

PRIVATE PARTICIPATION IN INFRASTRUCTURE:



REAL EFFICIENCY GAINS VS.
TRANSACTIONS COSTS

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SCOPE



DEVELOPING COUNTRIES: TELECOMMUNICATIONS, ENERGY,
TRANSPORTATION, WATER AND WASTEWATER :

PRIVATE FROM 19TH CENTURY
NATIONALIZED AFTER WW II
BEGIN TO PRIVATIZE CIRCA 1989

UNITED STATES: HIGHWAYS

FEW MAJOR INFRASTRUCTURE SECTORS IN PUBLIC HANDS (WATER,
HIGHWAYS, AIRPORTS)
BEGIN TO PRIVATIZE HIGHWAYS CIRCA 1986

OUTLINE



- (1) TYPES AND MOTIVES
- (2) TRENDS: DEVELOPING COUNTRIES AND US
- (3) LIMITATIONS OF PRIVATE CAPITAL
- (4) REAL EFFICIENCY GAINS VS. TRANSFERS
- (5) TRANSACTIONS COSTS
- (6) PROSPECTS

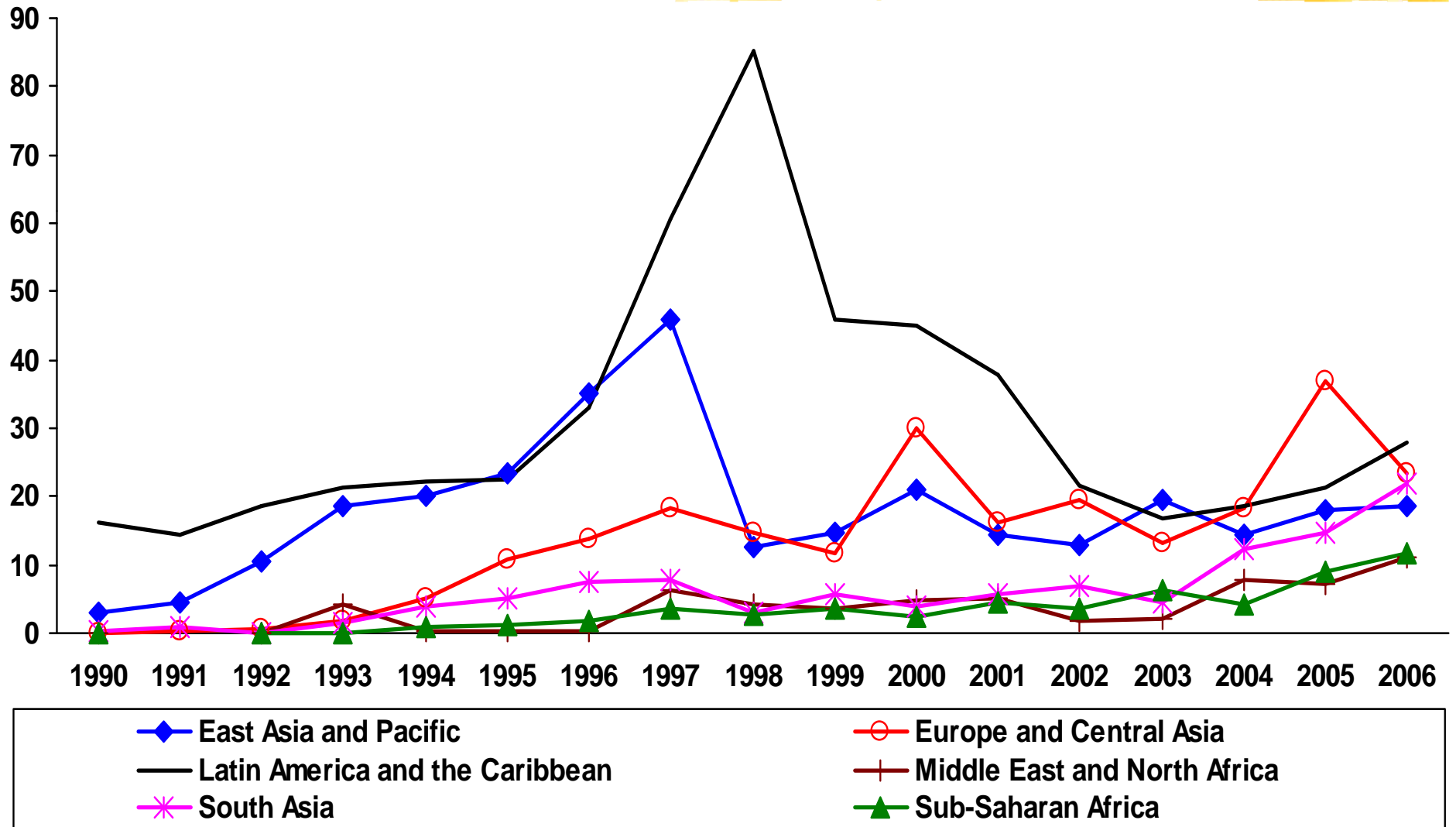
INFRASTRUCTURE PRIVATIZATION TYPES AND MOTIVES

TYPES

MOTIVES	SALE OR LEASE OF EXISTING SOE (divestiture, brownfield)	CONCESSION FOR NEW INFRA. (greenfield)	CONTRACT OUT MANAGEMENT
IMMEDIATE BUDGET RELIEF	Orange	Yellow	
TAP PRIVATE CAPITAL MARKETS	Yellow		Orange
IMPROVE EFFICIENCY	Yellow		Orange

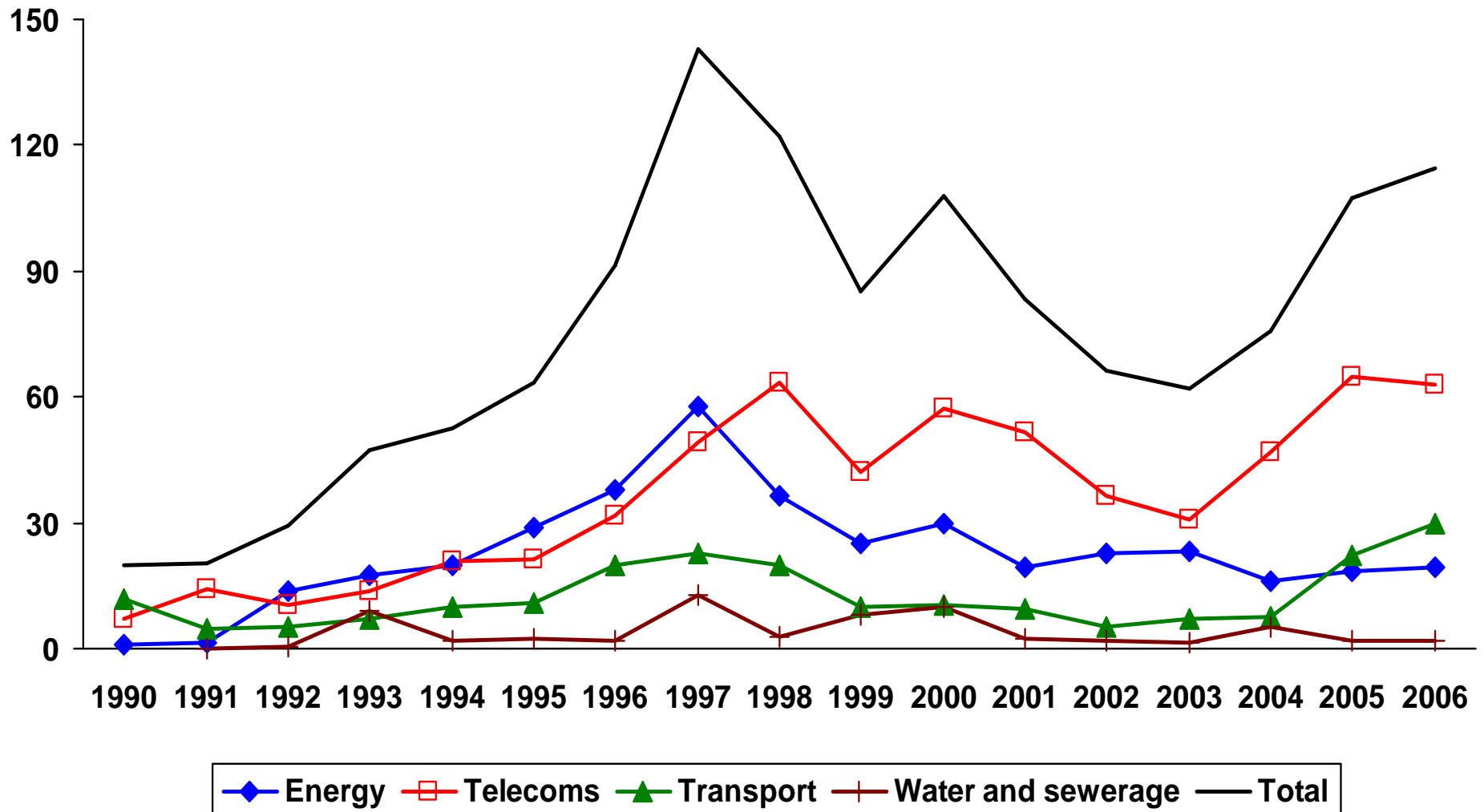
COMPLICATION: MONOPOLY, EXTERNAL BENEFITS

TRENDS BY DEVELOPING REGION: LAC & EAP PIONEER, ECA STEADY, SA & SSA NOW GROWING



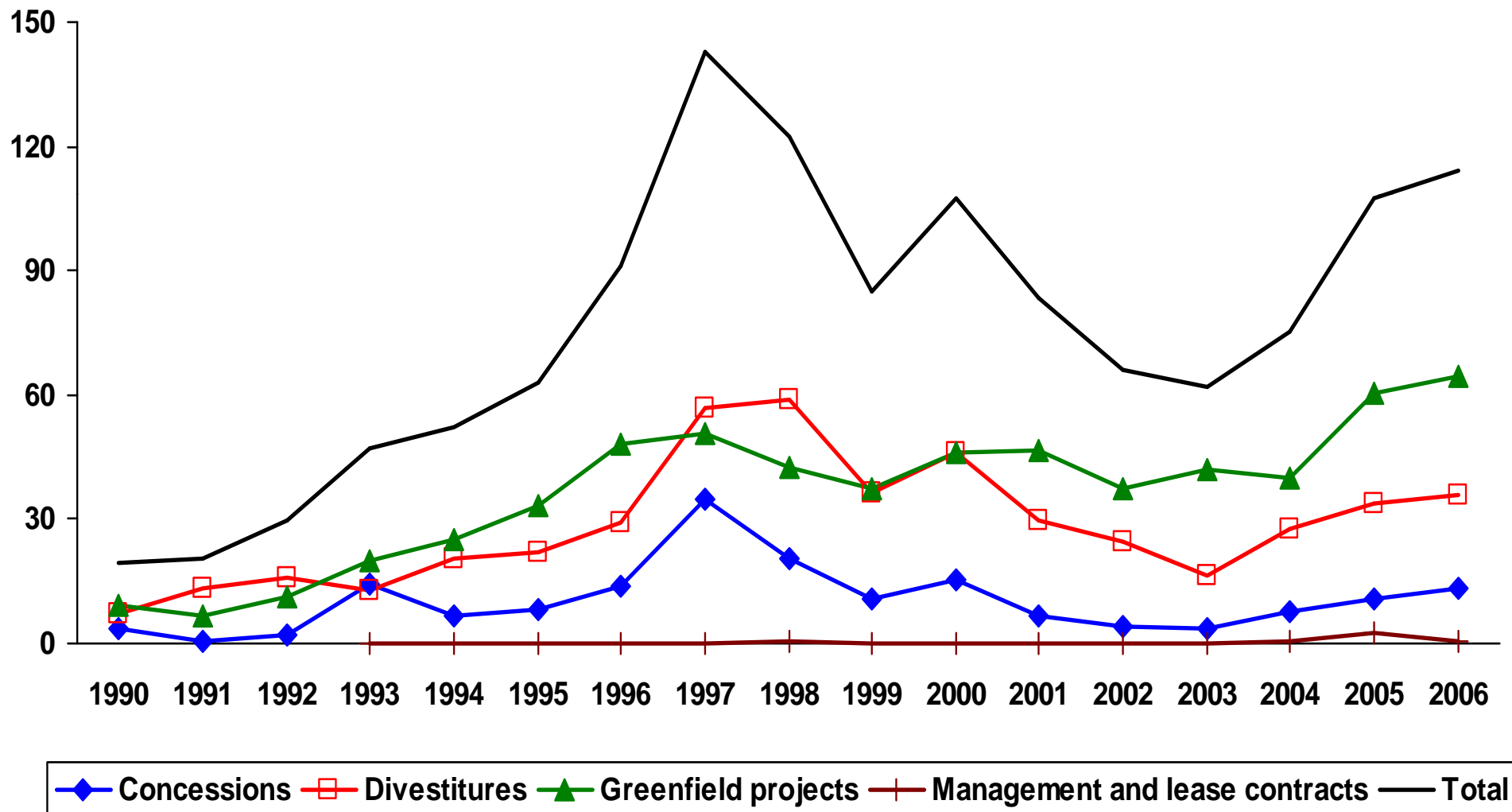
TRENDS BY SECTOR:

TELECOMS STEADY, ENERGY PEAKED, TRANSPORT RECOVERING, WATER ALWAYS SMALL



TRENDS BY TYPE:

GREENFIELD STEADIEST, DIVESTITURE/CONCESSION MORE VOLATILE,
MANAGEMENT INCREASING



HIGH PROFILE CONTROVERSIES



EAST ASIA

- BANGKOK SECOND EXPRESSWAY (1993)
- DABHOL POWER PLANT (1994)
- IPPs IN PAKISTAN, INDONESIA, PHILLIPINES (1998)
- MANILA WATER CONCESSION (2001)
- MANILA AIRPORT (2004)

EASTERN EUROPE

- HUNGARIAN M1/M15 MOTORWAY (1999)

AFRICA

- SENEGAL ELECTRICITY CONCESSION(2000)
- TANZANIA WATER CONCESSION (2005)
- MALI ELECTRICITY CONCESSION (2005)

LATIN AMERICA

- MEXICAN TOLL ROADS (1995)
- TUCUMAN WATER CONCESSION (1996)
- COCHABAMBA WATER CONCESSION (2000)
- AREQUIPE ELECTRICITY CONCESSION (2001)
- ARGENTINE UTILITIES (2002)
- DOMINICAN REPUBLIC ELECTRICITY (2004)
- EL ALTO WATER (2005)
- BOLIVIA GAS (2006)
- VENEZUELA ELECTRICITY AND TELEPHONE (2007)

INDUSTRIALIZED COUNTRIES

- CALIFORNIA ELECTRICITY CRISIS (2000)
- RAILTRACK BANKRUPTCY (2001)
- METRONET BANKRUPTCY (2007)

BACKLASH IN PERSPECTIVE



- 1) SEVERE DISPUTES A SMALL FRACTION
CANCELLATIONS ~ 10% BY VALUE IN WATER AND TRANSPORT
- 2) SURGES AND SLOWDOWNS EXPECTED BY
REGION & SECTOR
- 3) MOTIVATIONS REMAIN
- 4) LEARNING FROM EXPERIENCE

TRENDS IN U.S. HIGHWAYS



FIRST ROUND: 1986-1995

TWO GREENFIELD:

- VIRGINIA (1986)
DULLES GREENWAY (1995-PRESENT), 14 MI
- CALIFORNIA (1989: AB 680)
SR-91 HOT LANES (1995-2003), 10 MI.

TRENDS IN U.S. HIGHWAYS



SECOND ROUND: AFTER 2000

- 1) GREENFIELD (NEW TOLL ROADS)
 - TEXAS: TRANS_TEXAS CORRIDORS, SH-121, SH-130
 - FLORIDA: FLORIDA TURNPIKE ENTERPRISE
 - VIRGINIA, COLORADO, OTHERS

- 2) BROWNFIELD (“MONETIZING” EXISTING TOLL ROADS)
 - CHICAGO SKYWAY: 2005, 8 MI, 99 YRS, \$1.83B
 - INDIANA TOLL ROAD: 2006, 157 MI, 75 YRS, \$3.85B
 - PENNSYLVANIA TURNPIKE; 2008?
 - APPROXIMATELY 4,700 MILES REMAIN

- 3) THE INTERSTATE SYSTEM
 - APPROXIMATELY 40,000 MILES UNTOLLED
 - ROUGHLY HALF FINANCIALLY SELF SUSTAINING FROM TOLLS

LIMITATIONS OF PRIVATE CAPITAL



1. NOMINAL COST OF PRIVATE CAPITAL OFTEN HIGHER THAN PUBLIC DEBT

- DEVELOPING COUNTRIES: 10-15% vs. 2-10%
- UNITED STATES: 6% vs. 8%

PUBLIC DEBT SAVINGS AN ILLUSION?

- IMPLICIT ASSUMPTION OF DEFAULT RISK
- COVERAGE RATIOS
- DIFFERENTIAL TAX TREATMENT (U.S.)

LIMITATIONS OF PRIVATE CAPITAL



2. FOREIGN vs. DOMESTIC FINANCE (DEVELOPING COUNTRIES)

- MISTRUST AND RESENTMENT
- FOREIGN EXCHANGE RISK

3. POLITICAL RISK (DEVELOPING COUNTRIES)

- PRICING RISK: POTENTIAL VISCOUS CYCLE
- INSURANCE & GUARANTEES: MORAL HAZARD, ADVERSE SELECTION
- INTERNATIONAL DISPUTE RESOLUTION: TOO LITERAL, ONE-SIDED

REMEDIES?: More public and domestic finance

REAL EFFICIENCY GAINS VS. TRANSFERS



REAL EFFICIENCY GAINS: COST SAVING

MORE OR BETTER OUTPUT WITH SAME OR FEWER INPUTS

TRANSFERS: COST SHIFTING

EXAMPLES: HIGHER PRICES FOR SAME SERVICES, SHED
EXCESS LABOR INTO WEAK LABOR MARKET, PRIVATE
VS. PUBLIC FINANCE

TRANSFERS: ZERO-SUM POLITICS

REAL EFFICIENCY GAINS VS. TRANSFERS



PRESSURES FOR TRANSFERS:

- 1.** GOVERNMENT FISCAL PROBLEMS
EXAMPLE: “MONETIZING” US TOLL ROADS
- 2.** UNREALISTIC SOE TARIFFS OR STAFFING
GREENFIELD CONCESSIONS VS. SOE
DIVESTITURES OR BROWNFIELD CONCESSIONS
EXAMPLES: WATER, US INTERSTATE SYSTEM
- 3.** HETEROGENOUS USERS AND CROSS SUBSIDIES
EXAMPLE: TELEPHONES (LOCAL VS. LONG
DISTANCE, RESIDENTIAL vs. BUSINESS, RURAL
vs. URBAN)

TRANSACTION COSTS



TYPES:

1) WITHIN PRIVATE CONSORTIUM

ALLOCATION OF RISKS BETWEEN CONSTRUCTORS-
OPERATORS-INVESTORS

2) BETWEEN PUBLIC AND PRIVATE

- GOVERNMENT SHARING OF RISKS
- REGULATION OF TARIFFS AND SERVICES
(NATURAL MONOPOLY, EXTERNALITIES)

POLITICS: PERCEPTION OF FAIRNESS

SYSTEMS OF REGULATION



CONCESSION CONTRACTS

ADVANTAGES: ● SIMPLE, FAIR

LIMITATIONS: ● INCOMPLETE CONTRACTS
● UN-TRANSPARENT RENEGOTIATION

EXAMPLES: LATIN AMERICAN CONCESSIONS IN 1990s,
CHICAGO AND INDIANA TOLL ROADS

DISCRETIONARY REGULATION

ADVANTAGE: ● FLEXIBLE

LIMITATIONS: ● TECHNICAL DIFFICULTY
● POLITICS OF REGULATION: CAPTURE,
INDEPENDENCE

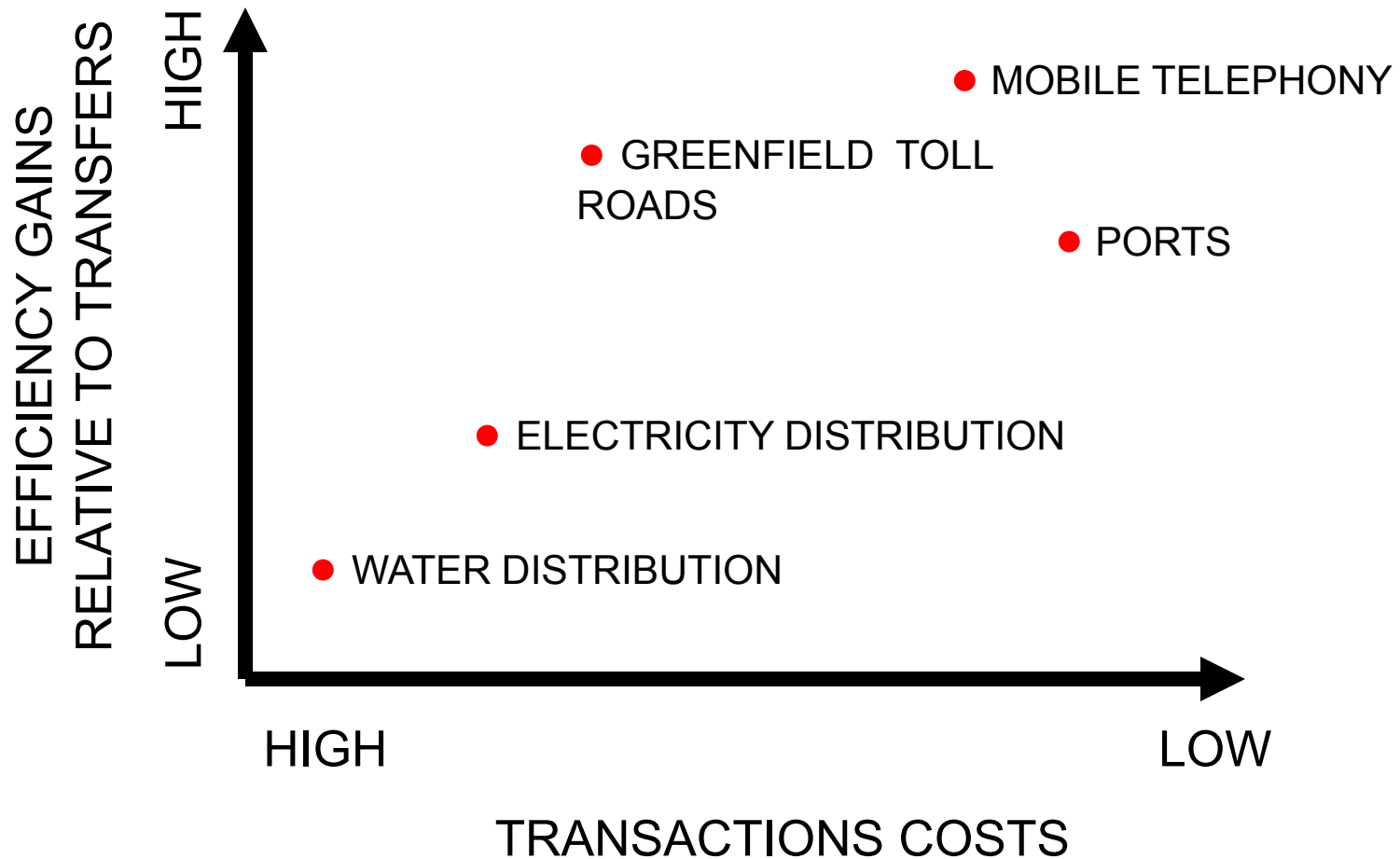
EXAMPLE: ARGENTINE TELECOMMUNICATIONS



PRIVATE PARTICIPATION ECONOMICALLY SENSIBLE AND POLITICALLY ACCEPTABLE:

- LARGE EFFICIENCY GAINS (AND FEW TRANSFERS)
- LOW TRANSACTIONS COSTS

PROSPECTS: DEVELOPING COUNTRIES



PROSPECTS: US HIGHWAYS

