

In March 2000, the International Monetary Fund (IMF) threatened to cancel promised loans and to sever relations with Moldova if the former Soviet Republic failed to privatize key agricultural industries. Likewise Mozambique in Southern Africa was awarded debt relief in 1999 by the World Bank after it agreed to privatize the water supply in Maputo to SAUR. These bullying tactics are emblematic of the manner in which the two global financial institutions force countries to sell off public industries to multinational corporations. Yet there is little evidence that privatization is the perfect solution for ailing state enterprises.



In 1995 a report from the International Finance Corporation (IFC), the World Bank affiliate which makes loans to private corporations investing in developing countries, issued a report titled "Privatization: Principles and Practice" written by David Donaldson and Dilip Wagle to prove that the privatization worked if implemented correctly.

"To privatise is to drive a two-horse cart. The cart is the enterprise in question. One horse is called political goals and is flighty and fickle, the other is called economics and is slow and steady ... Only the most skillful driver can negotiate the road to privatization - a rough boulder-hewn track up the hill of vested interests, across the stream of xenophobia," wrote the authors.

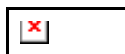
The authors cite the sale of Obras Sanitarias de la

Nacion to Aguas Argentinas, a private company owned by Lyonnaise des Eaux of France, as one of the best examples of how privatization can help consumers. The IFC report says that Aguas Argentinas has expanded the water network to 600,000 new residents, eliminated water shortages, increased potable water production by 26 percent and improved reliability of service. Aguas Argentinas has promised to cut prices by 27 percent and to invest four billion dollars in improving services over a 30-year period. The IFC, incidentally, provided a US\$172.5 million loan Aguas Argentinas in 1994.

Wrong, say some water users in Argentina. "It's a lie. Some people in the centre of Buenos Aires have benefitted, but our water is more expensive and the service has not improved. On many days there is no water," says Marcelo Paoletti, an activist from an Argentine group called the Ecologist Workshop. He lives in Rosario, the country's second largest city. Paoletti's bills add up to 24 pesos (US\$24) a month, more than when the water supply was publicly managed. The company has also been criticized a number of times by the state regulatory authorities for corporate misconduct and failure to provide acceptable service standards.

For more information see

<http://www.btinternet.com/~ipspr/country/Argentina/index.1>



The World Bank has been a major supporter of energy privatization in India. For example the eastern state of Orissa received a US\$350 million loan in 1996 to restructure its electricity industry. This resulted in the privatization of the state electricity board which was taken over by AES corporation of the US in mid-1999 for US\$10 million.

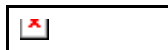
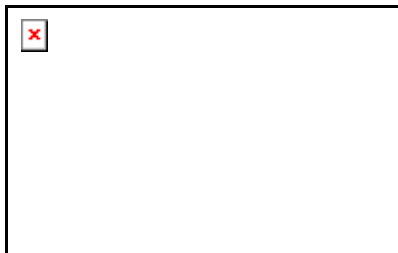


Just two months later, in October 1999, the state of Orissa was hit by devastating cyclones with wind speeds of over 260 kilometers per hour killing thousands and making millions homeless. Thousands of acres of fertile land were covered with sand and saline water and electricity supplies were severely disrupted.

Dennis Bakke, the chief executive of AES, immediately demanded that the state government pay AES US\$60 million for repair costs or consumers would face rate hikes of upto three times the current tariff.

For more information see

<http://www.btinternet.com/~ipspr/aesmain.htm>



The Mexican privatization program began in the wake of the Mexican debt crisis in 1982 when the IMF conditioned lending on privatization. The implementation of that program was followed by a series of loans from both the IMF and World Bank geared to create optimum conditions in Mexico for foreign investors. Since then around 1,000 state-owned enterprises have been sold since 1983. This divestiture, however, rather than leading to increased competition and economic efficiency, has led to a striking increase in the concentration of assets and income that even the World Bank admits privately. In a 1991 internal audit report, it

acknowledged that "there has been a worsening of the already skewed and concentrated pattern of ownership distribution in the economy and an increase in vertical integration. Only a small group of local conglomerates have been involved in purchasing public enterprises." In fact during the Administration of President Carlos Salinas de Gortari, the number of billionaires in Mexico rose from 2 to 24.

This is particularly striking in the case of Teléfonos de Mexico, or Telmex, the national telephone company which was bought up by Carlos Slim, Mexico's richest man. Slim's personal fortune today totals more than the annual income of the poorest 17 million Mexicans combined. Once again this privatization was aided directly by the World Bank which provided a US\$22 million technical-assistance loan for the Telmex sale.

Just prior to that sale, the government sweetened the deal by drastically raising telephone-service prices to consumers. In January 1990, it eliminated an indirect tax on telephone services and permitted Telmex to absorb the remaining taxes

into its prices, which were allowed to rise substantially. The charges for measured local calls, for example, increased from 16 pesos per minute to 115 pesos per minute. Telmex's stock prices increased considerably after the sale. In its 1992 report on the Telmex sale, the World Bank estimated that the biggest losers from the privatization were consumers, who were worse off by 92 trillion pesos (US\$33 billion).

For more information see

<http://www.50years.org/factsheets/telmex.html>

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