Distributional Impacts of Infrastructure Privatization in Brazil

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Round Table

Public Utilities Reform in Latin America

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Distributional Impacts of Privatization in Brazil

• Outline
  – Some General results of privatization
    • On Debt
    • On efficiency at firm level
  – The relevance of Infrastructure Sectors in Privatization Process
  – Main Distributional Impacts
    • Service Coverage
    • Prices
  – The hole of Public-Private Partnerships
Efficiency at Firm Level

- Anuatti-Neto et al (2003) analyzed changes in the performance of 102 privatized companies, covering data from 1987 up to 2000, including both large and small firms, listed and unlisted on the stock exchange.
- The analysis of performance, taking private sector companies as control group, appointed the following changes:
  - **Profitability** increases in three indicators OI/S (5.6%), ROA (16.2%) and ROE (6.2%).
  - **Operational Efficiency** improved by an increase of 7% in Log (S/PPE) and a reduction of 1.5% in OC/S.
  - **Investments** to sales (I/S) declined 3.2%, coherent with an increase in Log (S/PPE), as more intense use of productive assets was achieved. As I/PPE shows a positive coefficient of 5.7%, investments after privatization seems to have moved into working capital. A 14% increase in the current ratio indicator confirms that result.
  - Effects on **Indebtedness** seems to depend a lot on the sale. Restructured firms and firms that had minority private partners at the control group before sale presented a larger reduction of long-term debt-to-equity (LTD/E).
- Among the sources that improved efficiency of privatized firms it was found a reduction in direct employment.
Proceeds of Privatization by Sector

- Electricity: 31%
- Telephone: 31%
- Mining: 8%
- Steel: 6%
- Oil & Gas: 4%
- Petrochem: 2%
- Transport: 3%
- Banks: 7%
- Others: 8%

Sector
Electricity

- Privatization of distribution and generation companies
  - Distribution - 65%
  - Generation - less than 20%
- Open access to transmission and distribution grids
Coverage – Urban Areas

Electricity

Decil

Coverage of electricity in urban areas over the years 1995, 1998, and 2002, showing an increase in coverage from 65% to 100% across different deciles.
## Households without Access to Electricity – Census 2000

<table>
<thead>
<tr>
<th></th>
<th>Below Poverty Line</th>
<th>Above Poverty Line</th>
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</thead>
<tbody>
<tr>
<td>Rural</td>
<td>1,506,116</td>
<td>612,730</td>
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<tr>
<td>Urban</td>
<td>223,901</td>
<td>107,659</td>
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<tr>
<td>As % of Total</td>
<td>14,78</td>
<td>2,19%</td>
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Price Effects on Household Consumption

- **Electricity Price Index**
- **IPCA**
Telecom Privatization

- Privatization of Telebrás system (1998)
  - 8 cellular mobile companies = US$ 6,974
  - 3 local and regional long distance companies (Telemar, Telefonica and Brasil Telecom) = US$ 9,794 mi
  - One national and international long distance company (Embratel) = US$ 2,276 mi

- Other licenses to mobile and “mirror companies” were worth of US$ 9,556.6
Coverage – Urban Areas

Telephone

Decil

1995
1998
2002
Coverage – Urban Areas

Mobile Phone

Decil

2001

2002

Coverage (%) vs. Decile Number
Water & Sanitation

• Executive is preparing a New National Water Law
• Lack of clear assignment of responsibilities to the many institutions, at different government levels, that share overlapping mandates over the sector
• For years available resources could not flow to the provision of services, most of them low income households, due to indebtedness limitations of municipalities and state companies
Coverage – Urban Areas

Water

Decil

1995
1998
2002