State-Owned Enterprises in Latin America and the Caribbean: Challenges and Opportunities

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"The lights are gone…bring the candles because the party is not over…" ***(Juanes, La Luz)***

SOEs in Latin American and the Caribbean

- Overview
- Which economic sector are there?
- How do they perform by economic sector?
- How do they compare with their peers in the private sector?
- What could explain their performance?
- What can be done to improve their performance?

State-Owned Enterprises (SOEs) in Latin America and the Caribbean (LAC)

85% of the LAC's GDP

Country	**Total SOEs**	**Of which:** Fully State-Owned	Listed	**Revenues (% national GDP)**	**Employment in SOEs (% total employment)**
Argentina	112	23	17	n.a.	n.a.
Brazil	147	38	8	5.7%	0.7%
Chile	33	30	3	13.0%	0.7%
Colombia	105	18	3	16.7% (*)	0.1%
Ecuador	24	21	0	29.0%	1.0%
Mexico	110	n.a.	0	8.8% (**)	n.a.
Peru	31	n.a.	9	3.0%	0.2%
Total	**562**	**130**	**40**		

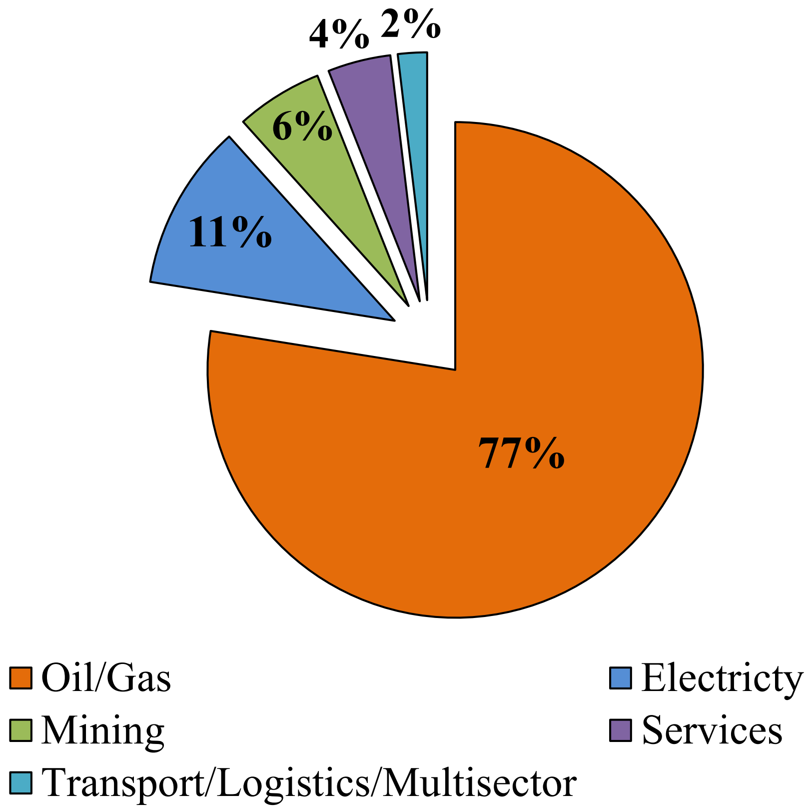
(*) SOEs' assets as a share of national GDP

(**) PEMEX

Source: OECD (2012). Information not available for Venezuela, whose largest SOE is PDVSA

State-Owned Enterprises (SOEs) in Latin America and the Caribbean (LAC)

Largest SOEs in LAC*, distribution by sector (% of total sales, 2011)



(*) Of a sample of the top 40 SOEs in LAC by sales in 2011.
Source: América Economía

5 companies gathered more than 70% of the total revenues from sales in 2011, all of them in the oil/ gas industry (PDVSA, PEMEX, ECOPETROL, PETROBRAS)

SOEs have an important role in the LAC region, especially in strategic sectors such as oil, gas, mining, electricity, water and sanitation, transportation and infrastructure.

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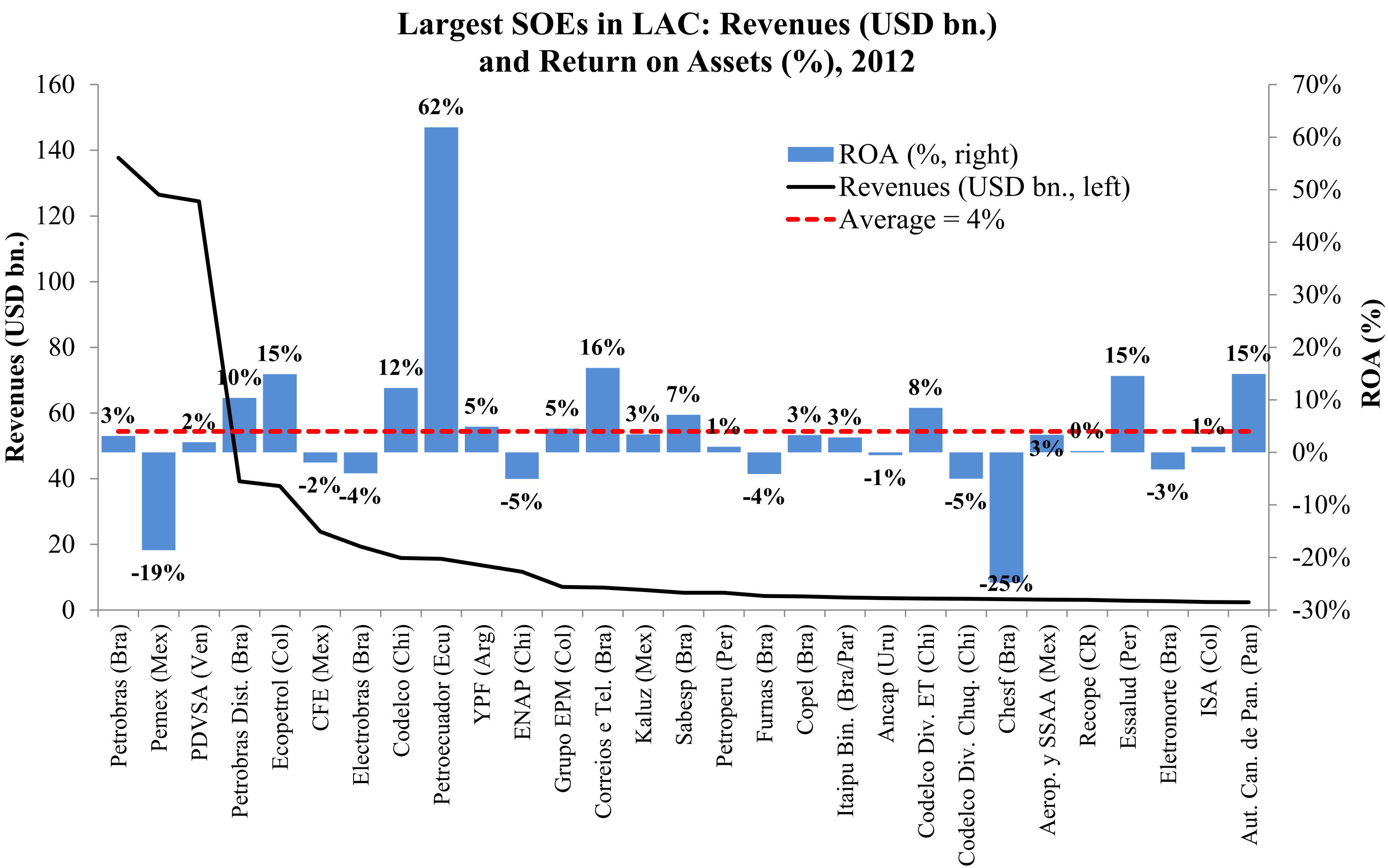
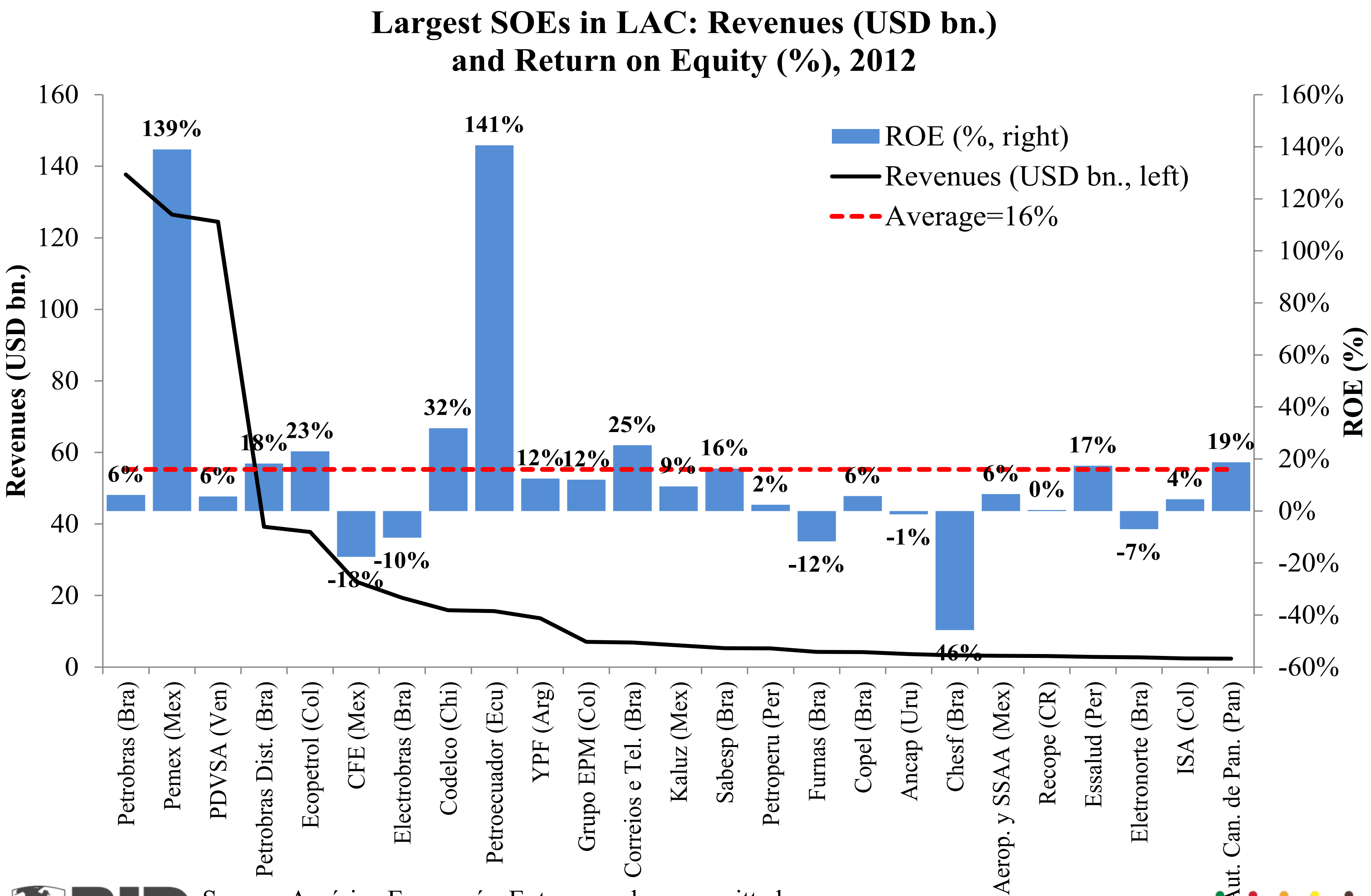
SOEs in LAC: How do they perform?

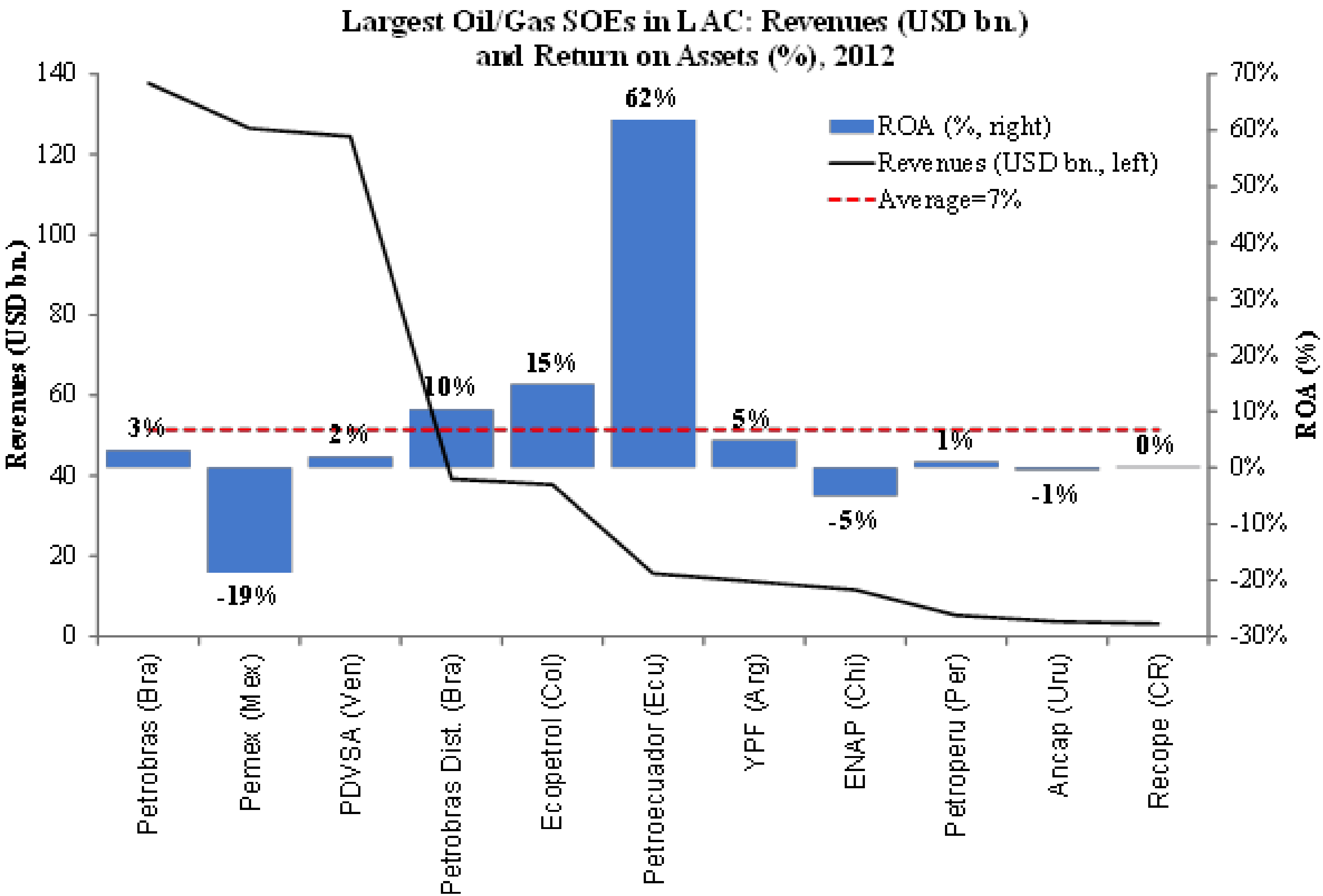


Source: América Economía.

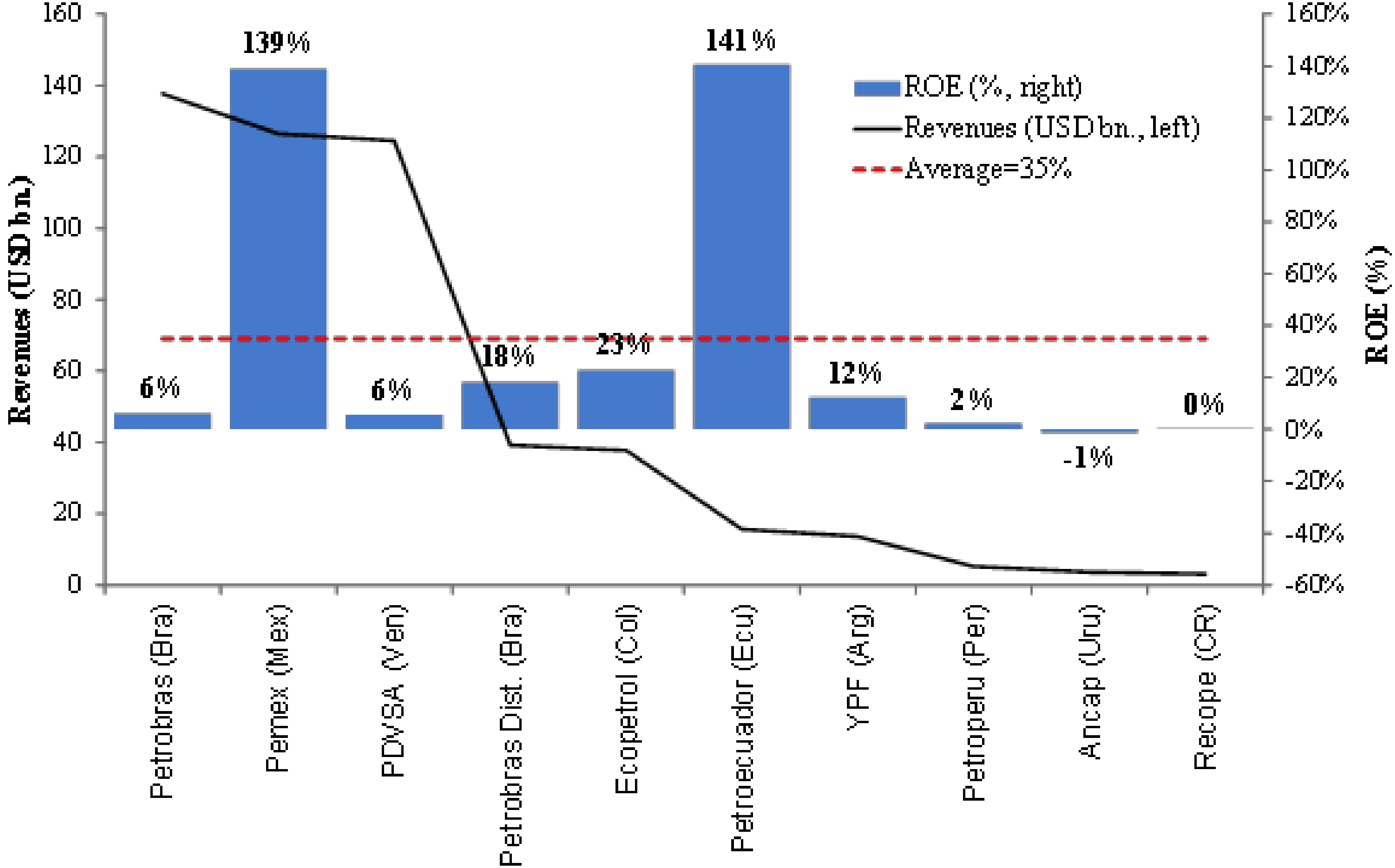
SOEs in LAC: How do they perform?

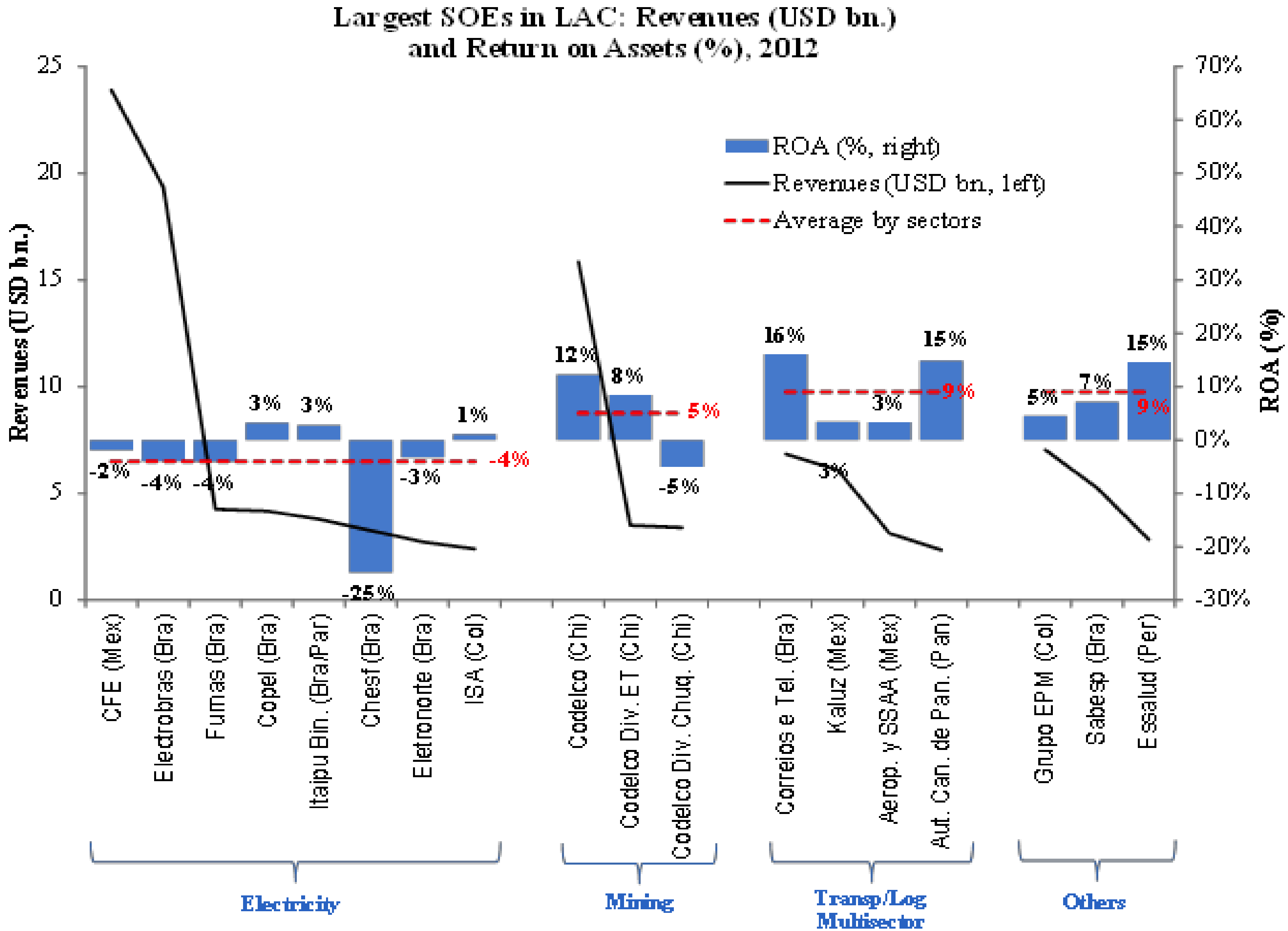


Source: América Economía. Extreme values ommitted


Largest Oil/Gas SOEs in LAC: Revenues (USD bn.) and Return on Assets (%), 2012
ROA (%, right)
Revenues (USD bn., left)
Average=7%
Revenues (USD bn.)
ROA (%)
140
120
100
80
60
40
20
0
70%
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
3%
-19%
2%
10%
15%
62%
5%
-5%
1%
-1%
0%
Petrobras (Bra)
Pemex (Mex)
PDVSA (Ven)
Petrobras Dist. (Bra)
Ecopetrol (Col)
Petroecuador (Ecu)
YPF (Arg)
ENAP (Chi)
Petroperu (Per)
Ancap (Uru)
Recope (CR)

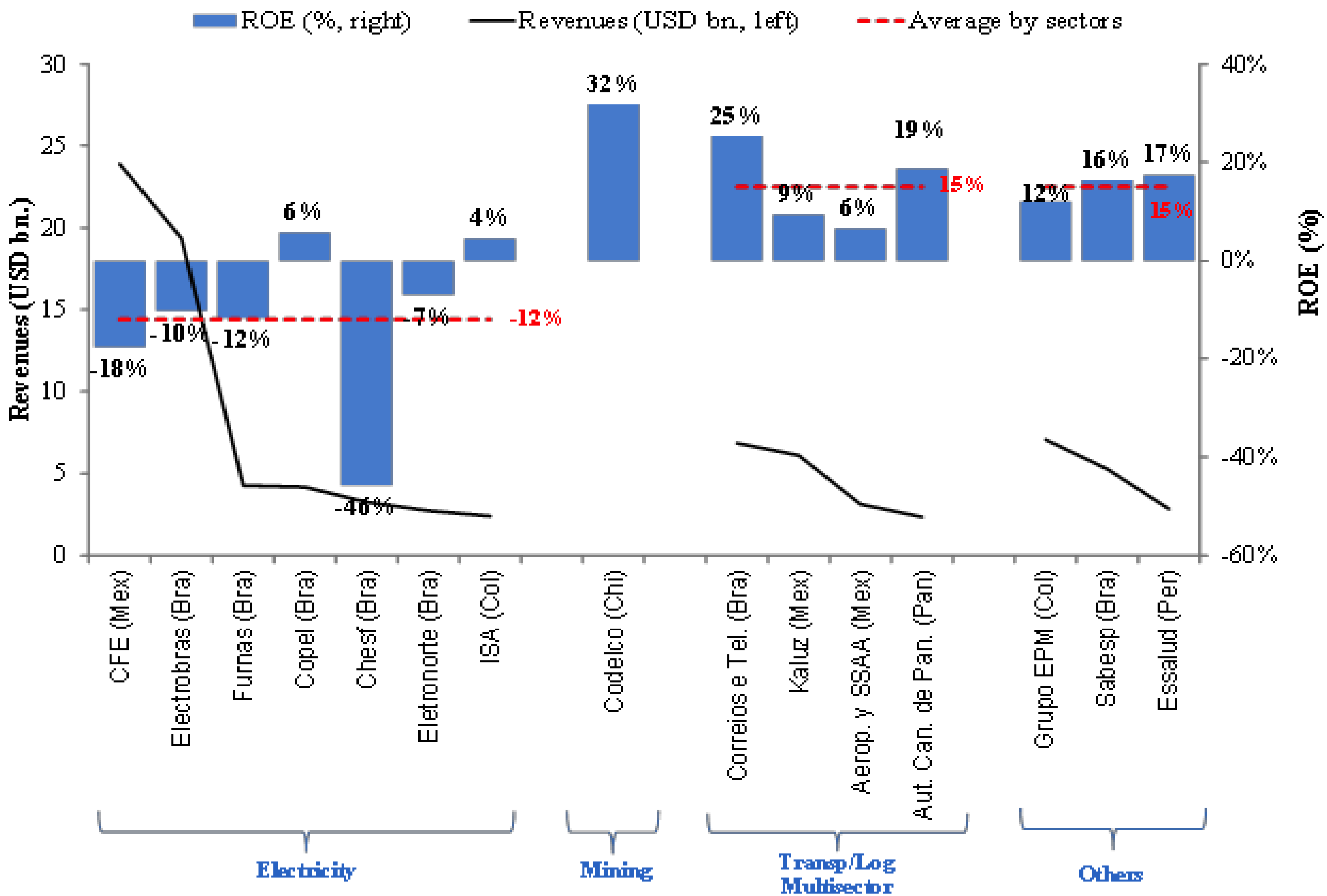
Largest Oil/Gas SOEs in LAC: Revenues (USD bn.) and Return on Equity (%), 2012



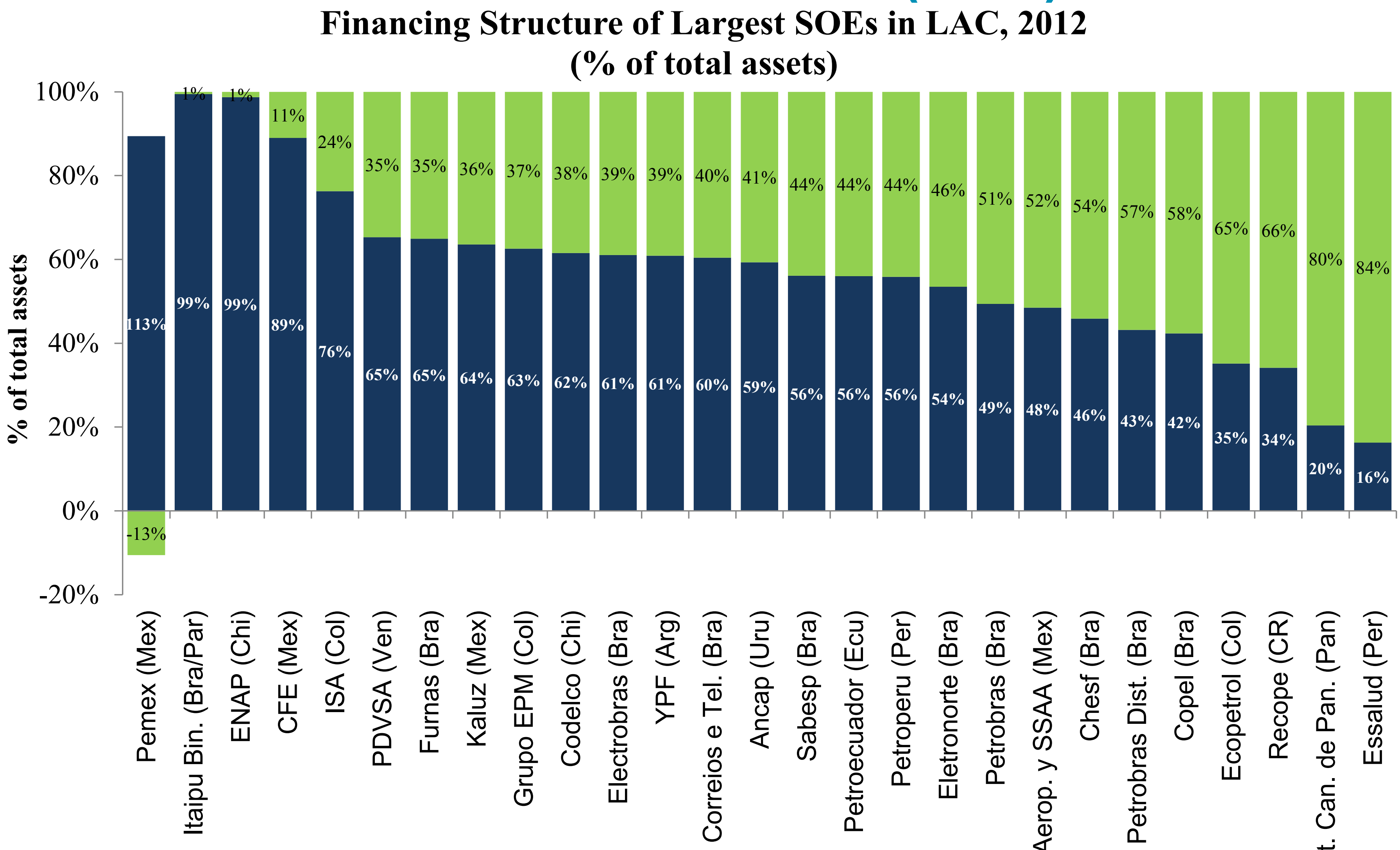


Largest SOEs in LAC: Revenues (USD bn.) and Return on Assets (%), 2012
ROA (%, right)
Revenues (USD bn, left)
Average by sectors
Revenues (USD bn.)
ROA (%)
CFE (Mex)
Electrobras (Bra)
Furnas (Bra)
Copel (Bra)
Itaipu Bin. (Bra/Par)
Chesf (Bra)
Eletronorte (Bra)
ISA (Col)
Codelco (Chi)
Codelco Div. ET (Chi)
Codelco Div. Chuq. (Chi)
Correios e Tel. (Bra)
Kaluz (Mex)
Aerop. y SSAA (Mex)
Aut. Can. de Pan. (Pan)
Grupo EPM (Col)
Sabesp (Bra)
Essalud (Per)
Electricity
Mining
Transp/Log Multisector
Others

Largest SOEs in LAC: Revenues (USD bn.) and Return on Equity (%), 2012



State-Owned Enterprises (SOEs) in Latin America and the Caribbean (LAC)



Source: América Economía

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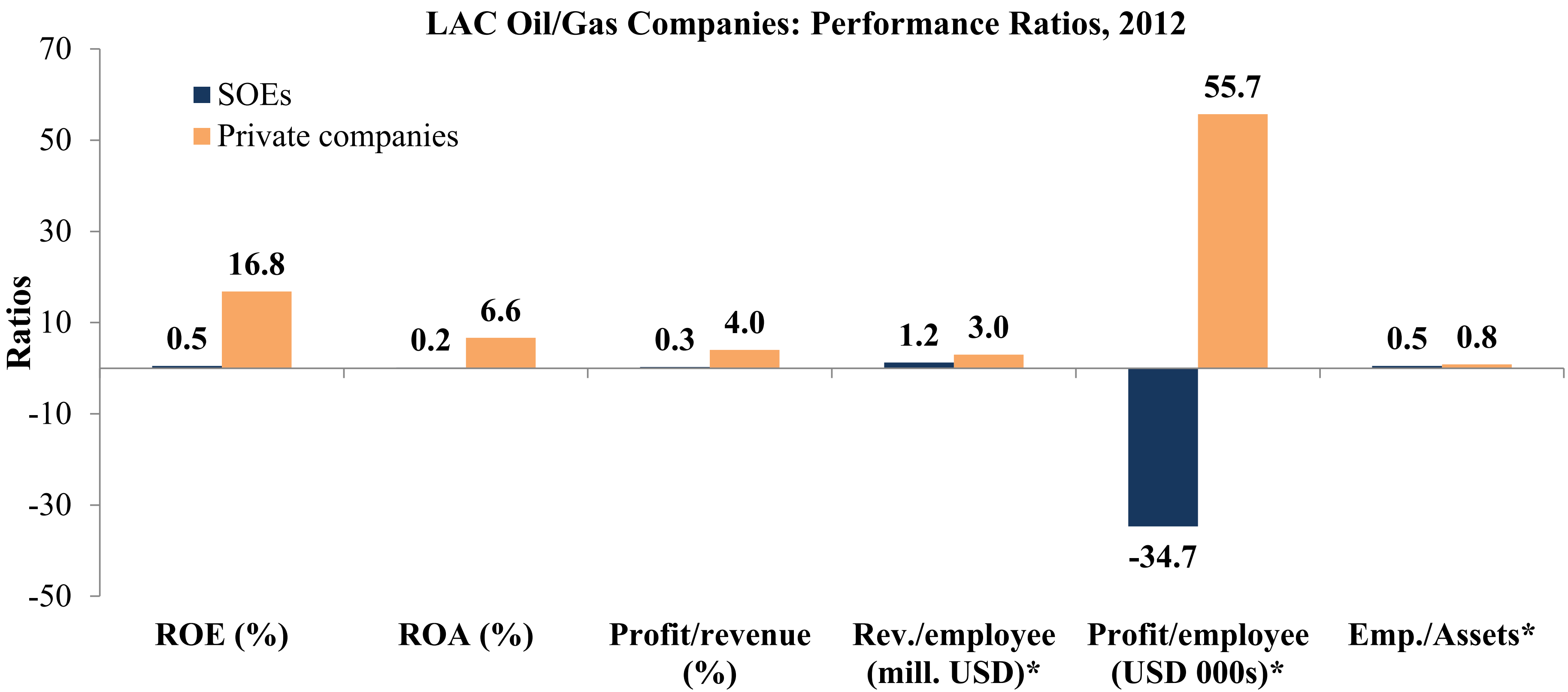
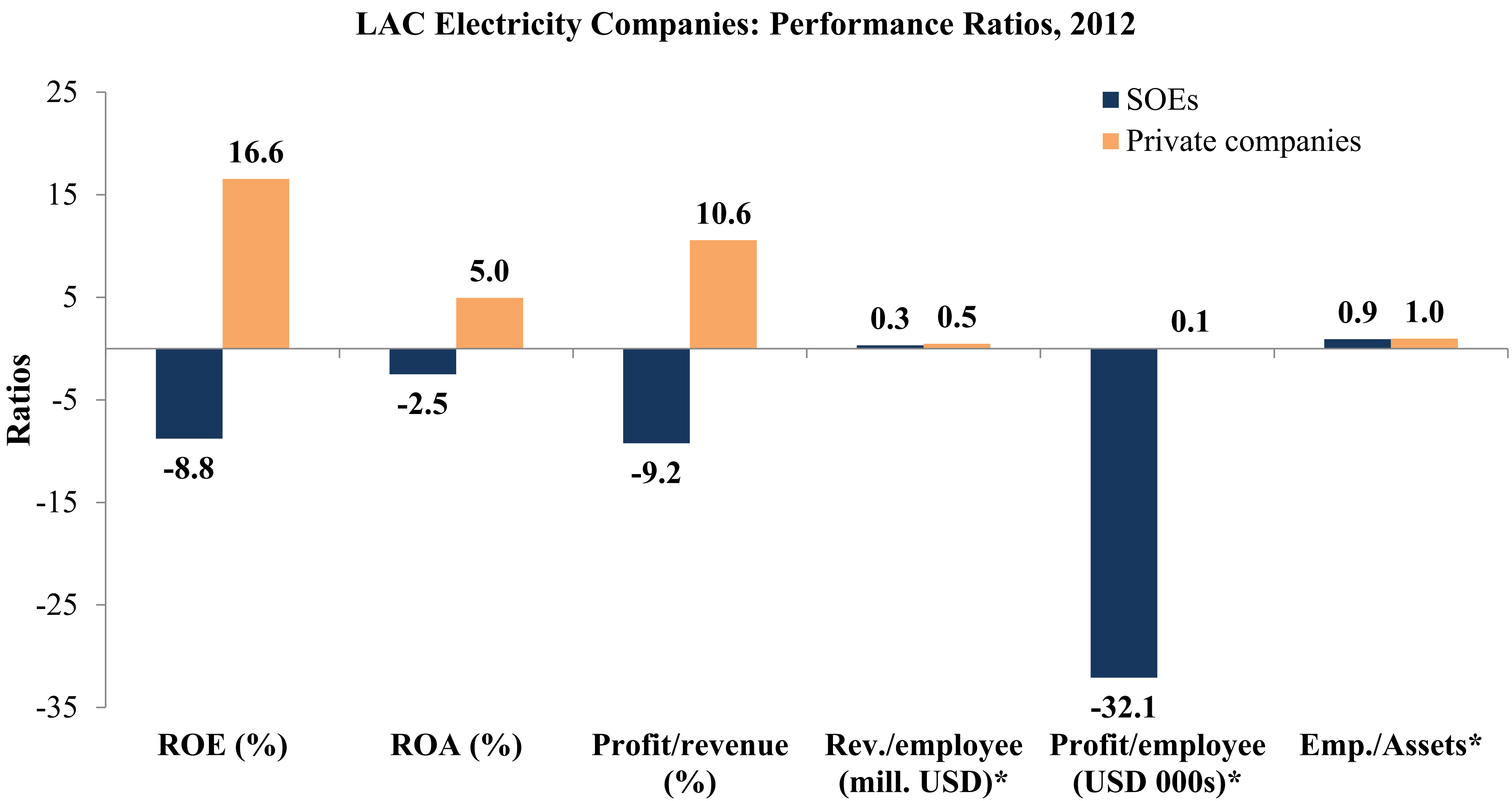
SOEs in LAC: How do they perform and compare to private peers?



Source: America Economia. *Top 500 companies in Latin America 2012*. Based on a sample of 11 SOEs and 11 private companies. (*) based on a sample of 7 SOEs and 7 private companies.

SOEs in LAC: How do they perform and compare to private peers?



Source: America Economia. *Top 500 companies in Latin America 2012*. Based on a sample of 9 SOEs and 12 private companies. (*) based on a sample of 5 SOEs and 12 private companies

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What could explain their performance?

- Rent seeking in the case of non-renewable resources.
- Hidden subsidies and price and tariff controls for “social or equity reasons” in SOEs providers of basic services.
- Inadequate legal and regulatory framework.
- Political interference over professional management.
- High indebtedness over more capitalization.
- Operational deficiencies due to lack of investment.
- Lack of performance based monitoring and evaluation.
- Redundant personnel and powerful labor unions.
- Vulnerability to external and natural shocks, without fiscal or financial buffers.

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What can be done to improve their performance?

- Strengthen the legal, regulatory and monitoring framework.
- Make hidden subsidies better targeted, transparent and explicit in the budget.
- Increase transparency and accountability to several instances.
- Reduce political interference and adopt performance based monitoring and evaluation, with clear expected performance targets set on an annual and medium term basis.
- Set medium term capital planning for investment, quality of services and financial buffers.
- Increase professional management and independent board composition.
- Consider the possibility of allowing private sector participation as shareholder, even in a minority proportion through the open stock market.
- The subnational dimension.

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Overview

- SOEs play a fundamental role in production and export of non-renewable natural resources (oil, gas and minerals) and in the provision of public services (electricity, gas, water and sanitation).
- SOEs are still a significant source of fiscal resources and potential contingent liabilities for the public sector in various LAC countries.
- The causes of this absorption of fiscal resources have been: political interferences in the management of these enterprises, implicit subsidies for the consumption of fuels and other public services (price and tariff control), borrowing to cover the investment needs and other financial charges.

Overview

- The debt crisis of the 80’s in LAC forced a substantial process of privatization during the decade of 90’s.
- Of a total of USD 250 billion of revenue generated by the process of privatization in the developing countries, about 55% was generated in the LAC countries according to World Bank estimates.
- SOEs are also important to the sub-national governments (SNGs) in the region, above all, in the provision of public services: electricity, gas, water and sanitation, transportation companies in large cities, especially those of metros (subways).
- Most SNGs’ enterprises subsidize these public services, which is why they also absorb a huge amount of fiscal resources.

Transparency and Fiscal Risks in the SOEs in LAC

- Not all countries in the region publish fiscal data of SOEs as most of the countries publish only figures at the General Government level (Central and Decentralized Public Administration and SNGs).
- However, most of the large and medium countries do aggregate fiscal figures of the SOEs as a part of Consolidated Public Sector and Publicly Guaranteed Debt.
- Economic and financial returns as well as fiscal outcomes of the enterprises are strongly influenced by the outcomes of the companies exporting raw materials (oil, gas and minerals).
- Companies providing public services have very low returns on assets (ROA) and equity (ROE).

Fiscal Risks of the SOEs in LAC

- However, ROA and ROE of most SOEs are still low and biased upwards by the SOEs exporting non-renewable raw materials (oil, gas and minerals).
- By contrast, the enterprises providing public services yield much lower profits, produce public service products subsidized for tariff and price and fail to maintain the required investments.
- Many SOEs of the region fail to maintain the required investments without receiving transfers from the central governments.

Fiscal Risks of the SOEs in LAC

- Many SOEs are exposed to significant fiscal risks due to:
- External shocks in commodity prices.
- Implicit subsidies and/or price and tariff control in the provision of public services.
- Bloated payrolls for political reasons or social and union pressures.
- Operational deficiencies due to the lack of fixed investment.
- Other contingent liabilities: pensions, medical services, etc.
- Deficiencies in the governance and supervision.