



# REFORMING INFRASTRUCTURE

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## **Current and Forthcoming Issues**



# PROFOUND REASSESSMENT OF PUBLIC POLICY TOWARDS INFRASTRUCTURE

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## OLD MODEL

STATE OWNERSHIP

MONOLITHIC ORGANIZATIONS  
(VERTICAL INTEGRATION)

## NEW PARADIGM

PRIVATIZATION

UNBUNDLING

REGULATORY REFORM



# WHY THE FOCUS ON INFRASTRUCTURE?

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- **SERVICES ESSENTIAL TO THE ECONOMY**
- **EFFECTS ON FDI**
- **IMPACT ON GRASS-ROOTS ENTREPRENEURSHIP**



## PROBLEMS WITH THE OLD MODEL

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- **UNDERINVESTMENT**
- **UNDERPRICING/REVENUE INADEQUACY**
- **HIGH COSTS**
- **LOW PRODUCTIVITY**
- **POOR SERVICE QUALITY**
- **LONG QUEUES / SHORTAGES**
- **THEFT OF SERVICE**
- **POLITICAL INTERFERENCE**
- **LACK OF TRANSPARENCY**



# BRAZIL: TELECOMS QUALITY INDICATORS

	Year								
	1981	1982	1983	1984	1985	1986	1987	1988	1989
<b>Repair Request Rate (per 100 terminals)</b>	6.1	5.7	5.6	5.4	5.0	5.0	5.3	5.4	5.7
<b>Rate of Repair Service</b>	85	87	83	89	89	85	76	84	79
<b>Probability of Receiving a Dial Tone</b>	99	99	99	99	98	95	88	85	88
<b>Call Completion Rate (Long-Distance Calls)</b>	81	52	54	55	54	49	43	42	42
<b>Call Completion Rate (Local Calls)</b>	55	56	58	58	57	58			



## PROMISES OF NEW PARADIGM

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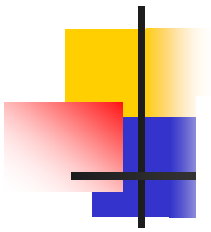
- INCREASED INVESTMENT
- COST-REFLECTIVE TARIFFS
- IMPROVED INCENTIVES FOR EFFICIENCY
- ACCESS TO SUPERIOR MANAGEMENT
- IMPROVED SERVICE QUALITY
- POLITICAL INSULATION
- GREATER TRANSPARENCY



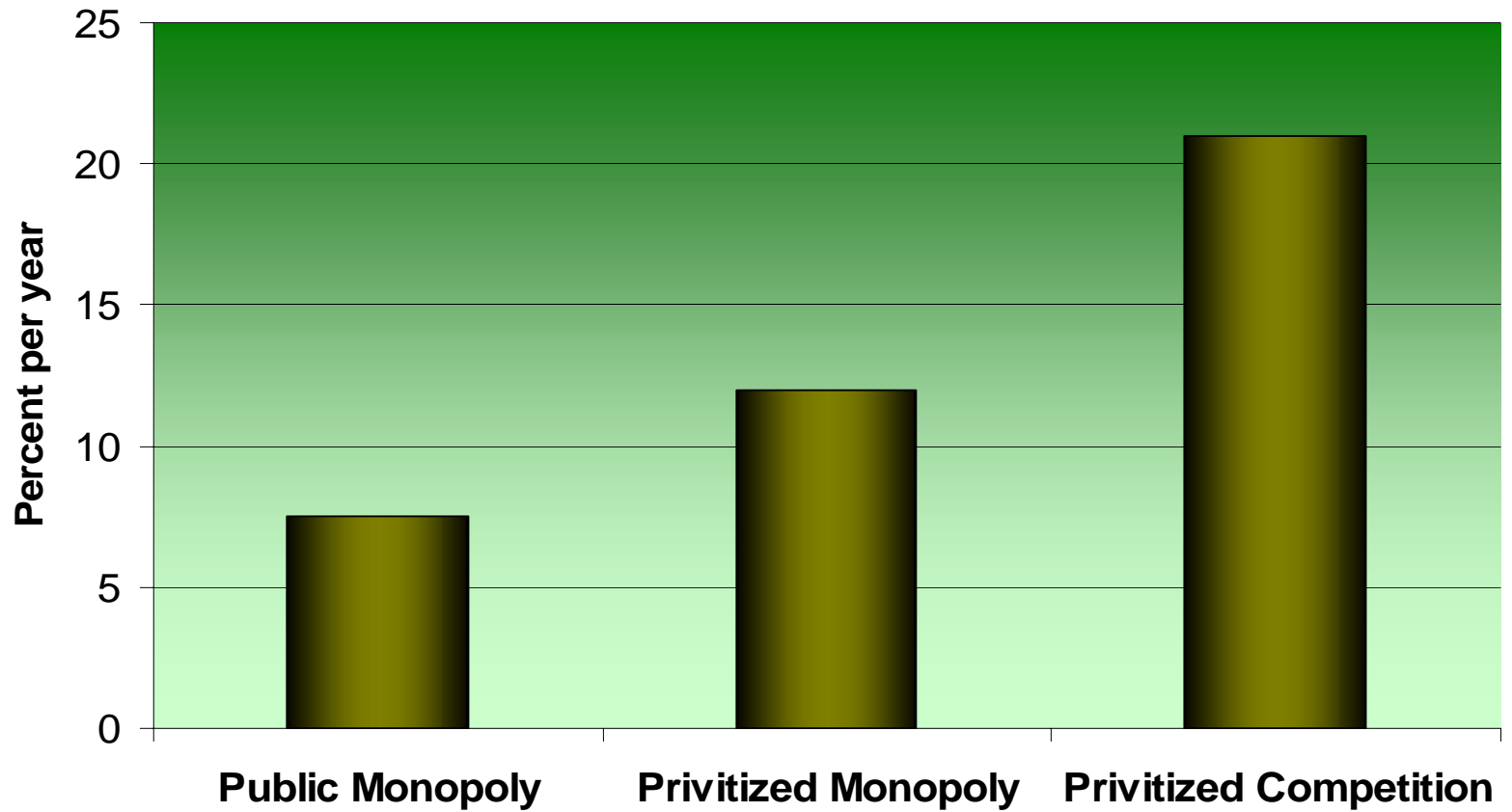
# OUTCOMES OF PRIVATIZATION/RESTRUCTURING

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- GROUNDS FOR CAUTIOUS OPTIMISM
- GAINS IN OPERATING EFFICIENCY
- INCREASED INVESTMENT
- SOME TARIFF REBALANCING
- DISTRIBUTIONAL CONCERNS

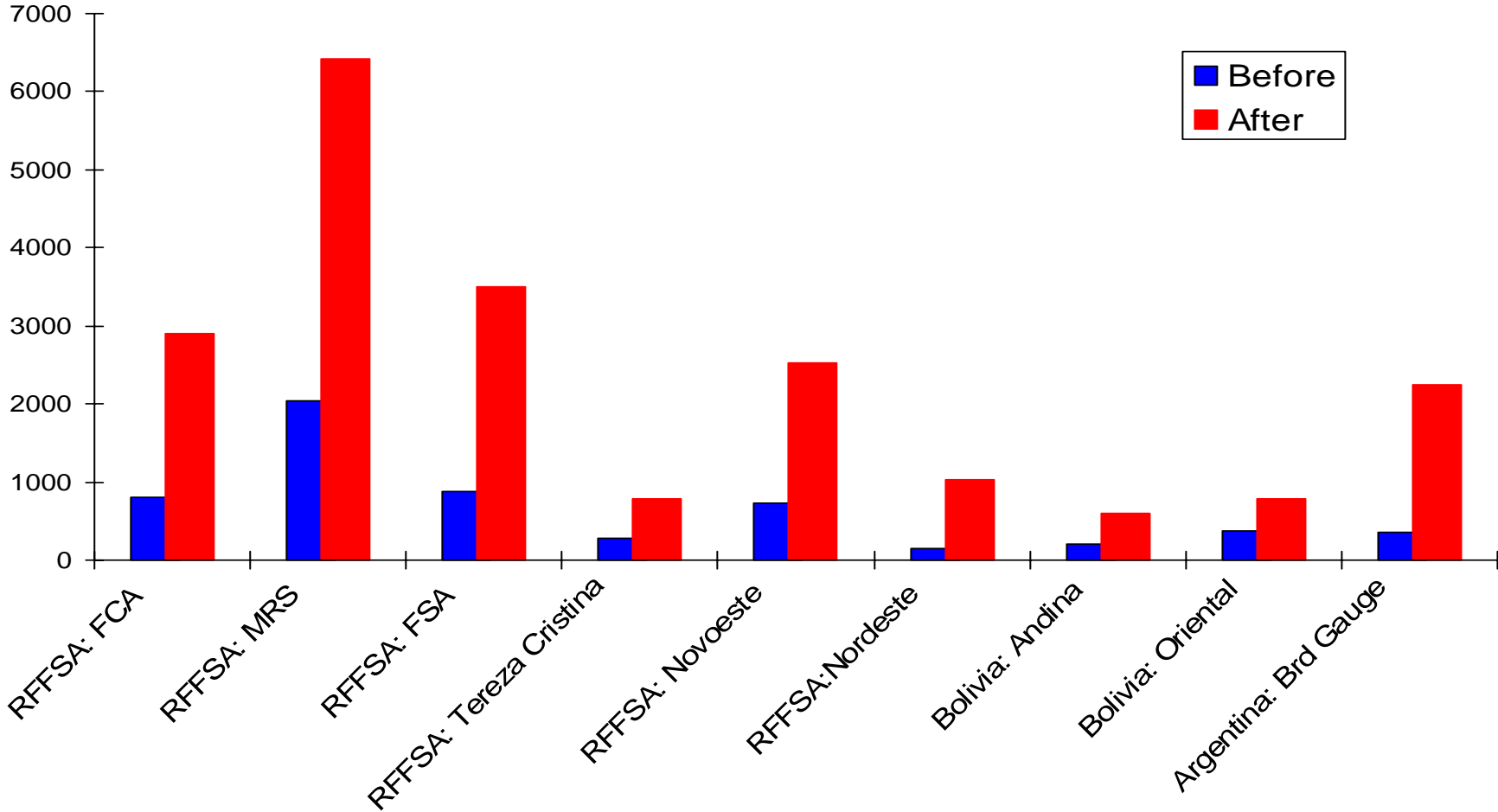


## Telecom Line Growth Rates in Latin America Role of Ownership and Competition

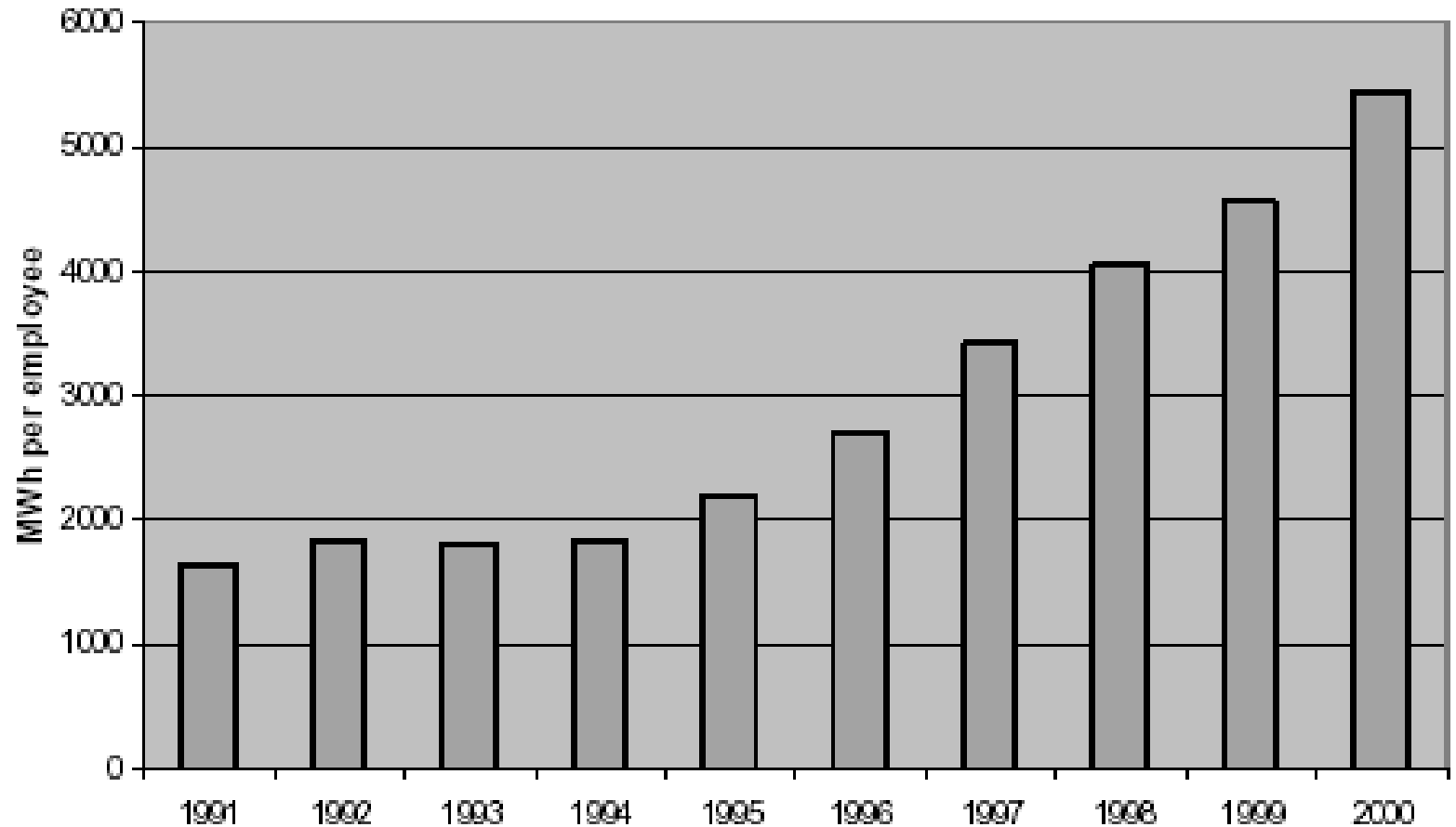




# RAIL LABOR PRODUCTIVITY IN BRAZIL BOLIVIA AND ARGENTINA BEFORE AND AFTER CONCESSIONING (000 TU/EMPLOYEE)

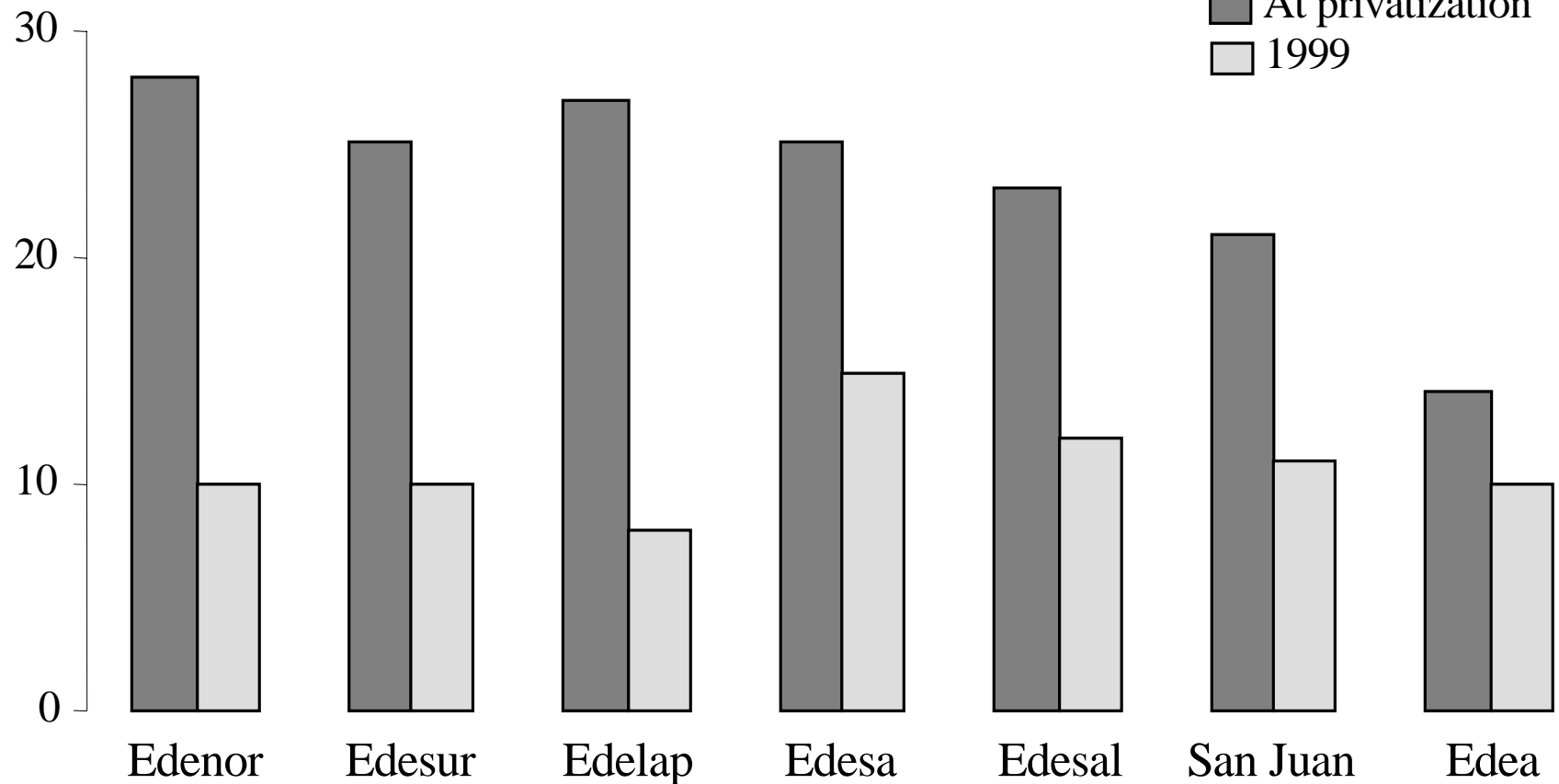


# LABOR PRODUCTIVITY OF THE DISTRIBUTION/SUPPLY BUSINESSES IN BRAZIL, 1991–2000



# DISTRIBUTION LOSSES IN ARGENTINA, AT PRIVATIZATION AND IN 1999

Energy losses (percent)



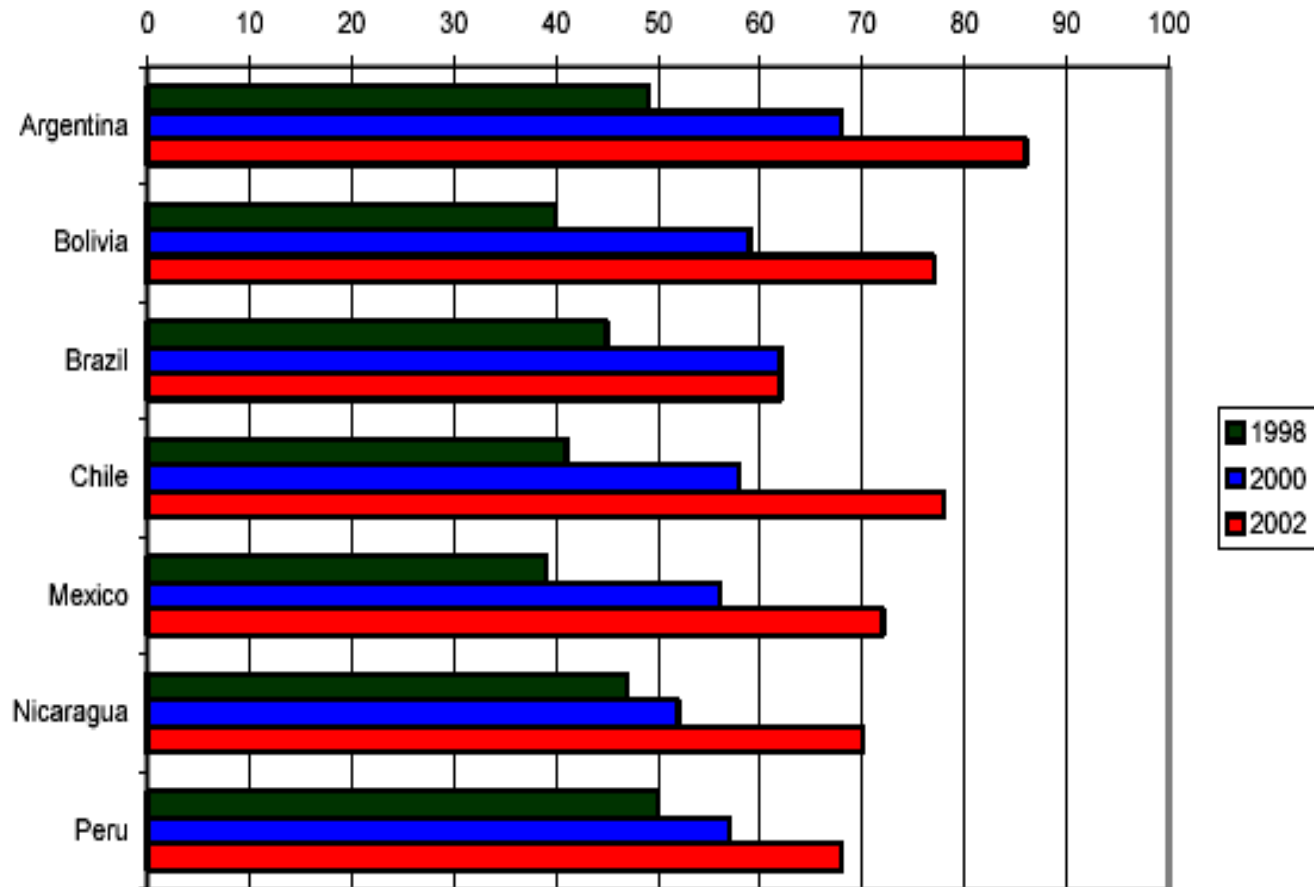


## COLOMBIA OPERATING PERFORMANCE BEFORE AND AFTER THE REFORM

Indicator	Before 1993	1996
Average vessel waiting time (days)	10	No wait or in hours depending on the port
Working days per year	280	365
Working hours per day	16	24
Tons per vessel per day		
Bulk Cargo	500	2,500 minimum
General Cargo	750	1,700
Containers per vessel per hour (gross)	16	25

# Public Opinion on Privatization in Latin America, 1998–2002

Percentage of respondents disapproving



Source: Latinobarometro 2002.



# PREREQUISITES OF EFFECTIVE PRIVATIZATION

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- **A SUITABLE SET OF INSTITUTIONS, A SUITABLE LEGAL SYSTEM, AND A COUNTRY-SPECIFIC STRATEGY**
- **MARKET-FRIENDLY INSTITUTIONAL FRAMEWORK**
- **A MICROECONOMIC STRUCTURE OPEN TO COMPETITION**
- **AN EFFECTIVE SYSTEM OF REGULATION**



# CHARACTERISTICS OF DEVELOPING COUNTRIES

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- **LACK OF INSTITUTIONAL CHECKS AND BALANCES**
- **LOW GOVERNMENT CREDIBILITY**
- **HIGH INCIDENCE OF CAPTURE AND CORRUPTION**
- **SCARCITY OF TECHNICAL EXPERTISE**
- **POOR AUDITING TECHNOLOGIES**
- **INEFFICIENT TAX SYSTEMS**



# CHARACTERISTICS OF EFFECTIVE REGULATION

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- **COHERENCY**
- **INDEPENDENCE**
- **ACCOUNTABILITY**
- **TRANSPARENCY**
- **PREDICTABILITY**
- **CAPACITY**





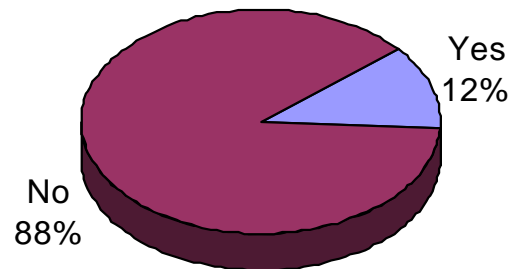
# PROGRESS TOWARDS REGULATORY EFFECTIVENESS

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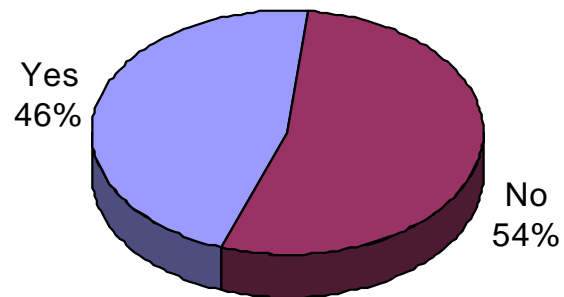
- RECORD DECIDEDLY MIXED
- INDEPENDENCE FREQUENTLY COMPROMISED
- LACK OF COHERENCY
- LACK OF TRANSPARENCY
- WEAK CAPACITY

**RESULTS FROM A SURVEY OF  
TELECOMMUNICATIONS  
REGULATORS**

**A. Are regulatory meetings required by  
law to be open?**



**B. Are regulators required to provide  
written explanations of their decisions?**





## LESSONS LEARNED

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- Combination of institutional reforms--privatization, restructuring, effective regulation—have improved infrastructure performance
- Investment—one of the key goals of restructuring--has increased substantially
- Service coverage has increased
- Fears that restructuring would hurt the poor largely unfounded—reforms have often delivered biggest benefits to poor households



## LESSONS LEARNED (*Cont' d*)

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- Privatization no panacea
- Different sectors and countries demand different reforms
- Credible regulation is essential for privatization to achieve its public interest objectives
- Complexity of second generation regulatory issues



## An Agenda for Policy Action and Research

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- **Pricing reform**
- **Access to bottleneck facilities**
- **Regionalizing Infrastructure Policy**