



The privatisation of infrastructure: One size does not fit all

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- ◆ There is no unique model of reform for infrastructure that is equally applicable to all countries.
- ◆ Fixed-line privatisation has often failed due to weak economic and institutional endowments.
- ◆ Governments and International Financial Institutions (IFIs) should consider alternative options to privatisation to increase fixed-line performance.

The wave of infrastructure privatisations engaged from the 1980s onwards has led to very different outcomes across the world. In the case of fixed lines, privatisations in OECD countries have resulted in higher labour efficiency. In contrast, in non-OECD countries privatisations have mainly increased residential tariffs. Governments and IFIs should evaluate under which economic and institutional endowments future privatisations can lead to better performance in infrastructure, particularly in Africa where there are still many public utilities.

What has been the impact of fixed-line privatisations on performance?

Some countries have benefitted from this reform, for example with higher labour efficiency in OECD countries, although network expansion was not increased, since these states were already well-supplied. In resource-scarce countries in Africa privatisations have also been relatively positive, resulting in higher labour efficiency. However, the increases in residential tariffs to inject capital on the operator have not translated into larger network expansion, even if deployment was very limited before the reform.

Other countries have been less favoured by privatisations. and in Latin America and the Caribbean this reform has been deceiving. It has had no significant impact on outcomes in efficiency, prices or deployment. However, it is the resource-rich and resource-scarce landlocked

countries in Africa that have suffered most from these reforms. In these countries, privatisations not only failed to increase outcomes but they actually resulted in a decrease in labour efficiency and in some cases in lower deployment. In sum, privatisations in Africa, Latin America and the Caribbean failed to expand deployment to reach a larger amount of the population despite the fact that strong under-development of networks was one of the major bottlenecks of public utilities.

Should privatisation apply independently of economic and institutional endowments?

There are strong linkages between the performance of privatisation reforms and the countries' economic and institutional endowments (Bates *et al.*). OECD, Latin American and the Caribbean and African countries have widely divergent characteristics on market profitability, sectoral regulatory power and country risk. Between 1985 and 2007, OECD countries were characterised by relatively high market profitability, strong regulatory power and low country risk. African resource-scarce and Latin American and the Caribbean countries instead lagged behind OECD countries particularly concerning regulatory power and country risk. African resource-rich countries were strongly penalised with high country risk and low regulatory power and African resource-scarce landlocked countries with very low market profitability and high country risk.

The impact of fixed-line privatisation on outcomes

	Fixed-line expansion	Labour efficiency	Residential prices
OECD	Null	Weakly positive	Null
Latin America and the Caribbean	Null	Null	Null
Africa	Strongly negative	Negative	Strongly positive
- Resource scarce coastal	Null	Strongly positive	Strongly positive
- Resource rich	Strongly negative	Strongly negative	Weakly positive
- Resource scarce landlocked	Null	Negative	Null

Note: The outcomes (positive, null, negative) designate the impact of the privatisation of the fixed-line operator on sector performance (fixed-line expansion, labour efficiency and residential prices).

Source: Based on Gasmi *et al.* (2011) fixed-effects estimation in 1985-2007 for 23 OECD countries, 25 Latin American and Caribbean countries and 43 African countries, of which 16 are African resource-scarce coastal countries, 15 are African resource-rich countries and 13 are African resource-scarce landlocked countries.

How can governments and IFIs improve infrastructure performance?

Governments and IFIs should consider alternative options to privatisation to increase infrastructure performance depending the countries' economic and institutional endowments. This is particularly relevant for resource-scarce landlocked and resource-rich countries in Africa where privatisation has had a significantly negative impact on the performance of firms. IFIs should consider governments' public investment options in infrastructure with the arrival of emerging partners such as China and India. However, many IFIs continue advocating for fixed-line privatisation in Africa where there are still many public utilities. This model might be adequate for those countries in the continent that have a high degree of openness and reasonable potential demand. In other countries privatisation has lead instead to lengthy processes and often to the stagnation of the sector. This holds true both when governments endorsed this policy and when they did not.

Further reading

BATES, R. H., P. COLLIER, B. J. NDULU, S. A. O'Connell and C. C. Soludo (2008), *The Political Economy of Economic Growth in Africa 1960-2000*, Cambridge University Press.

GASMI, F., A. MAINGARD, P. NOUMBA UM and L. RECUERO VIRTO (2011), "The impact of privatisation of fixed-line operators in OECD, Latin American and African countries: One size does not fit all", OECD Development Centr Working Paper, OECD, Paris, forthcoming.