) is one example. Such pressure often overwhelms the reservations that might otherwise be expressed, making it more likely that the deals made will not be transparent or fully subjected to the external disciplines of competition or independent regulatory reviews.

A third explanation for less optimal decision-making derives from pressures imposed from outside the country. Multilateral lenders such as the IMF (International Monetary Fund), the World Bank, regional development banks, and bilateral aid donors often impose conditions on loans or grants, which compel governments to shift assets off their balance sheets within a relatively, often arguably, unreasonably short period. Meeting these conditions often allows little time to examine all the complexities associated with privatizing infrastructure industries. While many lenders and donors recognize, and are willing to finance, efforts to establish regulatory and market institutions, the availability of funds to undertake these efforts is rarely commensurate with the enormity of the work to be done. Moreover, the availability of such financing is not always contemporaneous with the deadlines to be met for privatization. The funds available for establishing what might best be described as the infrastructure of privatized infrastructure are often either inadequate to the task or only available sporadically.

A fourth explanation is the sheer complexity of establishing the regulatory and market structures for basic industries like energy, transport, water/sanitation, and telecommunications. Transitioning from state ownership to private ownership is difficult in and of itself because it involves rethinking all of the paradigms underlying these industries, and making a fundamental change in the culture of those industries, and perhaps of society as well. The complexity is vastly compounded by the fact that the shift to private ownership is often accompanied by what is arguably an even greater paradigm shift, namely that of moving from monopoly to competition. This task is truly daunting, but it is fundamental—economically, socially, and culturally.

The enormity and complexity of establishing these market structures are often so intimidating that they are undertaken haphazardly. It is easy to underestimate the resources and time needed, and it is virtually impossible to anticipate all of the problems and circumstances that may be encountered. As a result, the first attempt is almost certain to be fraught with mistakes, necessitating a sustained effort over a long period that often extends well beyond the time frames mandated for privatization and when funds are available for the effort. This sustained effort is rendered more difficult by the fact that investors will, understandably, look for certainty in a situation that ought to be fluid by definition and necessity. The result of the interplay of complexity and cross pressures is that it is often easier for officials to adopt a course of least resistance, privatizing before a framework is in place, and thus leaving less flexibility for subsequent change or future reform.

A fifth explanation for getting the sequence and, perhaps, the substance of decision-making wrong, is that the global amount of private capital available for investment is finite and the competition for it is fierce. Private capital is highly mobile, both in terms of geography and sector. Countries trying to attract private capital for infrastructure compete both with other countries and other sectors of the world economy that investors might be inclined to view as more lucrative. To make infrastructure investments more attractive, officials often may feel compelled to set aside sound policy-making in order to successfully compete for capital. Often, assets are privatized but risks remain socialized. For small countries with little leverage in world capital markets in particular, the temptation to do so is often impossible to resist. The privatization of Copper Belt Energy in Zambia, where some of the electric transmission and distribution assets were put in private hands, but all energy and fuel risks remained socialized,

is a good example of a poor country with little or no market leverage trying to structure an arrangement within which privatization could occur, without an adequate framework. One could well argue that such compromises between policy-making and economic imperatives are natural and justifiable in view of the circumstances, but inherent in that argument is the assumption that the benefits of privatization outweigh other considerations. While that may or may not be true in given circumstances, there is a troubling paradox, which is that for privatization to succeed, a proper framework needs to be established, but in order to privatize, many key elements of that framework will need to be put aside. Overcoming this paradox will doubtlessly lead many otherwise intelligent public officials to conclude that the easier course is to privatize and worry about the details later.

A sixth explanation derives directly from this paradox. Outsiders often regard the time and labour to get the framework 'right' as procrastination, or perhaps even view it as passive resistance to privatization. These are certainly opinions that one hears at the IMF and the World Bank and sometimes they are even true. But not always! Giving serious consideration to all of the options and balancing of the interests to be served is indeed a complicated, time-consuming business. It is easy to confuse the process with obfuscation and delay. It is also easy to run roughshod over serious matters deserving of further contemplation in an effort to overcome passive resistance to privatization. Thus conscientious officials who undertake such contemplation find their motives questioned and they themselves are accused of blocking progress. Many so-called restructurings in eastern Europe, particularly in the former Soviet Union, bear witness to the failure of lenders and donors to distinguish between procrastinators and thoughtful policy-making. In many cases, locals with relevant expertise were excluded from all activities except actual implementation. It is not at all surprising that serious, often essential, efforts to establish an appropriate framework are given so little attention.

A seventh explanation derives from the ideological/stereotypical assumptions described above. When policy makers simply assume that privatization is such a significant step forward, they may devote scant attention to structuring the market, articulating social expectations, and developing the regulatory/legal framework within which the sector will operate. Often, these are viewed by privatization ideologues as impediments to market functioning, and the ability to attract capital. If providing a means for continued state intervention in the sector is important, sometimes a conscious ideological decision is made to avoid articulating the context of privatization prior to its

implementation. In other cases, the ideological view is so pronounced that the framework issues are simply never discussed. In Brazil, for example, state-owned enterprises were prohibited from retaining expert advisers on privatizing and restructuring for fear that the government's prevailing ideological view would be challenged. For the same reason, restructuring in the electricity sector in Ukraine was largely a regime imposed by a consortium of foreign lenders and donors, who sought and received little input from Ukrainians in the sector, lest they only offer a traditional, socialist perspective.

An eighth possible explanation, while not necessarily the least likely, is clearly the least palatable. That explanation, of course, is that decisions can be motivated by corruption. Obviously, transactions that are not fully subject to some external discipline are more likely to be suspect than deals consummated under more ethical and transparent conditions. The absence of any significant market or regulatory framework, of course, while not causing corruption, certainly can facilitate it. A decision-maker who wants to take untoward advantage of his/her position will almost certainly try to conduct business in circumstances that are free of external constraints. Similarly, an investor who seeks to use corrupt means to make a favourable deal may lobby very strongly to finalize a deal before an external framework can be imposed.

A final explanation for a poor decision-making sequence is that the fundamental debate within most countries is whether a particular industry should or should not be privatized, and not about how best to do so. Having prevailed in their argument, privatization's advocates often feel compelled to move quickly before opposition resurfaces. They may confuse discussion of the framework for privatizing with opposition to privatization itself, and therefore press ahead without paying adequate attention to the details that will determine the outcome of their endeavours. In some cases, the haste to move ahead and avoid additional complications has actually led to the total or partial exclusion of personnel in the sector to be privatized from any discussion of the framework within which the industry will operate post-privatization. The result is uncertainty, and the lack of common understanding about the regulatory regime, market rules, social expectations, or other critical matters.

Regardless of the reasons, an inadequate framework often creates barriers to the attainment of many of privatization's objectives. How privatization occurs is frequently a predictor of its success. It is useful to look at some of the critical objectives and to examine how the failure to get the framework right can subvert the entire effort.

The goals of privatization and the consequences of an inadequate framework

Optimally, the change from state ownership to private control is not the only transition that occurs: there are two others. The first is the encouragement of competition where it has never existed. Because private enterprises best function when there is a robustly competitive market, infrastructure industries with core, bottleneck functions do not always achieve full competition. Nonetheless, it is important that competitive markets be encouraged where viable, and that the bottleneck functions be adequately regulated to assure quality service and to avoid the extraction of monopoly rents.

The second change is moving from a mentality where both risk and reward are socialized to a mentality that allocates risks and rewards between the private and public sectors in a rational, equitable, and symmetrical manner. Privatization of gains with socialization of risks is a nice fantasy for private investors. Similarly, some consumers may fantasize about socializing gains while privatizing risks. Neither regime, of course, is workable. Nonetheless, both subtle and direct pressures will exist to move towards one of those regimes. Such pressures can only be successfully resisted when privatization is accompanied by a mindset that recognizes that private investors should be required to assume a level of risk commensurate with potential gains. The risk to investors can be divided into three categories: (1) fully controllable (e.g. construction, management, prudence); (2) partly controllable (e.g. cost of capital, cost and availability of critical resources such as fuel); and (3) completely uncontrollable (e.g. changes in environmental requirements, taxes, currency fluctuation, and inflation). The risk must be allocated efficiently, and this is best done by understanding how controllable the risk is by those to whom it is assigned, who benefits if the risk does not materialize, and how to replicate risk allocation in a fully competitive market. In summary, privatization can only be effective where risk and reward are allocated appropriately, and where a market mentality governs.

Determining where markets can and cannot flourish is not a trivial exercise. Market forces must be allowed to govern where they are viable, but relying on them in the absence of competition is hazardous. Private companies are almost by definition profit maximizers. There is nothing wrong with the desire to maximize profits, as long as the ability to maximize profits is disciplined by either competition or regulation. Ideally, either discipline will provide incentives that link profit to performance. The absence of discipline, however, can lead to exploitation of consumers who purchase services from providers that

charge high prices and who lack any particular incentive to be efficient. While the need for external discipline seems obvious, it is for reasons already noted, not always put in place. Even where the need is recognized, it can be difficult to establish and deploy competition or regulation.

When is a market competitive? Is it when new entrants are theoretically allowed to contest a market, or do new entrants actually have to pose a viable threat to incumbents before the market can be deemed competitive? The degree to which markets are competitive often determines the nature of the regulatory regime. Regulation ranges from cost of service to price caps, revenue caps, anti-trust (enforcing competition), or even handicapping market-dominant players. There are also many legal/policy frameworks which might be established, such as licence-based (contract-based) regulation and rule-based (regulatory body discretion) regulation. Improper or wrongly applied regulation can impede competition. Inappropriate regulation can have the effect of removing an essential discipline. A detailed discussion of economic analysis and an examination of the options are beyond the scope of this paper. The point, however, is that one cannot conclude that privatization by itself puts market forces to work. Sorting out where competition will work and the form of regulation that needs to be applied is an exercise critical to privatization's success.

To illustrate the importance of getting the framework right to achieve the objectives sought, the following three examples are worth contemplation.

Improved productivity

Privatization, in and of itself, does not produce greater productivity. There is no reason to believe that unregulated, private monopolies, for example, will perform any better for society than a state-owned monopoly. Moreover, even where there are productivity gains, there is no assurance that any of the benefits will accrue to consumers or to the economy as a whole. Private, for-profit companies naturally respond to incentives. Indeed, one of the attractions of privatization is that unlike the public sector, it is possible to construct meaningful incentives. It is critical, however, to create incentives that align the interests of both investors and consumers. Incentives for productivity gains that benefit investor and society alike are inherent in a viably competitive market. Where the market is not fully competitive, however, the regulatory regime must set the appropriate incentives.

Perhaps the classic example of inappropriately established incentives is in the privatization of Rio Light, the electric distribution

company of Rio de Janeiro, Brazil. After a competitive solicitation, the company was sold to a Franco/American consortium of EDF (Electricite de France), AES Corporation, and Reliant.⁴ The incentive structure in the licence agreement is noteworthy. The tariff was a seven-year price cap with RPI. There was no X factor employed. The publicly stated rationale (although enticing investors was probably the real one) for not indicating an expected level of productivity gain was that by allowing the investor to retain all productivity gains, it maximized the incentive to improve efficiency and did not confiscate the profits earned through such gains. The problem with this formulation is that it fails to distinguish between productivity gains and mere cost-cutting. By not building in at least a minimum productivity expectation, the incentive was merely to cut costs. That incentive was, in effect, magnified by the absence of either performance standards or regulatory oversight. The private owners followed the incentives perfectly. They reduced the number of employees, slashed other costs, and made very little investment in a system that had already deteriorated because of capital starvation under state ownership. About a year after privatization, when the system was under severe strain due to an extended heat wave, it simply collapsed. The personnel who were skilled at maintaining the system on a virtual shoestring under state ownership had largely exited the company because of the cost-cutting exercise in force. The combination of equipment failure and absence of skilled personnel led to a sustained outage that angered the city's consumers. ANEEL (Agencia Nacional de Energia Electrica), the regulatory agency that had literally only come into existence one week before the outage, was left to cope with skewed incentives that were contractually protected for seven years, no performance standards to evaluate performance, and questionable legal authority to oversee licence conditions that were promulgated prior to the creation of the agency. While one can fault the management's shortsightedness, the fact is that it followed the incentives it was given. Privatizing in a severely flawed and ill-conceived restructuring framework produced worse performance than had existed under state ownership.

Contrast the situation in Rio de Janeiro with the experience in Argentina's electricity sector where the entire generating sector was unbundled and privatized into 38 different companies. A competitive market and regulatory structure were put in place contemporaneous with privatization. Like Rio Light in Brazil, the Argentinian plants

⁴ It is curious that the transaction is described as privatization at all. A consortium led by a state-owned company borrowed money from a state-owned bank to buy another state-owned company.

had been inadequately maintained under state ownership. New investors had to make substantial investments in the plants in order to compete with the other generators. As a result, the productivity of the sector improved dramatically. A well-designed market and incentives produced positive results for all concerned.

Reduced political and social interference

One of the most common justifications for privatizing infrastructure is to remove politics from a sector. It is an article of faith, for example, that state-owned companies suffer from political interference and, therefore, can never operate on a fully commercial basis. While that may not be universally true, there are certainly enough stories about artificial job creation, diversion of needed resources, manipulation of tariffs, and a variety of other abuses to indicate that there is a great deal of truth to the belief. It is naïve, however, to believe that privatization alone will change that. In fact, it is absurd to think that a private investor will sink a large amount of capital into an enterprise and then unilaterally disarm himself politically. Obviously, investors will use all legal means, including political, to protect their interests. Similarly, it is unreal to expect that social expectations will terminate or diminish merely because assets have been transferred to private ownership. It seems obvious that investors will seek to manipulate a system to their benefit, and equally obvious that politicians, interest groups, advocacy organizations, and others will continue to push for their own objectives. As long as the means used are both legal and ethical, this is a perfectly acceptable process. However, even when assuming strict adherence to law and ethics, there is reason to believe that political influence on hiring, service priorities, revenue and resource allocations will still be an inherent part of the horse trading that will invariably result. Left unchecked, there is every reason to believe that some political manipulation, although different in kind, will continue in a privatized regime.

The key to avoiding undue politicization is found not in privatization, but in the development of a proper framework. To deter improper political interference, the framework must define the scope and nature of permissible government intervention in the sector, must clearly articulate the economic and non-economic expectations to be served, must define the acceptable limits of lobbying behaviour, and must require public agencies to conduct business in a transparent manner. It must assign as many critical decisions as are warranted by the existence of competition to the marketplace, which must also function transparently.

On a related note, an oft-stated reason to privatize is that it will reduce opportunities for corruption. This also seems naïve. Because infrastructure industries inherently require vast amounts of money to build and operate, only the most convinced privatization ideologue would try to argue that privatization removes opportunities for corruption. When a high-level official in an African nation, which had liberalized its economy and privatized some of its infrastructure, was asked if privatization had reduced corruption, he responded that while corruption was no less prevalent, the appearance of private capital had raised the price of influencing public officials. As this comment demonstrates, the antidotes for corruption do not inherently arise from privatization. Instead they arise from creating an environment within which viable market forces reduce the need for government intervention, and business is conducted transparently, adopting and enforcing rules governing ethical behaviour. These antidotes are derived entirely from the framework and discipline within which privatization occurs.

Sustainability of the new regime

The cycle of nationalization and privatization is a long one in much of the world. One of the goals of the contemporary trend in favour of privatization is to stop the pendulum from swinging back again. Obviously, getting the restructuring framework right and the continuing ability to tweak the system when circumstances so require are crucial. Nevertheless, many countries find themselves in positions that require them to write long-term licences that have the legal effect of binding the government and regulators for extended periods. Investors look for the certainty that such long-term arrangements provide. Ironically, obtaining that certainty may produce significant instability in the arrangements. The best example occurred in England and Wales. In the initial licences granted to the electricity distributors, the regulator, in his proposed calculations, severely underestimated the productivity gains that were available. As a result, the five-year, annual X factor in the RPI- X formula was substantially less than what might have been warranted under the circumstances. When the subsequent high profits earned by the distributors were revealed, consumers voiced their displeasure. Two things occurred in response to the hue and cry. The regulator changed his X factor calculations to reflect a higher level of expected productivity gains than had earlier been announced, and the Labor Party, after promising to do so during its election campaign, enacted a windfall profits tax that took back some of the profits. The system held in the United

Kingdom,⁵ but one wonders about the financial market's reaction towards a developing country that takes similar measures. The larger point, however, is that the sustainability of a privatization framework may well depend upon building in tolerable levels of uncertainty.

A privatization scheme will be sustainable only when it has been carried out in a framework of transparent transactions disciplined either by competition or by independent regulatory oversight. Enron's Dabhol Plant in India is a prime example. The contract negotiated between Enron and the MSEB (Maharashtra State Electricity Board) was the result of private, non-transparent, negotiations outside of any competitive or regulatory regime. The MSEB signed the contract under considerable political pressure from New Delhi and beyond, despite widespread opposition by technocrats and multilateral lenders. When the opposition party campaigned in Maharashtra's next election, it struck a popular chord when it promised to renege on or renegotiate the contract. Once in power, the government did force a re-negotiation, but when the new terms proved uneconomic, the MSEB simply stopped making payments, and the central government has not honoured the sovereign guarantee it had provided. While the outcome of Dabhol is not yet clear, the lesson is. For a transaction to be credible and sustainable, it must occur within an acceptable restructuring framework. In the absence of transparency, and both competition and regulatory scrutiny, privatization is unlikely to be sustained during difficult times. As mentioned earlier, situations similar to Dabhol have occurred in Indonesia and Pakistan, and these 'privatizations' are just as unsustainable as in India.

Conclusion

The focus of infrastructure reform must be on the restructuring framework, not just on privatization. Privatization may be a perfectly reasonable means to achieve the objectives of restructuring and reform in many circumstances. It is not, however, universally applicable in the absence of a suitable framework, and it is likely to be a most unsuitable instrument for reform. Those who undertake privatization in developing countries must learn to distinguish between the ends of sector reform and the means of privatization.

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⁵ Interestingly, the stock prices of the electric distributors remained relatively unaffected by the change in calculations.