Reforming Power Markets: Lessons from Five Developing Countries

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From State-Centered to Market-Centered…

- Organization
  - Unbundling; fragmentation
- Ownership
  - Privatization, IPPs
- Financing
  - Market finance replaces “soft budgets”
- Governance and Accounting
  - External shareholder accountability
- Oversight
  - From the state to independent regulators

Five Critical Developing Countries

Country	Populat'n	Income (GDP/cap $, PPP)	GDP (billion US$)	Power Supply (Twh)	Gen. Capacity (Gw)	Dominant Fuel	New Fuel
Brazil	170m	7625	595	332	69	Hydro (88%)	Gas (0.2%)
China	1262m	3976	1079	1240	294	Coal (78%)	Gas (0.4%)
India	1016m	2358	456	527	108	Coal (75%)	Gas (6%)
Mexico	98m	9023	575	192	39	Oil (47%)	Gas (18%)
South Africa	43m	9401	126	200	40	Coal (93%)	Gas (0%)

Main Results

1. Key Reform Driver: Finance Constraints
2. No “textbook” restructuring
3. Creation of “hybrid markets”
   - Partially state-controlled
     - Financing; tariffs
       - “Equity squeeze” for IPPs in slack markets
   - Partially market
     - Project and concession bidding
     - Brief market experiments
       - Orissa; wet hydro in Brazil
4. Regulators: replacement for government

Why No Textbook Restructuring?

- Interlocking Reforms Required
  - Judicial
    - Mexico; India
  - Corporate Governance and accounting
    - China; Brazil; Mexico
  - Finance
    - China
  - Contrast w/ OECD
    - reform with “rule of law” systems already in place

Hybrid Markets

- Fragmented Ownership and Control
  - Isolated pockets of profitability: listed corporations
  - Pervasive under-performing: retained by the state
- Hybrid financing
  - Hard debt; equity squeeze; soft loans; pervasive state "safety nets"
- Hybrid governance
  - "JV model" survives