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THE PUBLIC DEBT AND PRIVATIZATION PROCESS IN BRAZIL

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Contents

I. Introduction

II. The outbreak of public deficit

III. The budgetary crisis at the state productive sector

IV. The question of privatization

V. Why do we privatize?

VI. The National Privatization Program

VII. Preliminary comments on the effects of privatization over companies' performance social welfare

VIII. Some proposals to improve the Brazilian Privatization Program

IX. Tables

X. Annex: Charts and Summary Tables on the Brazilian Privatization Program - 1991/1995. Obtained from BNDES Report of Activities on the Brazilian Privatization Program - 1995.

XI. Bibliography

I. INTRODUCTION

The question of the Brazilian public debt has been at the core of every single debate about economic policy in the country. This is due to the widespread perception that, presently, the public deficit represents a strong factor nourishing inflation, and consequently, an unsolved issue endangering the success of any stabilization program as well as discouraging the accomplishment of adequate levels of investment.

Nevertheless, being on intimate terms with deficits has been a very old tradition in the Brazilian economy. During the nineteenth century, the Brazilian government resorted to foreign loans, in order to finance the budget deficit and reduce internal debt. This situation has not changed too much since then.

Presently, the Brazilian governmental activity has been ruled by the permanent existence of public deficit financed both by foreign loans and by issuing bonds and paper currency. The difference between yesterday's and today's economy is the size of public sector, the size of the deficit, and also the size of the public finance crisis, which has ruined the possibilities of appearance of a new prosperity cycle in the overall economy. This situation has been associated to the strong participation of the public sector in the productive activity and to the huge volume of public funding that has to be designed to finance those activities, generally, without special concerns with efficiency, productivity and social welfare targets. The State's incapacity to fulfill investment requirements is attached to the diversion of resources from areas where the role of government is absolutely necessary and that cannot be provided by the private sector. Herewith, the reduction of the size of the State and, more precisely, the divestiture of public owned enterprises has become the most up-to-date issue of policy debate, a magic wand which is supposed to extinguish the social, economic, political and cultural diseases of Brazil.

In this paper, we will try to address some brief considerations about the Brazilian public deficit, within a historical background approach, and also privatization policy, as a public strategy to balance public accounting. We will also trace some comments about the Brazilian Privatization Program and will try to make a brief analysis about the impact of divestitures over company's performance.

II. THE OUTBREAK OF PUBLIC DEFICIT

Since the middle of the 60's, during the military regime, the government adopted some measures, in order to face the greatest evils of the economy up to that time - inflation and deteriorated public account. These economic policies were based on restrictive fiscal and monetary policies. The reduction of imports, resulting from the induced decrease of aggregate demand, and the recovery of exports levels, allowed the country to obtain trade superavits. On the other hand, the massive influx of foreign loans determined the conditions to start the economic stabilization process. The budgetary deficit decreased as a result of tax increases and lower government expenditures. Real wages were sharply reduced, while the exchange rates were devalued. At the end of the decade, economic growth rates were approximately 10% and inflation rates had dropped to 20% per year.

The investment expansion, in the public and in the private sector, was supported by a significant influx of external savings, made possible through the creation of a series of institutional and legal instruments. At that time, Brazil entered a cycle of high economic growth, which was not precluded by the first oil shock, in 1973.

During the Geisel administration (1974/1978), the government embarked on the II National Development Plan, which defended capital and intermediary goods import substitution. Thus, investments in the electric, transport and communications sectors stimulated the Brazilian base industry, which were able to access more promptly external funding.

Only after the second oil shock, in 1979, the Brazilian government was faced with the first signs of economic malfunction due to the high levels of public debt. The increase of international interest rates and the fall in agricultural products price also contributed to undermine the level of our international reserves. Inflation started its vertiginous upward trend and the government decided to enlarge the foreign debt, as its strategy to postpone domestic stabilization policies and the unpopular measures to correct imbalances in the balance of payments current account.

The deficit issue gained even more importance after the Mexican foreign debt moratorium, in 1982. Since then, the access to foreign loanable funds was blocked and the threat of recession started to haunt the indebted countries' economies. The public sector, including the state companies, assumed the major part of the external debt.

From 1979 to 1985, Brazilian inflation rates doubled three times, jumping from 45% in 1979 to 100% in 1982, 200% in 1984, and 400% in 1985. At the end of the 80's, the price levels skyrocketed, and overcame the hurdle of four digits, reaching 1,363%, in 1989, and 2,869% on the eve of Real Plan .

The inflationary process tends to nourish the budgetary deficit and the latter tends to enhance the former, on an extremely intertwined process of cause and effect. In the same way, there is a direct relationship between domestic public debt and budgetary deficit. As far as the debt accrues, the interest rates are pushed upward, providing one of the major expenditure items.

In the Brazilian case, whose economic model of growth was highly dependent on government spending and on the inflow of external funding, the interruption of those resources entry determined the appearance of a serious economic disorder, which aggravated even more the public finance conditions. The government faced the lack of funding by issuing bonds and currency paper, besides it devaluated the exchange rate, which increased the costs of foreign debt service.

From 1990 on, the Government adopted more effective measures in order to reduce the budgetary deficit. By this means, it cut off the public servants wages, and promoted an radical shrinkage on the federal administration role, which damaged the quality and the provision of some essential public services. Obviously, the current expenditures reached their lowest levels, so far, at the price of a huge deterioration of the sector.

The Real Plan, issued in July 1994, by the Minister of Finance Fernando Henrique Cardoso (elected President in 1995) was very well succeed in reducing the level of inflation rates, but it was completely inefficient to deal with fiscal debt. The total net public debt (internal debt plus external debt less reserves) has increased, as a result of interest expenditures growth. The bond debt of states and local government jumped from US\$ 21 billion, in July 1994, to US\$ 47 billion, in July 1996. The federal bond debt was US\$ 60 billion, in July 1995, but, one year later it had increased to more than US\$ 160 billion. Presently, the government intends to keep the primary deficit (revenues less expenses, not including interest rates) at 2% of GDP, and total net public debt at 36% of GDP. Considering that total net debt is already 35% of GDP, one can conclude that government will face many problems to attend to this target.

III. THE BUDGETARY CRISIS AT THE STATE PRODUCTIVE SECTOR

The deficit concept, imposed by the International Monetary Fund and adopted in Brazil, measures the public sector borrowing needs and includes the direct federal administration, the state owned companies, the states and local governments, and also the decentralized agencies, social security, funds and program. In this extensive group, one of the most important is that represented by the state owned companies.

The state's participation in the economy, not only to regulate and control the market, but also to actuate directly in the productive sector, was determined through a widespread redefinition of the government's role, that emerged with the Keynesian theory.

The Brazilian government, in one way or another, always kept a strong tradition of economic interventionism, establishing rules that benefited the most dynamic sectors, such as the coffee producers during the first three decades of the century. Nevertheless, its interference became much stronger during the 1950's, when it accomplished the imports substitution policies. In order eliminate bottlenecks and support the process of industrialization, the government decided to create enterprises in the infra-structure and basic inputs sectors, and also conceded financing to private sector investments. This was the romantic phase of statization, when there was a great optimism about the country's future. At that time, the main state companies were created: Companhia Siderúrgica Nacional, Petrobrás, Companhia Vale do Rio Doce, and Banco Nacional de Desenvolvimento Econômico.

While many state owned enterprises (SOEs) were created in the 1950s, they proliferated in the 1960s and 1970s: 128 out of 251 SOEs existing in 1980 were created between 1960 and 1975.

Such a policy had and still has its justification. The state participation in the productive sector is necessary in those economic segments where the private entrepreneurship cannot operate due to lack of disposable resources, or due to high level of involved risk, or even, for strategic reasons. At this viewpoint, the state investments assumed a very important and essential role in the economic development and allowed the Brazilian economy to access to a higher degree of industrialization.

During the military government, this process was accelerated - the state definitely assumed the task of ensuring rapid growth and encompassed duties and responsibilities, which turned the state into the determinant element of the national life. The private sector, always afraid of assuming risks with big investments, preferred to pluck the fruits generated by the state entrepreneurship, as such low costs inputs and many privileges and incentives that it received from the state.

At the end of the 70's, the major part of domestic savings came from the public sector. It represented, at that period, 32% of the government disposable income. The foreign sector crisis, the fall of income tax and public expenditures stiffness determined the decrease of government savings to -8.7%, in 1983. The expansion of the government role, which became possible by accumulated savings, found its limits and was appointed as one of the main factors to enhance the budgetary disequilibrium. This situation gave rise to the strengthening of privatizing ideas.

Table 1 shows the revenues and expenditures of SOE's for the period 1980/93, obtained from Giambiagi and Pinheiro (1996, page 12). We can observe that in the 90's the revenues' performance was damaged by reduction of transfers from the National Treasury. We also notice the decreasing trend of investment expenses and the stability of personnel expenses.

In the late 80's the optimism regarding SOEs' role in the economy was replaced by the perception that the problems of capital accumulation would endanger their ability to provide adequate services. The prevailing view was that the public enterprises' problems would disappear if they were transferred to the private sector.

More and more economists join the group of those that defend the idea that the sanitation of the Brazilian public debt should not be limited to its financial circuit. They affirm that it should be considered on terms of the inefficient and inadequate use of human, inputs and capital resources. These aspects represent the primary source of disequilibrium. They uphold a major shift in the government, private sector and workers participation in the economic, social and political framework. In short, they strengthen the idea that a real policy towards the public sector financial restructuring should not simply be a cut of expenditures, instead it must include a strategy of assets diminishing.

IV. THE QUESTION OF PRIVATIZATION

Privatization and fiscal policy are closely related issues, because privatization is usually considered as a key instrument on the process of fiscal adjustment. Besides, there has been a major shift in thinking that the state direct participation in the economic activity is identified with inefficiency, unproductiveness and high cost of production.

These concepts must be considered more carefully, though. First, because they tend to blend the private entrepreneurship objectives to those of the state entrepreneurship. The former searches for profit maximization; the latter is supposed to seek for other type of values, fundamentally, the social return. In many cases, in the public sector, the achievement of high level of social return is attached to very low or even negative financial results. Does this mean the company's projects are inefficient or unsuccessful? Not necessarily. Besides, private enterprise is not everywhere synonymous with efficiency.

A survey made by EFC Consultores (a Brazilian firm in the sector of business consulting) showed that the public enterprises can even face better results than private companies. This survey compared the performance of the six major state companies (Eletrobrás, Telebrás, Petrobrás, Vale do Rio Doce, Companhia Paulista de Força e Luz and Petrobrás Distribuidora) and sixteen big private firms. It analyzed their numbers during January/September 1996 in relation to the same period of 1995 and concluded that SOE's net profit increased 286%, while, in the private sector, the profit increased 33% in the period. Besides, in the public sector, revenues increased 32% and in the private sector, 10%. In fact, the data from Brazil suggest that SOEs can be operated efficiently and at a level of profitability that exceeds, in most cases, the opportunity cost of capital.

A second point that must be considered is that the use of privatization revenues to reduce public deficit is questionable, as it may forego other broader objectives, such as the increase in efficiency, and also it can undermine the political coalitions towards a permanent fiscal adjustment. The search for efficiency is what effectively justifies the implementation of privatization programs. This is due to the fact that fiscal gains brought by divestiture are transitory, while the increase in efficiency allows a permanent increase in overall income.

The use of privatization revenues to reduce public debt, on the other hand, is more acceptable, but, in the especial case of Brazil's huge public debt, the sales will not represent any relief. The privatization revenues, in 1996, were about US\$ 4 billion, while, in 1997, it is expected to amount to US\$ 10 billion. Both values represent 8.5% of the internal public debt (US\$ 163 billion).

The idea that privatization enhances economic efficiency is not completely true, because to achieve this it is necessary market competition. Turning a public monopoly into a private monopoly might not promote economic efficiency, for it tends to provoke a net loss of consumer surpluses of goods produced by the enterprise, mainly because in the monopolistic market the maximization of profit is obtained through higher prices and less production than in the competitive market.

The development of the Brazilian industrial sector was made possible by the expansion of state owned basic infrastructure enterprises. The private sector lacked disposable revenues, and also was not interested in low rate and long termed return investments. The increasing role of the government in the economy was also based on the decision to control strategic resources and also on the fact that the access to external financing depended upon internal financial counterpart, only provided by the public sector.

We recognize that the economic growth paradigm based on the "entrepreneur and regulating state" have run its course. Nevertheless, we must emphasize that the redemption and importance of the market forces cannot be accomplished through the adoption of the "minimum state", dismantled, remiss, and unable to attend to the huge social demands of the country.

In spite of the big discussion about the appropriate role of government in the economic sector, the results in terms of theory are still inexpressive. The model we have adopted was depleted, but the rise of new ideas to substitute the old model is not completed. Sometimes one can find that these ideas were distorted by the strong interests involved, from conservative elite that historically were benefited by privileges and incentives. In these cases, privatization is not considered as an excellent opportunity to democratize the public companies ownership and sanitize and reorganize the public finance. But it is considered as an instrument towards the creation of private monopolies.

Privatization, as a public policy, was first mentioned in 1979. Nonetheless, we can surely affirm that the divestiture of the public assets in Brazil can be divided into two major periods:

a) from 1985 to 1989. The privatization program, accomplished during President Sarney's administration, included only enterprises that had fallen into the hands of the State as a result of assets conversion of past due loans provided by public financial institutions or to protect State's minority shares on the verge of bankruptcy. The process was headed by the Interministerial Privatization Council and coordinated by the National Development Bank - BNDES. Sale proceeds totaled approximately US\$ 190 million, or about 0.6% of the overall net worth of federal public companies in December 1985. Table 2 lists the transferred enterprises, the manner of sale, and the sale prices. Privatization proceeds were often less than restructuring costs incurred by BNDES.

b) from 1990 to nowadays. In 1990, President Collor initiated its program to reduce the size of the state (Programa Nacional de Desestatização) affirming that privatization does not mean purely reduce state's participation in the economic activity, but it also implies on reallocation of public resources to areas of major social return, and the strengthening of government's responsibilities to assure social welfare.

With this political concept in mind, one question necessarily arises...

V. WHY DO WE PRIVATIZE?

One of the main characteristics of the state activity in Brazil is the so-called "patrimonialism", which is the use of the State apparatus to attend to conveniences and interests of especial political groups. This aspect has generated to kinds of main problems:

a) state owned companies used as instruments of political bargaining. The issues related to finance, market and management are put aside in the decision making process, the capacity of generating revenues is damaged and the National Treasury is forced to provide financial aid in order to alleviate the company's crisis. It must be emphasized that the transference of public funds to those companies does not always attend to the government investment priorities program. Sometimes, it happens that very important projects are suspended or even paralyzed in order to provide disposable resources to finance untenable investments with higher political support.

b) state owned companies used as instruments of macroeconomics and stabilization policies. In various circumstances, the companies were forced to obtain foreign loans to finance their investment projects, as part of the government policy to equilibrate the balance of payments. This caused a huge increase in the companies level of debt, which, in many cases, was incompatible with the company's size. Moreover, as part of the anti-inflationary policy, the majority of the state owned companies were subject to rigid price and tariffs control, which deteriorated their cashflow. In fact, in 1986, the real price of steel was 40% lower than in 1980, the telephonic tariffs were 65% lower and the electric energy was 16% cheaper than it was in 1980. They also gave subsidies to the export sector.

Another privatization argument is that the crowding out of the private sector would be avoided as government productive activities scale down.

The most important argument for privatization is that it tends to lead the industry to more efficient production and allocation. This can be achieved through three basic paths: a. the company's management decision process is less affected by political or non-commercial objectives; b. the ownership and the management are more linked,

enabling the former to provide qualitative supervision and adequate labor incentive, and; c. private companies tend to present better financial discipline.

At the end of the 80's, as inflation rates skyrocketed, the companies' financial results were increasingly worse. Their foreign debt was transferred to the National Treasury, but the government control over their prices and tariffs and the progressive inability to invest aggravated their dependency on Treasury resources. This flow of funds, however, reached its limits and the investment capacity bottlenecks in the electric, telecommunications, oil and transport sectors still represents one of the main struggles that the government is supposed to face.

This aspect can be observed in tables 3, 4 and 5, where investment budgets of SOEs, during the period 1991- 1995, is compared to effective investment. We observe that effective investment of some of these companies have been restrained throughout the years and were always kept lower than budgetary forecasts. Throughout table V we noticed that the amount of own resources and government transference designed for investments has decreased during the period, giving room to internal and external long-term debt, which are much more expensive to the companies.

Table 6 deepens the information about SOE's investment per sector. All sectors reveal a decreasing trend in the level of investments, except for the financial system, whose investments were quite stable, and Telebras system, which increased its investments in the period 1980/94.

For Inácio Rangel, a retired economist of Brazil's national development bank (Banco Nacional de Desenvolvimento Econômico e Social - BNDES) the development of public utilities is bound to be the catalyst of Brazilian economic growth. He also argues that the required investment effort in such a capital-intensive area calls for much greater participation by the private sector. The old arrangement - that assigned the maintenance and expansion of public utilities to the State - functioned well in the last decades, but now it needs to be replaced.

This argument is questioned by another well known Brazilian economist, Rogerio Werneck, who affirms it lacks macroeconomics consistency. Shifting investment responsibility from the public to the private sector will not lead to higher level of investment unless aggregate savings are increased accordingly. The point is that the Brazilian domestic sector is not able to provide enough investment funding due to its low savings generation capacity. In capital intensive sectors, such as telecommunications and railroads, the process of assets divestiture is bound to be highly oriented to foreign investors.

The reduction of SOE's investments is due to restrictions imposed by the government in the tariff setting policy and access to financing funding. The government intends to, simultaneously, transfer to private sector the assets and the compromise for new investments. The favorable conditions offered by the government make assets acquisition very attractive, but it does not assure additional investment, which depends on the overall expectations about economic stabilization and on the regulatory framework. Moreover, accelerated asset sales absorbs resources from the private sector, which otherwise could have been used directly in the increase of SOEs' capacity. If the main reason for privatization is to increase efficiency and investments, why do not adopt a model of private entrepreneurship participation in the expansion of the industry?

Another way to ask this question is: is the transfer of all public assets to the private sector the only way to achieve better levels of efficiency and proper sources for investment? At least, there is one example in Brazil that could lead to a negative answer - the Riograndense Telecommunications Company, CRT. CRT is one of the six Brazilian companies which do not pertain to Telebrás System. It belongs to State of Rio Grande do Sul, which offered 35% of its ordinary shares in a open bid in 1996. The shares were awarded to a consortium comprised of Telefónica de España, Citicorp and RBS (a Brazilian group in the mass media sector) for US\$ 681 million, 54% above the reference price. CRT was the first state-owned telecom to offer shares to the private sector, but the state government did not lose its control over CRT; it still keeps 50.39% the ordinary shares. This experience initiated a new type of restructuring model- the public and private partnership. The private partner will appoint 3 from the 9 members of the board of directors and also will indicate the managers in the administrative area. This operation raised many doubts whether the private sector would be interested in participating in business as a minority partner. Actually, the competition among the consortiums and the good sale price obtained by the state government vanished those doubts and revealed this kind of operation can be a good alternative to get investment funding.

VI. THE NATIONAL PRIVATIZATION PROGRAM

The main characteristic of the privatization program in Brazil is that it is debt driven. In Latin America, we can find many examples of debt/equity swaps. Chile and Argentina reduced their external debt, while Brazil and Mexico, have sold their companies to reduce internal debt. In these countries, there is no alternative than to sell for debt, usually through government financing. In fact, it would be better to sell for cash, but in cases in which this is not feasible, the government should divest its assets to reduce short loan debts, whose interest rates are higher than the long run debt. In the Brazilian case, the companies have been sold for long run internal debt - the so called "moeda podre" ("rotten money"). There is a wide variety of these debt bonds, which are traded in the secondary market at different and deep discounts from face value.

Pinheiro and Landau (1995) affirm that the use of long term debt is interesting because: a) it allows the participation of workers and population; b) it gives liquidity to the investors; and c) it maximize the reference price in the auction. Although we agree with the authors, one can object that, in the case of workers' participation, some experiences reveal that it tends to be reduced throughout the years as a result of this special class of shareholders inability to subscribe new capital increases.

Up to now, the most common debt bonds used in the divestiture process are: security federal debt, Siderbrás debenture bonds, privatization certificates, FND bonds, agrarian debt bonds, mortgage bonds and external debt bonds. These bonds are subject to very low level of interest rates - 6% per year (for the Brazilian standards) and high risk of default. The stock of these bonds has decreased very much since 1990, when the privatization program started, as well as the discount from face value. Furthermore, the size of the enterprises to be privatized is very high. By this means, the government intends to increase the cash sales and also enlarge the types of debt bonds accepted in program.

The PND schedule and status of companies and stakes can be observed in the tables VII and VIII.

The enterprise inclusion in the PND is made through presidential decree, based on a proposal formulated by the PND Directory Commission.

After an enterprise is selected to be transferred to the private sector, two consulting firms - chosen from the BNDES procurement files - are contracted. One of them is supposed to evaluate the company's economic and financial situation and to propose the sale minimum price (service A). The other company does the same job and also sets up the whole process of divestiture and proposes the previous restructuring measures (service B). This previous adjustment program may include sale of assets, debt renegotiations, and, frequently, the public assumption of the company's liabilities. Both services results are accompanied by an audit firm. The company is usually evaluated by its potential for generating operational cash flow. After price and conditions are established, a public announcement is made in order to identify bidders.

A large part of assets sales has been financed by BNDES. The agency sells on time the federal debt bonds used as currency in the privatization offers. These operations are made through accredited financial institutions and charges low interests rates (for the Brazilian standards) - TJLP plus 3% per year - for a 12 year term (with 2 year grace period).

After the approval of the Law n. 8,031, in 1990, the Collor Administration initiated the most effective divestiture of public assets ever done. In the first period, the so-called Programa Nacional de Desestatização - PND extinguished 10 companies and sold the share control of 22 enterprises, belonging primarily to the steel, fertilizing and petrochemical sectors. Only in 1992, fourteen enterprises were transferred to private ownership (in 1991, four companies were auctioned).

In 1993, after the impeachment of President Collor and the nomination of vice-president Itamar Franco, six companies were transferred to the private sector and the divestiture of the steel sector was concluded. President Itamar Franco adopted measures to increase the legitimacy of the process, by issuing decrees to allow shareholders and employees participation in the decisions to be taken, open and wide access to the appraisal reports of the companies and provision for obligations to the new

controllers of the capital stock, for carrying investments in the environment, observing the legislation for protection of competition, meeting of the social securities commitments and training of manpower which may eventually be dismissed. He also decided to stimulate the participation of foreign capital by increasing its limit in the voting capital from 40% up to 100%. Moreover, the Central Bank regulated the use of bonds resulting from the Brazilian foreign debt renegotiation. In spite of these measures, the external investors participation remained low.

In 1994, the PND agenda was very ambitious, which included the completion of privatization actions in the fertilizer and petrochemical industries and the start of sales in the power distribution utilities. During that year, 22 auctions were held, accounting for 23% of the total proceeds obtained during the entire program (1991/94).

In 1995, the former Minister of Finance, Fernando Henrique Cardoso, was elected president with a very privatist speech. After his inauguration, he introduced changes in the Brazilian privatization program in order to reduce the democratic approach introduced by Itamar Franco and increase the speed of divestitures. Decisions on key program issues were previously made by a Privatization Committee with representatives from both the private and public sector. Now, they are in hands of the National Privatization Council made up only by cabinet ministers directly involved with the program. At that year, constitutional amendments passed by Congress, which allowed private supply of piped gas, equal status to foreign and Brazilian companies, permission for foreign firms to prospect and explore mining deposits, and the abolishment of public monopolies in oil and telecommunications sectors. The Electric Power System, formed by Eletrobrás and their affiliates Furnas, Eletronorte, Eletronsul and Chesf were added to the list of PND and also was Companhia Vale do Rio Doce, one of the most important, competitive and profitable public owned companies, which operates in the mining and metallurgy, paper pulp, ports, railroads, and steel industries.

In the electric sector, the government will privatize only the production of energy. The distribution, considered as a natural monopoly, will still remain in hands of public sector, as well as the nuclear energy. The separation of generation and distribution will abolish the crossed subsidies in this industry and maybe force the distribution sector to increase efficiency, productivity and prices.

Tables IX, X and XI show price values, currency applied and the type of buyers for the period 1991/95.

Up to 1995, total PND income reached US\$ 9.6 billion. The steel industry accounted for 57.9% of the proceeds earned, while the petrochemical sector amounted to 25.9%, fertilizers brought in 4.4%, power utilities, 4.2%, and miscellaneous, 7.8%. Non financial Brazilian companies purchased 44.8% of all shares sold through 1995, while local financial companies and private pension funds took in respectively 26.1% and 16.8%, and foreign investors just 4.9%. Only 20% of the revenues were made in cash. The currencies most often used for privatization have been government-secured debt, 34.4%, Siderbrás debentures, 15.6%, and Privatizations Certificates (13.5%). Foreign Debt Bonds accounted for a negligible 0.7% gross proceeds.

Table XI-A shows that the participation of foreign investors in the Brazilian Privatization Program is very low.

Table XII details the new voting structure after sale for the same period. From this data, we can draw some conclusions:

a) we can not affirm the existence of ownership concentration in the steel sector. But, we certainly can identify some companies that play a strategic and prominent role in the industry. Bozano, Simonsen Bank owns participation in Companhia Siderúrgica Tubarão - CST (25.4% of its shares) and Usiminas (7.6% of its shares). Companhia Vale do Rio Doce is the owner of 15% of CST, 15% of Usiminas and 9.4% of CSN. Belgo Mineira owns 49% of Dedini and is planning to acquire Açominas. And last, Gerdau Group increased its market power with the acquisition of Usiba, Cosinor and Piratini.

b) in the petrochemical sector, we can observe a more clear trend to market concentration. Three investors are very important in this sector: Copene (a former SOE acquired by Norquisa) that owns participation in Acrinor (48%), Coperbo (20.5%) and Salgema (50%); Conepar, that participates in the capital of Polialden (66.7%), Ciquine (66.5%) and Politeno (35%); and Mitsubishi, a Japanese multinational, that owns shares in Polialden (16.7%), Ciquine (27.9%) and CPC (19%).

c) there is also market concentration in the fertilizers sector, where Consórcio Fertilós dominates the industry through its subsidiary Fosfertil. (Fosfertil owns 90% of Goiasfertil and Ultrafertil's capital.

So far, we can conclude that the Brazilian privatization of petrochemical and fertilizers sector did not seek for market competition. The government main objective was to attract investors and provide a good environment for profits in a oligopolistic market.

Table XIII, specially elaborated for this paper, shows the revenues obtained with privatization, the value of funds provided by National Treasury, the amount of financing funds obtained from BNDES after divestiture and also the company's liabilities and net worth. We can observe that the divestiture process entail large expenditures that are not recovered after the sale. Thus, in the case of steel and fertilizers sectors, privatization determined financial losses because the value of public funds provided were greater than the amount of sale receipts. The credit provided by BNDES to the whole set of companies totaled US\$ 988 million, 33.6% designed to Companhia Siderúrgica Nacional - CSN (total loss of US\$ 4,739 million), 12% to Usiminas (total loss of US\$ 697 million), 10.6% to Embraer (total loss of US\$ 537 million), 10.4% to Copene (total gain of US\$139 million) and 7.5% to Acesita (total gain of US\$ 195 million).

It is interesting to compare the net worth value and the minimum evaluation. For some companies, the former is much bigger than the latter (CST, CSN, Cosipa, Açominas, Salgema, CBP, Goiasfertil), which can be a sign that the assets were not properly appraised.

In 1996, the transfer of public utilities to private owners has continued with the sale of Light, the last federal electric power distribution company to be privatized. It was also started the privatization of Rede Ferroviária Federal S.A., the major Brazilian railroad operator, which was dismembered into six operating units; five of them, sold in 1996. The petrochemical industry was fully transferred to private hands.

In the period 1991/1996, 53 state owned companies were privatized, representing proceeds of US\$ 13.630 million.

Nevertheless, the program's credibility has been kept under suspect, due to a series of denunciations that appointed irregularities in divestiture. In order to attend to those complaints, Tribunal de Contas da União - TCU is supposed to check the valuation process and the minimum price of the companies to be privatized.

For instance, the TCU's inspection over Açominas, concluded that the cash flow formulation, which is the most important indicator of the company's price, showed many errors, leading to an undervaluation of US\$ 300 million in its minimum price. The same problem has occurred in the valuation methodology of Embraer. An important and trustful Brazilian magazine published some of these problems and also denounced previous agreements between the investors, in order to reduce the company's bidding value. Presently, the federal proctorship is investigating Light's divestiture, due to a possible irregular conversion of the bonds used in the purchase.

This paper is not intended to comment the Brazilian privatization program irregularities. But, it is important to attract attention to the fact the many problems surrounding the process are known, while some of them are identified, but nothing is done in order to change procedures and punish the guilty.

Privatization, by itself, cannot be considered as the solution for the country's financial imbalances, neither the only way to extinguish the economic bottlenecks to achieve higher level of investments. So far, the Real Plan had succeed in its main goal to reduce the inflation rates, but even the government recognize the economic problems still remain, the budgetary deficits are not going to decrease without the fiscal reform and without the containment of interest rates, and also the investment capacity is negatively affected by the uncertainties about the future of the economy. The Brazilian private sector is not able to lead the recovering of the economic activity to levels compatible to a 7% increase of GDP rate, mainly due to the government restrictive policies, but also due to lack of disposable resources. Meanwhile, the ingress of foreign capital has been directed to speculative investment.

The Brazilian economy has an urban and industrial feature that tends to the cartel, the trust, and oligopoly, rather than more competitive systems. This fact stresses the need for the state regulatory action and also for the State participation in some sectors of the economy. As a result of the social and economic framework based on extremely high levels of income and opportunities concentration, the pure, simple and wide privatization will never be able to solve the economic crisis. On the contrary, it can aggravate the adverse and excludable character of the Brazilian economic model.

As affirms Peliano (1995) the privatization process, and by extend, the abolishment of public monopolies should not be concerned in determining whether private is better than public. Its main objective is to determine which one is more likely to allow the main collective control over basic government and economic agents decisions, in order to assure citizens rights, better use of domestic resources and increase of the social benefits from productive system.

Another point to be considered is that privatization must be a means of strengthening allocation efficiency in the economy. This means that the company's transfer to private sector must allow market competitiveness, rather than scaling up monopolistic structures. Specially in the case of basic industries which imposes economic barriers to the entry of competitors (such as telecommunications and electric energy), new regulation has to be devised and imposed as a surrogate for the market. In fact, regulating has an important role within the privatization policy by both strengthening the operation of the capital market and also by precluding any type of economic power abuse.

The public companies still have an important and strategic role to play in the economy. They are able to accomplish industrial structuring through the diffusion of technological innovation and the building up and modernization of the natural monopolies - infrastructure sectors that present large scale of production, high costs and low rates of profitability.

VII. PRELIMINARY COMMENTS ABOUT THE EFFECTS OF PRIVATIZATION OVER COMPANIES' PERFORMANCE AND SOCIAL WELFARE.

Considering that the Brazilian privatization process is very recent, it is still early to evaluate its impact over companies' performance and also over social welfare. Nonetheless, we will try to comment this issue, by taking into account some studies that have been made by the specialists of the sector.

Pinheiro (1996) has analyzed divestitures that occurred in the 80's and in the period 1991/94. The author made some reference to the results obtained by Gandara and Kaufman, who studied the performance of steel sector after privatization. These studies appointed cost reductions per tons of steel produced, which varied from 2% in the case of Usiminas and 27% in the case of Piratini.

Pinheiro also mentions an empirical analysis from BNDES (1995), which considers the steel, petrochemical and fertilizers sectors' performance after privatization. In the steel sector, the commercial strategies became more aggressive, costs were reduced, new markets were reached and companies became more efficient. It must be remembered though that the companies' performance was very much bettered by the freedom to set prices and also as a result of the previous financial adjustments that occurred before privatization. Moreover, after privatization these companies were granted long term credit lines from BNDES in very favorable conditions. In the petrochemical sector, the major deficiencies still remain: the small size and excessive number of companies and weak technological capability. In the fertilizer sector, privatization allowed higher industry concentration.

Pinheiro also made an statistical analysis about privatized companies' financial performance. Some of the results of this analysis are summarized in the table below:

AVERAGE VARIATION AFTER PRIVATIZATION

%

	All Companies	Companies privatized in the 80's	Companies Privatized in the 90's	Divestiture of control	Divestiture of minority shares
Revenues	17.8	45.2	12	19	46.3
Revenues/Empl.	60.6	16.7	97.7	76.3	32.4
Profit/Empl.	38.5	-50.3	303	7.4	168.5
# Employees	-49	-26.2	-48.5	-46.5	-23.4
Production	-	-	19.6	17.5	23.9
Net Worth	148.6	302.6	370.8	406.2	27.7
Debt	-26	56.3	-24.3	16.8	19.1
Investment	706	540.3	4,356.1	2,293.2	691.8
Investment/Rev.	1,424	262.4	3,482.1	1,685.9	449.2

The numbers lead to the conclusion that privatization had driven the companies to a better economic and financial performance. The companies were able to increase the levels of production, revenues, investments, profit and productivity. The number of employees decreased by 37% in average (in some cases it decreased 50%). But these numbers must be considered carefully for two main reasons. First, the data is too aggregate, which prevents a detailed evaluation sector per sector. And second, we do not have the companies numbers for previous periods, which is extremely important in order to determine what is privatization effect and what is the company's own trend. A special point of interest is the increase on investments after privatization. Considering only the companies privatized during the period 1991/94, the average investments increases 50 times! This huge number does not match with net worth and debt performances, which is an obscure point the essay does not explain. As a matter of fact, even though we agree that privatization may bring positive effects over companies' financial conditions, the results showed by Pinheiro are not convincing and lack detailed information about each sector's performance.

Another essay from Giambiagi and Pinheiro (1996) tries to describe the fiscal impact of privatization, in the case of equity/debt swaps. The authors concluded that:

- in the period 1981/94 the state productive sector faced an average loss of 2.5% of the capital, as a consequence of average profitability of 6.5% of the main groups (Companhia Vale do Rio Doce, Eletrobrás, Petrobrás and Telebrás) and average loss of 29.2% of the remaining enterprises.
- the federal SOE are responsible for a small parcel of the public debt, specially when compared to the companies controlled by local and state government.
- the biggest SOE's privatization (Companhia Vale do Rio Doce, Eletrobrás, Petrobrás and Telebrás) would lead to a significant fiscal impact. The debt/equity swap can reduce the public sector financing needs in US\$ 36.9 billion.

d) this fiscal impact is distributed throughout the years - only 11.2% of the reduction in the public financing needs occurs in the first three years. (the president that assumes the hard and, sometimes, unpopular task to accomplish privatization, would obtain, during his mandate, only 11.2% of the expected fiscal gain).

The authors warned that these results must be considered with care because the analysis presented a certain degree of arbitrariness in setting the parameters value. Besides the essay was based on the postulate that all SOE's will be privatized and that all of them will face efficiency increase after divestiture. Considering that some companies will not be privatized (such as Petrobrás), the level of revenues can be overvalued in the analysis. Additionally, the efficiency performance depends highly on the initial conditions of the company, which is a very dynamic variable. With these remarks the authors try to avoid a very optimistic appraisal.

Eventhough the divestiture of SOEs brings positive flows to the budget and to the capital account, it also can deteriorate competitiveness in the economy and thus bring adverse effects to the consumers. This can occur due to the lack of adequate levels of investments and to the reinforcement of monopolistic structures of production. There is a trade off between entrepreneurial objectives (seeking for lower costs and high efficiency) and social welfare, considering that private concerns leads to major exploitation of consumers, workers and environment. We can observe that mainly in the public utilities sector (such as electricity and gas), the privatized companies, in order to maximize profits, tend to rationalize investments and assets utilization, in a way that it can endanger long term supply of the product or services.

Another negative social impact is the increase of unemployment. The creation of new jobs was one of the justifications for privatization. Nonetheless, the privatized companies fired more than 25,000 employees up to 1995. In the steel industry, the number of employees decreased from 132.7 thousands in 1991 to 108.1 thousands in 1993.

Obviously, the decrease in the number of employees is a sign of a important trend observed after privatization of the majority of enterprises - the increase in the employees productivity. In fact, in the same period the steel industry productivity increased from 155 tons per employee per year to 242 tons per employee per year. Rede Ferroviária Federal, the privatized railroad company is another example. It used to have 90 thousand workers in 1980. In 1993, when it was included in the privatization program this number was reduced to 42 thousands. Now it has 22 thousands workers and it is expected that private operations will need no more than 20 thousands employees.

One of the most important points of concern is the increase in tariff's prices due to the privatization. When this situation occurs, the supply of services to low income consumers usually is in charge of the government. In the Brazilian case, we still do not have adequate information about this issue. So, we will try to comment briefly other countries' performance.

In the UK, the new model adopted by the privatized electricity industry was based on a pool that purchases the electricity from the generating companies. According to De Sá (1995), this system has been criticized, because the prices are established by collusion between the two big generating enterprises. Consequently, there has been a historical increase in the tariffs, even in the cases where the acquisition of electricity is made outside of the pool. The Office of Electricity Regulation, the regulatory agency in the UK, has not been able to increase competition in the sector and also has been accused of heeding the interests of the industry instead of the consumer's. The problem with this model is that it should have had a greater number of generating companies (instead of only two). But the need for obtaining political gains before the end of Thatcher Administration induced a fast and careless process of divestiture. After privatization, 50% of the employees were fired. Nonetheless, productivity has increased, as well as profitability levels, leading to investors' euphoria.

In Argentina, the privatization process confirm the existence of a trade off between productive efficiency and allocative efficiency, which is commonly associated with divestiture of public assets. The private ownership brought cost reductions, but it also faced allocative inefficiency, due to the adoption of monopolistic structure. The productive gains obtained with privatization were not shared with population. On the contrary, the price increases, the maintenance of protected markets, and the initial weakness of regulatory agencies allowed the increase in assets price at the expense of consumers' interests. The Argentine model adopted a system that protected bid winners against potential competitors and assured good levels of profitability (the main examples are the coastwise tariffs of Aerolíneas Argentinas, international calls of ENTEL, and oligopolic collusion among oil refiners), but was not concerned of protecting consumers from the eventual abuse of monopolistic power.

The problems of privatization in Argentine were due to the fact that the sale of assets were mainly an instrument of domestic and external financial policy and was highly based on short term macroeconomics objectives and less concerned with socially efficient privatization. By this means, the price of the assets for sales was maximized and the largest possible quantity of external debt papers were recovered.

At this point, we must make reference to a 1992 World Bank research on welfare consequences of privatization of twelve firms in Chile, Malaysia, Mexico and the United Kingdom (Galal, Jones, Tandon and Vogelsang 1994). The research found that privatization improved domestic and world welfare in eleven of the twelve cases analyzed (the exception was Mexicana Airlines); nine firms showed improved productivity, due to better labor-management relations, improved incentives, reduced work force, and internal reorganization. There was a huge increase in the level of investments, and the availability and quality of products or services have often improved after privatization. Workers in the firms were better in three cases and stayed the same in the other nine. In all but five cases, consumers were unaffected - thanks to competition, or were better off - thanks to regulation. In some cases, there was deterioration in the quality of the service, which tended to be improved as the new privatized companies matured. Government lost in three cases because costs associated with privatization had been high.

As a matter of fact, one can conclude that the welfare effect of divestiture varies from case to case and strongly depends on how the process is planned and accomplished and how effectively policy makers adopt welfare-enhancing decisions. This aspect is a continuous challenge to the Brazilian society and certainly will represent the most important concern in the next phase of the privatization program.

VIII. SOME PROPOSALS TO IMPROVE THE BRAZILIAN PRIVATIZATION PROGRAM.

The Programa Nacional de Desestatização, in the way it's being conducted, is a subtle type of corruption. This is conclusion comes from the perception that the program has been able to transfer huge public assets to some private groups, at prices lower than the equity value (see table XIII). We still don't have an appropriate analysis about the effects of such a concentrated and expensive privatization model. The state owned companies always pass through a sanitation process before the sale, in which National Treasury assumes all or a major part of the entity's outstanding debt. In fact, the experience shows that, in some cases, the debt assumption reaches an amount higher than the value obtained in the auction.

The loss incurred is not a loss of this government, but a loss of the whole society, whose human and financial resources were designed, throughout the decades, to build these assets.

In order to conclude, we listed below some proposals, which we believe are important issues that must be considered within the present process of state reform:

1. to reactivate the state company's information system, in order to achieve an effective performance control in view of the national demands, and also allow the supervision of the society.
2. to draw up the outline of the public companies sector, from an analysis that encompasses the historical background, the achievement of objectives, their insertion and the role played in the social and economic context. These information are "sine qua non" conditions to properly support the privatization.
3. to adopt a new managerial model, with the improvement of management contracts. Through these instruments (which can be applied for both privatized and companies under the public sector control), the management is granted much more flexibility and freedom to develop its entrepreneurial strategies. In rebuttal, they are supposed to attend to some qualitative and quantitative standards established in the contract.

4. to adopt a realistic price policy, with social concerns to price and tariff fixation in those areas and services that attend to the demand of lower segments of income.
5. to pulverize the ownership of the offered shares and establish rigid limits against sales concentration on few investors in order to avoid the formation of a monopolistic market. Privatization policy must include concerns with competition and economic efficiency. Government should be aware of market share and avoid monopoly power, by barring entry of particular groups in the sale process, even though this implies the sale of public assets below their market value. The private monopolies are based on restrained production and high level of prices in order to maximize profits. Generally, the increase of competition improves allocative efficiency. The privatization only will improve allocative efficiency if it is accompanied by a more competitive market.
6. to increase the participation of Congress representatives, workers and company's directing staff in the Privatization Commission at BNDES.
7. to accomplish previous audit in the evaluation statements of all companies to be privatized and make public its conclusions before the sale is ended.
8. to appraise the government politics over state owned companies.
9. to forbid privatization of social services provision, such as public health, social security, education and habitation loans.
10. if prices are supposed to rise after privatization, it is wiser to raise them before that, and evaluate if the privatization argument remains relevant.
11. in the cases where competition is not possible, due to technological requirements or size of the market, government must establish regulatory framework, in order to assure service's quantitative and qualitative standards and avoid abuse of economic power. It also can dismember the industry in local units in order to establish several local monopolies instead of only one. This measure does not create competitiveness, but it certainly reduces the power of the industry, not only the market power, but also the political power.
12. privatization is a process that does not terminate when the sale is concluded. The government must consider privatization as a structural change that is supported by long term policy objectives.

It is also important to emphasize something obvious - the privatization process must be done very carefully. The government must clearly define the kind of companies to be divested, within a wide discussion, based in transparent rules and opened to the participation and display of the whole society, in such a way as to reduce the pressures accomplished by powerful vested interests. In this context, not only the law, but the whole process of privatization must be submitted to the Congress assent in order to assure its legitimacy and the continuity of the efforts.

In Brazil, the most important economic reform has not even been discussed yet - which is the throwing up of ancient practices that mingle public and private interests and always led to state-sanctioned privilege and favor to the group that controls economic and political power. Brazilian economic history shows that easy access to public resources is not an exclusive prerogative of SOE's. In many cases, the Brazilian government was called to help and subsidize inefficient private companies in order to attend to vested interests. Those practices, that have served mainly to socialize losses and privatize gains, are the basis of the inequities and iniquities of our society. For this reason, privatization of public companies will only meet its social objectives if it is preceded by the privatization of the private sector.

TABLE 1: REVENUES AND EXPENDITURES OF STATE OWNED COMPANIES - 1980/93															
	1980	1981	1982	% of GDP	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Revenues	16.5	19.3	19.4	21.7	22.2	20.6	17.9	21.0	22.8	21.1	17.0	17.4	18.4		15.5
Operat. Revenues	11.7	12.9	12.4	14.0	15.4	13.6	11.9	13.3	18.1	18.1	15.6	16.1	17.4		15.9
Non Operat. Revenues	1.5	2.0	0.9	1.4	1.4	1.3	0.5	0.4	1.0	0.6	0.2	0.5	0.3		0.4
Transfers from Treasury	1.2	1.6	1.4	1.1	1.2	1.2	1.6	3.1	2.3	0.8	0.1	0.5	0.1		0.1
Credit	3.0	3.5	3.8	2.6	4.3	2.4	1.4	2.2	0.9	0.7	0.4	1.1	0.4		0.6
Others	0.5	0.0	1.3	2.8	0.3	2.3	2.6	1.9	0.6	0.9	0.7	0.7	0.0		1.6
(-) Transfers	0.3	0.7	0.4	0.2	0.4	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Expenditures	16.3	19.3	19.4	21.7	22.1	20.5	17.7	21.0	22.8	21.1	17.0	17.4	18.4		15.5
Capital	6.4	7.2	6.4	6.2	6.3	6.4	6.2	7.7	6.7	4.2	2.9	4.1	3.5		2.8
Investments	4.5	5.4	5.1	4.0	3.7	3.3	3.0	3.7	3.1	2.7	1.7	2.3	2.3		1.9
Amortizations	1.0	1.0	0.9	1.6	2.0	2.2	2.6	3.6	2.5	1.1	0.8	0.9	0.6		0.5
Others	1.1	1.2	0.7	0.7	0.9	1.0	0.7	0.4	1.0	0.5	0.4	0.9	0.6		0.4
(-) Transfers	0.2	0.3	0.4	0.1	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Current	10.2	12.1	13.0	15.5	15.8	14.2	11.6	13.3	16.1	16.8	14.0	13.4	14.9		12.7
Personnel	2.0	2.3	2.4	2.2	2.0	2.0	2.0	2.4	2.8	3.6	2.5	2.2	2.2		2.0
Interest	0.8	1.3	2.0	2.5	2.9	2.7	2.0	2.5	2.4	3.5	3.0	2.4	2.9		1.1
Others	7.4	8.6	8.7	10.9	11.1	9.5	7.6	8.4	10.9	9.7	8.6	8.7	9.8		9.5
(-) Transfers	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0		0.0

Source: Reports SEST. Ministry of Planning

Obs. Number red is negative.

TABLE 3: SOE's INVESTMENT BUDGET - US\$ Million										
SYSTEM	Effective 1991	Effective 1992	Budget 1993	Approved 1993	Effective 1993	Budget 1994	Approved 1994	Effective 1994	Budget 1995	Approved 1995
Petrobrás	2.343	2.402	3.487	3.485	2.836	2.121	3.437	2.461	2.876	2.876
Eletróbrás	1.717	1.567	2.307	2.334	1.808	1.849	1.934	1.491	3.415	3.241
Siderbrás	198	39	244	244	25					
Vale do Rio Doce	274	256	915	915	316	603	458	240	944	944
Telebrás	2.883	3.164	3.539	3.551	3.907	3.017	4.471	3.519	6.004	2.718
RFFSA	80	65	303	340	73	200	113	62	205	179
Itaipu	531	351	96	96	437	77	136	72	100	100
Total	8.026	7.844	10.891	10.965	9.402	7.869	10.549	7.845	13.544	10.058
Source: Federal Budget Department.										
TABLE 4: SOE's INVESTMENT - US\$ Million										
SYSTEM	Effective 1991	Effective 1992	Effective 1993	Effective 1994	Approved 1995					
Petrobrás	2.343	2.402	2.836	2.461	2.876					
Eletróbrás	1.717	1.567	1.808	1.491	3.241					
Siderbrás	198	39	25							
Vale do Rio Doce	274	256	316	240	944					
Telebrás	2.883	3.164	3.907	3.519	2.718					
RFFSA	80	65	73	62	179					
Itaipu	531	351	437	72	100					
Total	8.026	7.844	9.402	7.845	10.058					
Source: Federal Budget Department.										
TABLE 5: SOURCE OF FINANCING FOR SOE's INVESTMENT										
%										
	1992	1993	1994	1995*						
Own Resources/										
Other Long Term Resources	80	77	73	63						
Capital Subscription	8	5	14	11						
National Treasury	2	1	0	0						
Others	6	4	14	10						
Long term Credit	12	18	13	26						
Internal	5	5	9	20						
External	7	13	4	6						

Total	100	100	100	100					
Source: Federal Budget Department.									

TABLE 6: SOE'S INVESTMENTS - 1980/94

	1980	1981	1982	1983	1984	1985	1986	1987
% of GDP								
Sectors								
Financial System	0.09	0.12	0.13	0.09	0.09	0.09	0.07	0.09
CVRD System	0.15	0.36	0.44	0.30	0.38	0.41	0.26	0.14
Eletróbrás System	0.83	0.88	0.79	0.65	0.88	0.73	0.56	1.09
Petrobrás System	1.01	1.34	1.55	1.29	1.07	1.00	1.00	1.01
Telebrás System	0.41	0.50	0.54	0.47	0.44	0.41	0.46	0.50
Ports Sector	0.09	0.06	0.10	0.06	0.06	0.04	0.04	0.05
Steel Sector	0.90	0.82	0.58	0.36	0.16	0.15	0.18	0.21
Railroad Sector	0.33	0.37	0.24	0.17	0.17	0.13	0.13	0.16
Itaipu	0.46	0.48	0.41	0.30	0.24	0.21	0.21	0.31
Others	0.19	0.25	0.26	0.36	0.17	0.11	0.10	0.11
Total	4.46	5.17	5.03	4.05	3.65	3.28	3.00	3.67
Sectors	1988	1989	1990	1991	1992	1993	1994	
Financial System	0.13	0.27	0.10	0.08	0.07	0.12	0.12	
CVRD System	0.14	0.16	0.11	0.07	0.09	0.07	0.06	
Eletróbrás System	0.80	0.66	0.34	0.45	0.46	0.32	0.26	
Petrobrás System	0.82	0.57	0.47	0.62	0.62	0.54	0.44	
Telebrás System	0.57	0.71	0.52	0.76	0.85	0.75	0.66	
Ports Sector	0.05	0.08	0.00	0.02	0.04	0.02	0.01	
Steel Sector	0.13	0.12	0.08	0.06	0.02	0.00	0.00	
Railroad Sector	0.14	0.06	0.04	0.04	0.05	0.02	0.01	
Itaipu	0.30	0.26	0.15	0.14	0.15	0.13	0.02	
Others	0.27	0.13	0.09	0.09	0.08	0.02	0.02	
Total	3.35	3.02	1.90	2.33	2.42	1.98	1.58	

Source: Ministry of Planning - Sest.

TABLE 11-A				
COMPANY'S OWNERSHIP				
%				
ENTERPRISE	CONTROL BEFORE		CONTROL AFTER	
	PRIVATIZATION		PRIVATIZATION	
	National	Foreign	National	Foreign

Usiminas	95.0	5.0	82.2	17.8
CST	74.1	25.9	74.1	25.9
Acesita	100.0		99.9	0.1
Cosipa	100.0		60.6	39.4
Copesul	99.9	0.1	95.1	4.9
Petroflex	100.0		99.6	0.4
Polisul	66.7	33.3	60.0	40.0
PPH	70.0	30.0	62.5	37.5
Copene	100.0		100.0	
CPC	86.1	14.9	86.1	14.9
Salgema	100.0		100.0	
CQR	100.0		100.0	
Nitrocarbono	100.0		100.0	
Pronor	100.0		100.0	
CBP	100.0		100.0	
Fosfertil	100.0		99.6	0.4
Excelsa	100.0		100.0	
Celma	89.2	10.8	79.5	20.5
Embraer	100.0		79.2	20.8

TABLE 13								
US\$ Million								
Enterprise	Minimum	Government	Public Funds	Sale	Public	Total	Net	BNDES
	Evaluation	Shares	Supplied (a)	Value (b)	Losses (b-a)	Liabilities	Worth	Financing
								After Privatization
Usiminas	1,844.7	1,578.4	2,188.8	1,941.2	697.8	569.0	508.0	124.1
CST	400.0	356.0	2,712.6	353.6	2,364.6	633.0	1,998.0	
Acesita	476.6	352.7	661.0	465.4	195.6	280.0	470.0	75.9
Piratini	42.9	41.2	723.4	106.6	615.5	23.0	24.0	1.4
Cosinor	12.4	12.4	111.3	15.0	96.2	19.0	4.0	
CSN	1,587.9	1,441	5,786.3	1,495.3	4,739.3	1,148.0	3,962.0	335.4
Cosipa	229.0	197.9	6,888.0	585.7	6,528.2	1,857.0	1,091.0	63.3
Açominas	346.4	345.9	6,249.0	598.5	5,650.5	756.0	2,567.0	
Steel Sector	4,939.9	4,325.5	25,320.4	5,561.3	20,496.5	5,213.0	10,576.0	600.1
Copesul	784.0	650.2	352.9	861.5	444.1	144.0	561.0	28.7
Petroflex	180.0	180.0	16.6	234.1	217.5	40.0	170.0	47.2
Polisul	178.8	55.4	28.3	56.8	28.5	16.0	80.0	
PPH	226.0	42.9	2.3	59.4	57.1	18.0		2.8
Nitriflex	64.4	25.8	17.6	26.2	8.6	14.0	55	4.6
CBE	47.4	10.9	10.7	10.9	21.6	2.0	12	7.2
Poliolfinas	276.5	87.1	49.0	87.1	136.1	162.0	264.0	
Oxiteno	355.6	54.1	33.5	53.9	87.4	111.0	365.0	3.2
Copene	1,927.9		130.7	270.4	139.7		2,718.0	104.3
CPC	384.6		43.6	99.6	56.0		512.0	
Salgema	328.2		29.7	139.2	109.5		616.0	
CQR			105.3	1.7	107.0		95.0	
Nitrocarbono	163.9		36.5	29.6			134.0	
Pronor	191.1		5.5	63.5	68.0		306.0	
CBP	0.12						11.0	
PQU	559.2	281.3	407.0	287.5	694.5		752	48.6
Acrinor	68.5	12.1						
Coperbo	112.4	25.9	28.4	25.9	54.3			

Polialden	122.6	16.7	7.1	16.7	23.8			
Politeno	180.2	44.9	29.0	44.9	73.9			
Ciquine	75.5	23.7	42.0	23.7	18.3			
Petrochemical Sector	6,226.9		24.7	2,392.6	2,367.9			246.6
Fosfertil	160.1	141.4	329.4	182.0	147.4	50.0	263.0	
Goiasfertil	13.1	13.1	94.3	13.1	81.5	9.0	63.0	
Indag	19.4	6.8	9.8	6.8	3.0	1.0	15.0	
Ultrafertil	207.0	207.0	432.5	205.6	226.9	28.0	215.0	10.2
Arafertil	48.6	33.3	11.5	10.8	0.7	21.5	58.2	0.9
Fertilizers Sector	448.2	401.6	877.5	418.3	459.5	88.0	556.0	11.1
Excelsa	578.2		171.9	399.9	228.0		558.0	
Light							4,559.0	
Electricity Sector							5,117.0	
Maferasa	18.5	18.5	5.4	48.8	43.3	40.0	19.0	0.2
Alcalis	80.0	80.0	311.4	81.5	230.7	143.0	146.0	0.7
Celma	82.1	73.2	14.9	91.1	76.2	17.0	48.0	24.0
SNBP	8.0	8.0	6.9	12.0	5.1		2.0	
Embraer	308.1	267.4	729.9	192.2	537.7	969.0	155.6	106.4
Mineração Caraíba	5.2	5.2		5.8	5.8		22.0	
RFFSA							13,452.0	
Others	501.9	452.3	1,068.5	431.4	638	200	237	131.3

Source: Report of Activities, Brazilian Privatization Program - BNDES.

Obs. Some information is not available because BNDES has not provided it for all companies.

The numbers in red are negative.

ENTERPRISE	CONTROL BEFORE PRIVATIZATION		CONTROL AFTER PRIVATIZATION	
	National	Foreign	National	Foreign
Usiminas	95.0	5.0	82.2	17.8
CST	74.1	25.9	74.1	25.9
Acesita	100.0		99.9	0.1
Cosipa	100.0		60.6	39.4
Copesul	99.9	0.1	95.1	4.9
Petroflex	100.0		99.6	0.4
Polisul	66.7	33.3	60.0	40.0
PPH	70.0	30.0	62.5	37.5
Copene	100.0		100.0	
CPC	86.1	14.9	86.1	14.9
Salgema	100.0		100.0	
CQR	100.0		100.0	
Nitrocarbano	100.0		100.0	

Pronor	100.0		100.0	
CBP	100.0		100.0	
Fosfertil	100.0		99.6	0.4
Excelsa	100.0		100.0	
Celma	89.2	10.8	79.5	20.5
Embraer	100.0		79.2	20.8

Source: Report of Activities. Brazilian Privatization Program - BNDES

ANNEX

In the following lines, we will list the state companies under direct control of the Brazilian National Treasure. From this list, we excluded the companies that were included in the PND. The government controls directly 31 enterprises:

A. Financial Sector

INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Banco do Brasil S.A.	51	1.39
Banco Meridional S.A.	100	51.4
Banco da Amazônia	51	(1)
Banco do Nordeste do Brasil S.A.	51	-

(1) This institution does not have preferential shares.

B. Development Support

INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Banco Nacional do Desenvolvimento Econômico e Social - BNDES	100	(1)
Companhia do Desenvolvimento do Vale do São Francisco - CODEVASF.	100	(1)
VALEC	100	(1)

C. Electric Energy

INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Eletrobrás S.A.	59.7	13.8

D. Urban and Public Works

INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Companhia de Desenvolvimento de Barcarena - CODEBAR	99.8	-

E. Mining and Metalurgy

INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Companhia de Pesquisa de Recursos Minerais - CPRM	94.2	69
Petrobrás	51	

F. Aeronautic Infrastructure

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INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Infraero.	88.4	(1)
Tasa	99.95	(1)

G. Communications

INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Radiobrás	100	(1)
Telabrás	52.3	0.3

H. Health

INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Hospital Cristo Redentor		
Hospital Fêmeina		
Hospital Nossa Senhora da Conceição		

I. Direct ownership as a minor shareholder

INSTITUTION	GOVERNMENT ORDINARY SHARES %	GOVERNMENT PREFERENTIAL SHARES %
Companhia Estadual de Gás do Rio de Janeiro	41.5	-
Terracap	49	-
Novacap	43.9	-
Centrais Elétricas Santa Catarina	794 shares	-
Companhia Hidroelétrica do São Francisco - CHESF	-	30 shares
FIAT	0.03	-
Chapecó	0.002	

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