

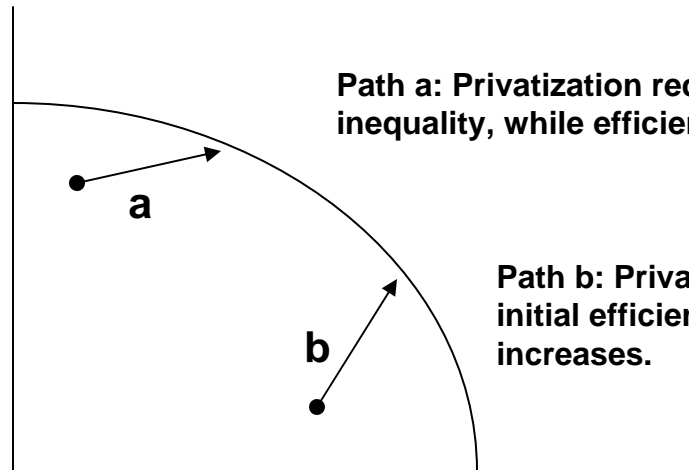


Reality Check: The Distributional Impact of Privatization in Developing Countries





Efficiency



Path a: Privatization reduces high initial inequality, while efficiency increases.

Path b: Privatization increases low initial efficiency, while equity increases.

Equity



REALITY CHECK

THE DISTRIBUTIONAL IMPACT OF PRIVATIZATION IN DEVELOPING COUNTRIES

10.20.05



POST-PRIVATIZATION:
PROFITABILITY,
EFFICIENCY & RETURNS
TO SHAREHOLDERS
INCREASE.....



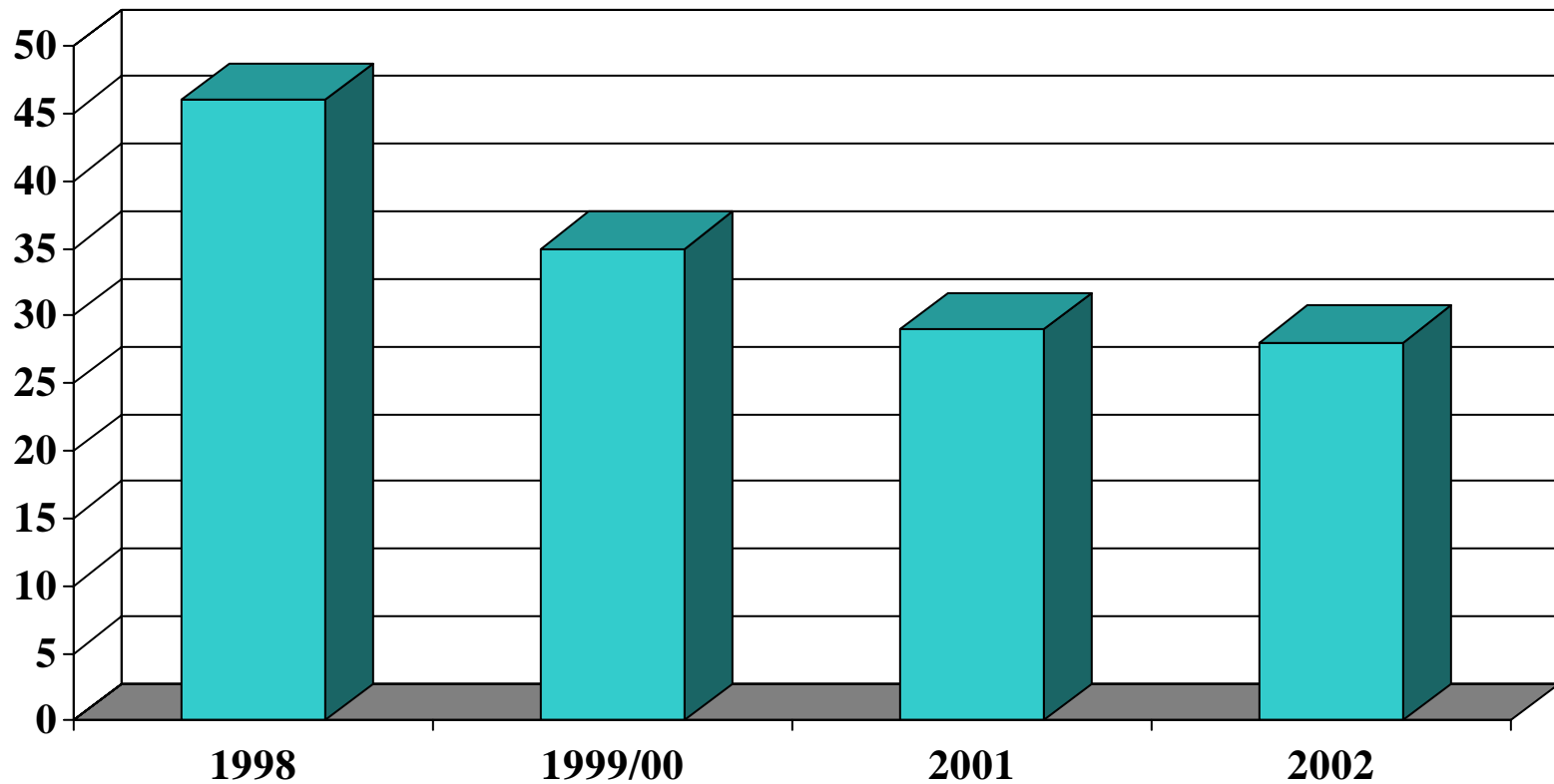
NONETHELESS--



**PRIVATIZATION
HIGHLY & INCREASINGLY
UNPOPULAR----**
**IN LATIN AMERICA, SOUTH
ASIA, AFRICA & MANY
TRANSITION COUNTRIES**

PUBLIC OPINION SURVEYS

% agreeing: “privatization has benefited the country”



Source: Latinobarometro surveys, 1998-2002



WIDELY-HELD VIEW:

PRIVATIZATION BENEFITS RICH,
AGILE & FOREIGN AT EXPENSE OF
POOR, HONEST & LOCAL



THE BIG QUESTIONS:

- IS PRIVATIZATION REALLY INCREASING POVERTY & INEQUALITY?
- IF SO, PRECISELY HOW & TO WHAT EXTENT? &
- WHAT, IF ANYTHING, CAN & SHOULD BE DONE ABOUT IT?



HOW MIGHT PRIVATIZATION AFFECT EQUITY?

1. ASSET DISTRIBUTION
2. EMPLOYMENT
3. INFRASTRUCTURE ACCESS & PRICES
4. GOVT.'s FISCAL POSITION & RESOURCE ALLOCATION



CASES ASSESS:

- IMPACT ON EMPLOYMENT, ACCESS, PRICE & QUALITY
- EFFECTS ON CONSUMERS ACROSS INCOME GROUPS
- CONSEQUENCES FOR INEQUALITY & POVERTY



LATIN AMERICAN CASES RICHEST ANALYTICALLY:

- MANY INFRASTRUCTURE PRIVATIZATIONS
- HOUSEHOLD EXP. & CONSUMP. SURVEYS AVAILABLE (LSMS)
- FAIRLY LONG TIME OF PRIVATE OPERATION
- LARGE # OF LOCAL RESEARCHERS



MANY CONSTRUCT A
“COUNTERFACTUAL”

WHAT WOULD HAVE
HAPPENED WITHOUT
PRIVATIZATION?



FINDINGS:

IN NON-INFRASTRUCTURE FIRMS,
PRIV. HAS RESULTED IN
EMPLOYMENT LOSSES, MAINLY
MODEST---EXCEPT IN TRANSITION
COUNTRIES




PROVOKES POLITICAL
RESENTMENT; BUT LITTLE EVIDENCE
(OUTSIDE OF TRANSITION) THAT IT
CONTRIBUTES TO POVERTY &
INEQUALITY GROWTH



STILL, & OFTEN, OWNERSHIP BECOMES:

MUCH MORE CONCENTRATED;
DESPITE VOUCHERS, SHARES
TO WORKERS,
“CAPITALIZATION,” RESERVING
TRANCHES FOR WORKERS &
LOCALS, ETC.



Privatization can contribute significantly to seriously worsened asset distribution (e.g., Russia)



ACCESS & PRICES (INFRASTRUCTURE):

- ACCESS UP, ESP. IN POORER DECILES
- QUALITY INDICATORS WAY UP
- PRICES UP IN ½ OF OBSERVED LAC CASES;
OFTEN LARGE; BUT
- DISTRIBUTIONAL IMPACT DEPENDS ON
REGULATORY COMPETENCE
- PRICE *DECREASES* ALSO OBSERVED (e.g.,
telecommunications)



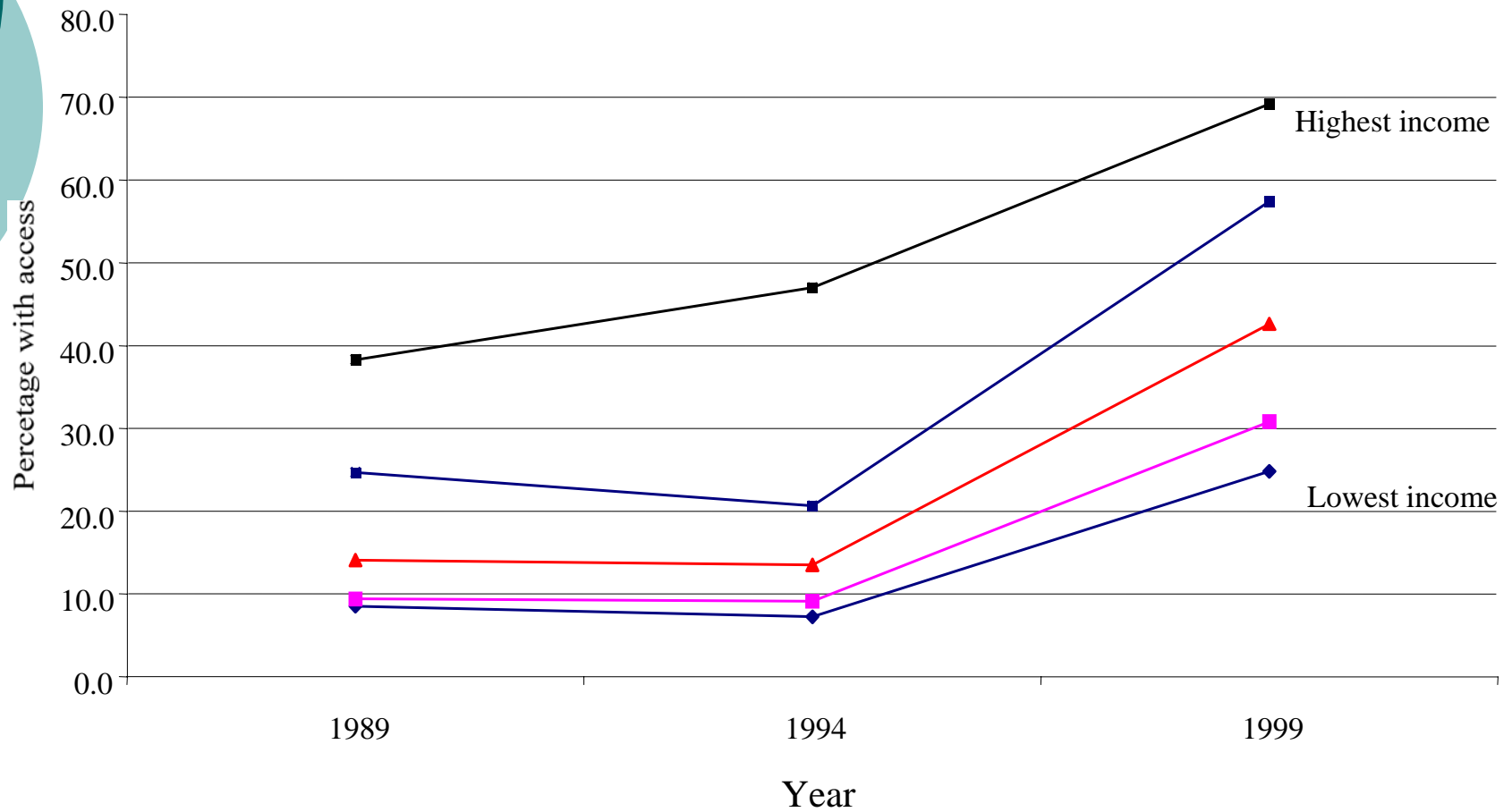
QUALITY SHIFT CAN BE VERY IMPORTANT

Argentina: infant mortality down 6 to 8 % in areas where water privatized

Poorer the area, greater the decline (up to 24%)

(Galiani, Gertler, Schargrodsky, 2003)

Figure 7
Department capitals: percentage of households that have access to telephone services, by income quintile: 1989-1999





**MAJOR FINDING: INCREASED
ACCESS OFFSETS PRICE
INCREASES**



EMPLOYEE #s DECLINE BEFORE & AFTER SALE

e.g.: 50 % loss rate in
Argentine & Mexican firms;
15 % of total employment
Nicaragua; starting to
become large in China



SURVEY OF 308 PRIVATIZED FIRMS:

POST-SALE EMPLOYMENT LOSS:

79 %

EMPLOYMENT NEUTRAL OR

GAIN: 21 %

(Chong & Lopez-de-Silanes, 2002)



HOWEVER....

- # DISMISSED SMALL % OF TOTAL WORKFORCE
- PRIVATIZATION *NOT* PRIME CAUSE OF HIGH POST-REFORM UNEMPLOYMENT




PRIV.'S EFFECTS ON WORKERS:

- LOWERS OVERALL WAGE RATE
(great variance among countries)
- LONGER HOURS; LESS
SECURITY; FEWER FRINGE
BENEFITS
- MEN, YOUTH, BETTER EDUCATED
THE WINNERS; WOMEN, THOSE
> 45 THE LOSERS



FISCAL EFFECTS

- Positive “flow of funds” (despite “underpricing”)
- More from end of subsidies & new corporate taxes than from sales proceeds
- Public debt down; social expenditures up in many cases
- Privatization a fiscal & social opportunity



The Brazil and Sri Lanka cases that assess the “opportunity” conclude that it was largely missed



In best-studied Latin American cases.....

- "...privatization has a very small effect on inequality..."
- changes to Ginis very small
- "Privatization either reduces poverty or has no effect on it....."



**NO SIMILAR DEPTH OF
ANALYSIS IN OTHER
REGIONS; VERY LIKELY THAT
FINDINGS ARE MUCH LESS
POSITIVE (e.g., Russia)**



CONCLUSIONS

- PRIVATIZATION NOT THE MAJOR POLICY VILLAIN CLAIMED BY CRITICS;
BUT.....
- MANY CHANCES MISSED TO IMPLEMENT PROCESS IN MORE EQUITABLE FASHION



CONCLUSIONS (CONT.)

- SELLING GOVT.'S CAN & SHOULD DO MORE TO SPREAD GAINS FROM PRIVATIZATION
- CHAPTER 8 (A. ESTACHE) SUMS UP WAYS TO ADDRESS POVERTY & EQUITY CONCERNS IN UTILITY REFORM



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