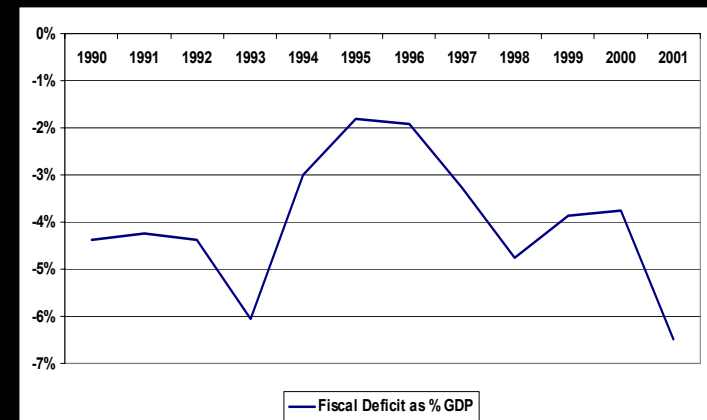
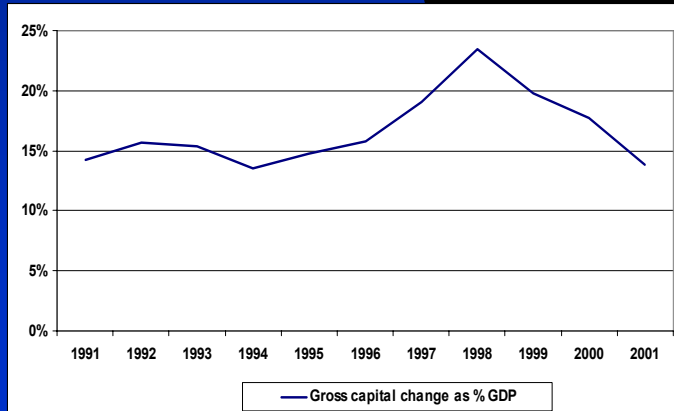
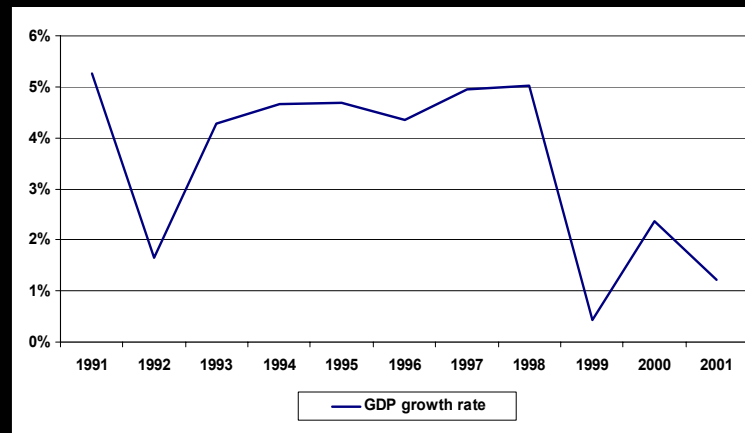


# Capitalization and Privatization in Bolivia: An Approximation to an evaluation



# The big picture

- Transition from a State-led to a market driven economy since the 1982-85 crisis
- Prior to privatization, the State continued to be the main investor in the economy and remained highly dependent on foreign debt.
- Economic growth occurred at rates that would not lower poverty significantly

# The big picture

- The 1993-97 period became the most aggressive in structural reform in two fronts:
  - (1) Definition of a new State-market frontier, where government firms were replaced by privatization and regulation.
  - (2) Definition of a new central-local frontier within the state, where local governments are given greater participation.
- Development vision: The private sector (particularly foreign) would lead investment and growth. The State would regulate markets and increase its efficiency in the provision of public/quasi-public goods.

# Capitalization

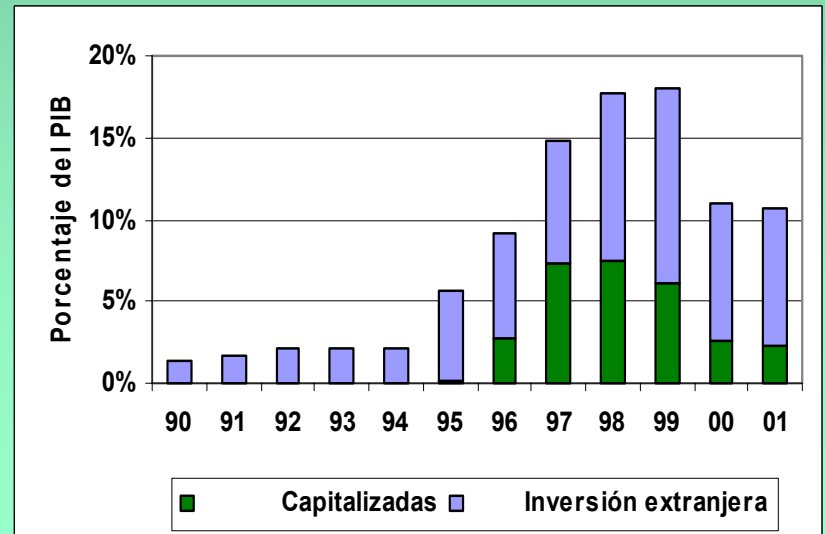
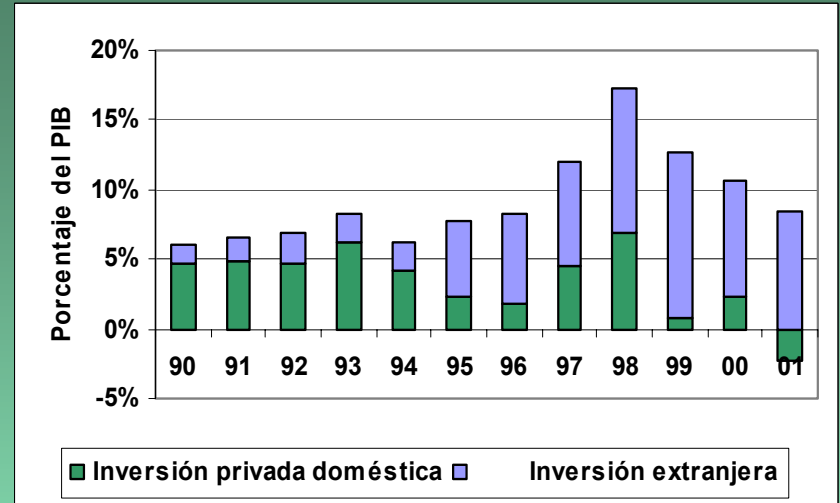
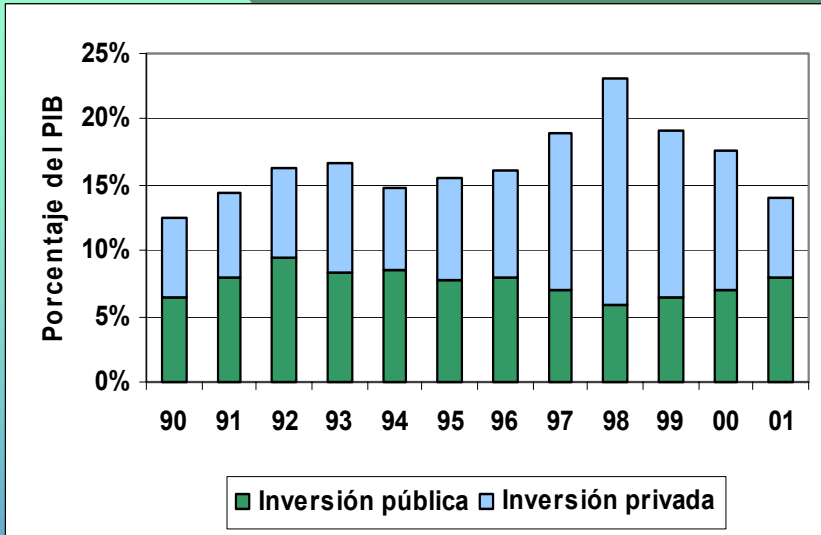
- Privatization versus Capitalization.
  
- Main objectives:
  - (1) Attract foreign investment.
  - (2) Lead economic growth.
  
- Two periods:
  - (1) 1994-98. Reform implementation and initial results in an environment of stability and growth.
  - (2) 1999-today. Reform consolidation in an environment of economic recession.

# Investment

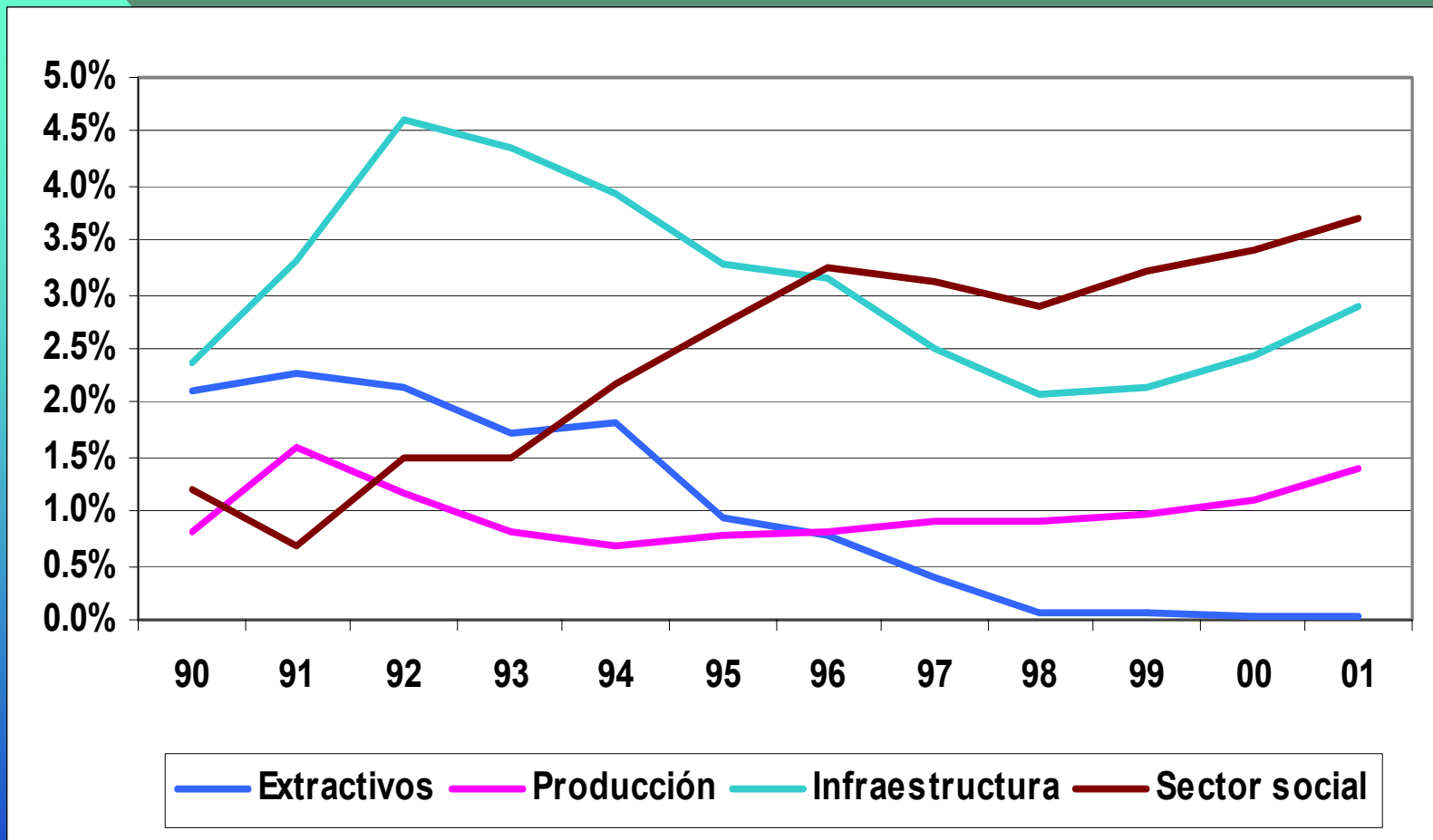
Firms created by the reform	Year	Privatization value (Millions of \$us)	Capitalization value (Millions of \$us)	Investment as of 2001 (as % of commitment)	Company / institution in charge of investment
<b>Oil and gas</b>					
<i>Chaco S.A.</i>	1997		306.66	131.6	Chaco S.A.
<i>Andina S.A.</i>	1997		264.77	130.0	Andina S.A.
<i>Transredes S.A.</i>	1997		263.50	84.1	Transredes S.A.
<i>EBR S.A.</i>	2000	102.00			TGN-Investment
<i>CLHB S.A.</i>	2000	12.05			TGN-Investment
<i>Airport Service Stations</i>	2000	11.10			TGN-Investment
<b>Electricity</b>					
<i>Corani S.A.</i>	1995		58.79	85.1	Corani S.A.
<i>Guaracachi S.A.</i>	1995		47.13	154.3	Guaracachi S.A.
<i>Valle Hermoso S.A.</i>	1995		33.92	110.9	Valle Hermoso S.A.
<i>TDE S.A.</i>	1997	39.90			ENDE Residual
<i>Elfec S.A.</i>	1995	50.30			TGN-Investment
<b>Telecommunications</b>				(1)	
<i>ENTEL S.A.</i>	1995		610.00	76.9	ENTEL S.A.
<b>Transportation</b>				(1)	
<i>LAB S.A.</i>	1997		47.47	95.5	LAB S.A.
<i>FCO S.A.</i>	1996		25.85	129.1	FCO S.A.
<i>FCA S.A.</i>	1996		13.25	108.6	FCA S.A.
<b>Total</b>		<b>215.35</b>	<b>1,671.34</b>		

(1) Investment as of 2000 as % of commitment.

# Investment



# Effect on government investment



# Employment

- Employment by firm has decreased in the transition, which was expected.
- As production expanded, employment has remained the same or has decreased as recession advanced.
- Unemployment generation not significant compared to economy unemployment levels.
- Lack of information regarding indirect employment effects.

# Regulatory effects

- Competition in telecommunications, particularly cellular and later long distance. Information technologies have evolved poorly. Cases of anticompetitive practices.
- NIS: Excess capacity in the electricity market since 1999.
- Increase in natural gas reserves from 5.7 TCF to 52.3 TCF in the hydrocarbons sector. Exports to Brazil. Gas intensive projects including LNG, GTL, Petroquímica and electricity generation. Other scenarios.
- Except for ALSA, not much to say in the water & sewerage sector. Lack of sector Law in the transportation sector.

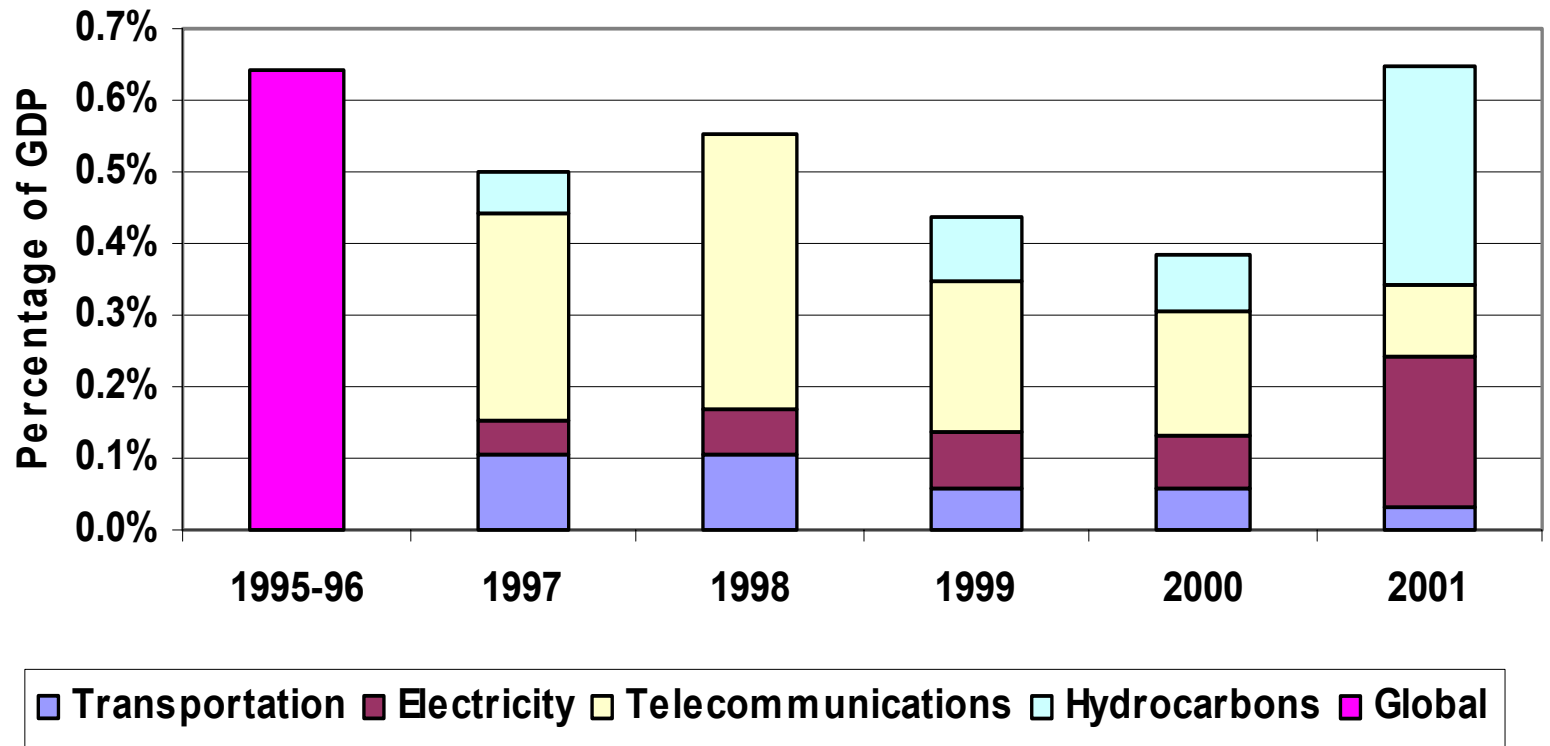
# Regulatory effects

- Significant improvement in information production.
- Implementation of a consumer reclamation system. More needs to be done.
- Implementation of an appeals system with important results, but there are problems.
- Regulatory self evaluation system implemented, but lagging.

# Firms performance

- Domestic demand constraints further expansion of infrastructure and reserves.
- The hydrocarbons sector is dependent on further expansion of export markets. It is believed to be the future source of growth.
- Improvement in technology transfer.
- Moderate return to capital in average.
- Increased internal efficiency.
- Increased in labor productivity.
- Increased government tax collection?

## Dividends received by the CCF

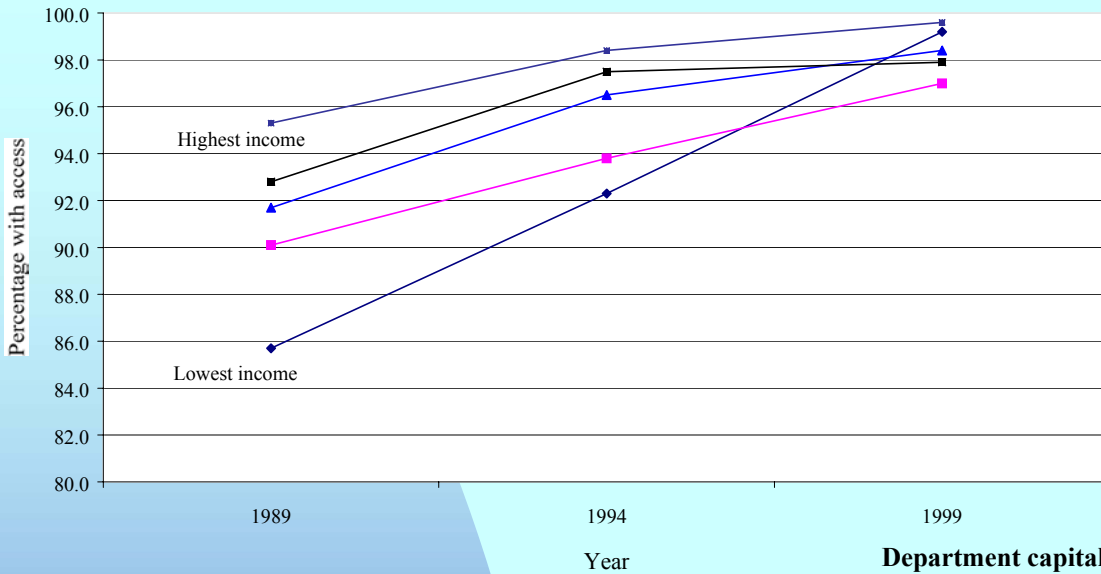


<b>ROE</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Electricity</b>					
Corani	11.6%	7.2%	9.3%	8.0%	5.2%
Valle Hermoso	2.5%	4.8%	4.7%	3.7%	-0.9%
Cuaracachi	3.6%	5.6%	4.4%	3.4%	2.7%
<b>Telecommunications</b>					
ENTEL	5.9%	9.0%	4.9%	4.1%	
<b>Hydrocarbons</b>					
Andina	2.5%	0.7%	1.9%	6.1%	0.0%
Chaco	-5.9%	-2.1%	6.1%	9.6%	8.5%
Transredes	6.9%	6.0%	8.3%	-4.0%	2.5%
<b>Transportation</b>					
LAB	2.5%	-5.9%	0.5%	-14.0%	
FCA	11.4%	6.8%	8.0%	7.5%	
FCO	20.2%	22.2%	13.5%	13.2%	
<b>Water &amp; Sewerage</b>					
AISA	0.9%	15.0%	18.4%	4.9%	-4.9%

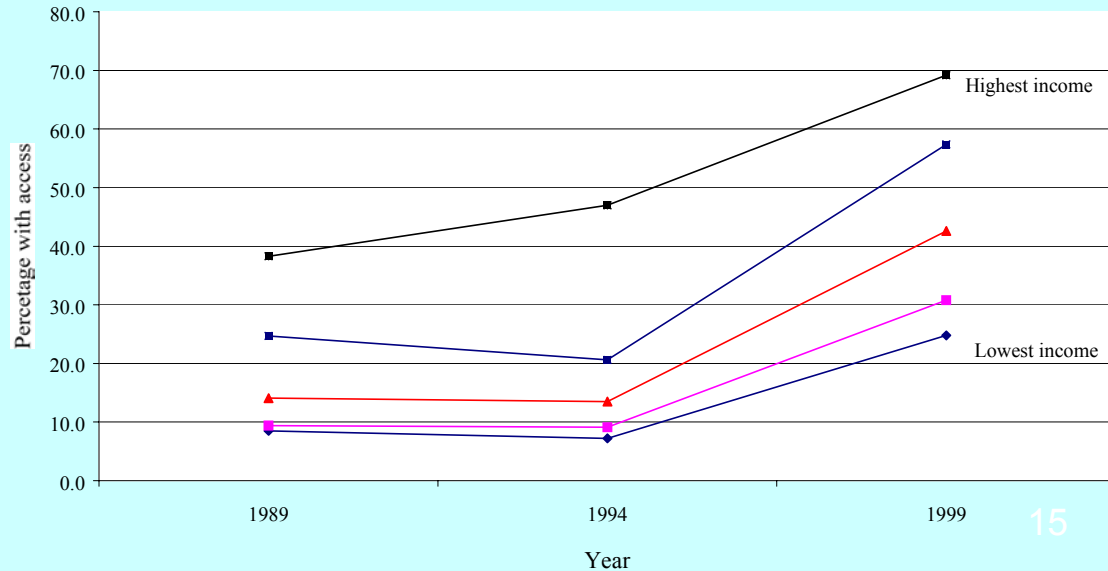
# Access

- Improvement in access to communications, electricity and water & sewerage.
- Large differences between urban and rural areas.
- In urban areas improvements did not bypass the poor.
- Little improvement in natural gas distribution. An important area of future government action.

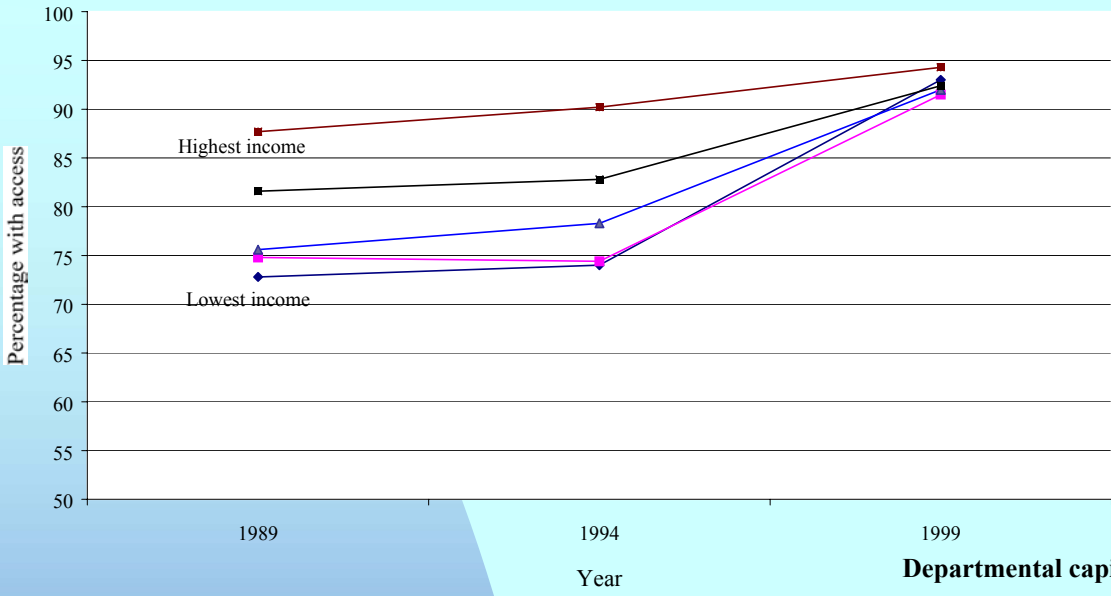
**Figure 6**  
**Department capitals: Percentage of households with access to electricity,**  
**by income quintile: 1989-1999**



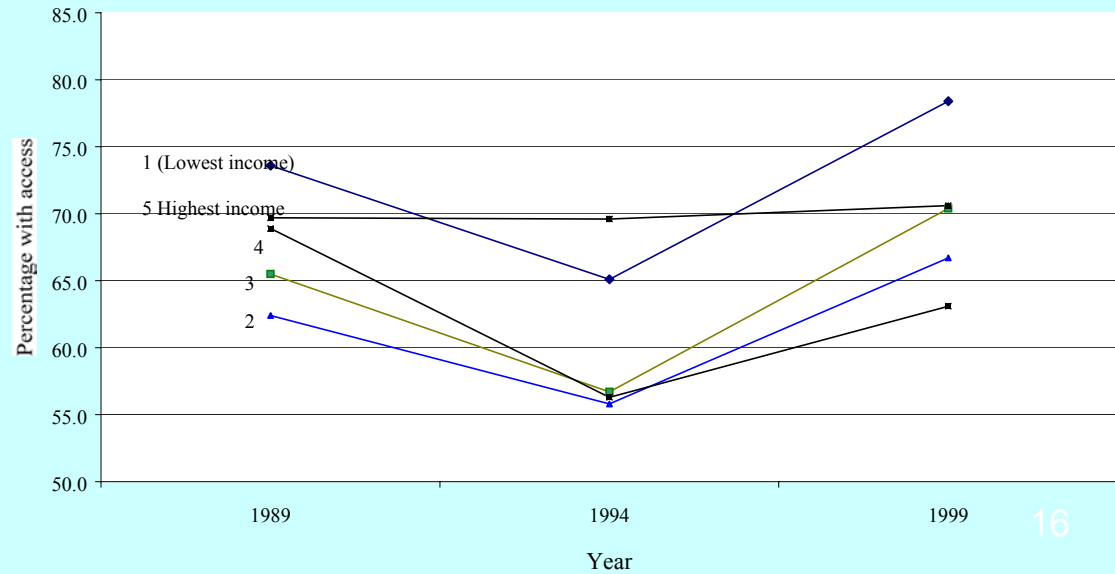
**Figure 7**  
**Department capitals: percentage of households that have access to telephone**  
**services, by income quintile: 1989-1999**



**Figure 8**  
**Departmental capitals: percentage of households with access to water services**  
**by income quintile: 1989-1999**



**Figure 9**  
**Departmental capitals: percentage of households with access to sewerage**  
**by income quintiles: 1989-1999**



# Prices

- Real price increases in electricity and water & sewerage services, but not significant.
- Real price drops in communications services.
- Real price increases in oil derivatives, but later price controls, including bottled gas.

# Quality

- Quality goals in communications were reached.
- Quality goals in electricity transportation and distribution were reached.
- Not much to say about quality goals in other services.

# Why is capitalization not popular?

- Was Capitalization/Regulation oversold?
- Negative employment effects, although not significant compared to economy wide unemployment levels.
- Underperformance in profitability and dividends paid to the FCC by capitalized firms. Insufficient control in investment, profitability, dividend payments and tax issues?
- Will the potential wealth from the hydrocarbon sector ever reach Bolivians, particularly the poor?
- High profile cases: LAB and Aguas del Tunari

# Conclusions

- FDI flows are exhausted, except maybe in the hydrocarbons sector. Perception of legal and regulatory risks.
- Private sector investment does not lead growth. Future growth depends on access of government to foreign debt.
- Capitalized firms profitability may not change very much, except maybe in the hydrocarbons sector.
- Access and quality effects greater than price effects in urban areas: a hypothesis.
- Reaching the poor in urban and particularly rural areas depends on government subsidies.