

## Social mobilisation against privatisation

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Privatisation in the 1990s was marked by state de-capitalisation, the absence of benefits for the people, high rates and insufficient coverage. In the year 2000 the promotion of privatising was reactivated through promulgation of the Law for Privatisation of State Companies. The attempt at privatising telecommunications within this legal framework was carried out in a context of swindles and corruption. Social mobilisation managed to have the law repealed, but it is feared that the privatising agenda will be taken up once again.

### The failure of the 1990s wave <sup>1</sup>

Historically, the process of privatising state companies has not been very successful. It was started in 1991 – two years after the dictator, Alfredo Stroessner, was overthrown – with the adoption of various laws declaring several national companies subject to privatisation. In this context, the National Constituent Assembly studied the modification of the National Constitution, with the aim of establishing a legal and political framework that would promote strengthening and modernisation of the Paraguayan economy.

In 1991, the first state companies were privatised: the Paraguayan Alcohol Administration (APAL), the State Merchant Fleet (Flomeres), the Paraguayan Airline (LAP) and Paraguayan Steelworks (Acepar).

The state collected over USD 50 million with the sale of these corporations, but this income was diluted in state expenditure without having concrete effects on the population's daily life. Presently, all these companies – with the exception of LAP, which merged with Transporte Aéreo del Mercosur S.A. (TAM) – are either bankrupt or de-capitalised. In most of the sales of these state companies, the mass media denounced corrupt actions.

Since its foundation in 1909, APAL had the monopoly of aging, distilling and marketing sugar cane spirits (aguardiente). In 1991, its privatisation process was launched and it became the Paraguayan Sugar Cane Company (Cañas Paraguayas Sociedad Anónoma - Capasa). Today it is practically bankrupt. The purchasers of the company – shareholders, purveyors and APAL workers – acquired 70.8 % of the shares in 1996 for a total of approximately USD 2.7 million at today's exchange rate. In March 1998, the members of the corporation purchased the totality of the shares.

In January 1999, the Privatisation Council audited Capasa. The report, submitted in August 2002, revealed that the corporation had lost a total of USD 2.5 million at the present exchange rate over the 1996, 1997 and 1998 periods, or 47.5% of its original net worth. At the end of 1995, before privatisation, the only bank debt held by the company was under USD 200,000. In 1998, following three years of administration by the corporation, the total debt with the banking system amounted to almost USD 1.5 million. The auditors stressed that the company was highly profitable and that the increase in the debt was a result of poor administration.

Another example of the disastrous results of privatisation is the Paraguayan State Merchant Fleet, created in 1966 as a shipping line for river and maritime transport of passengers and cargo. It remained thus until 1991, when it was declared to be subject to privatisation and divided into five companies.

One of these, the Flota Mercante Paraguaya S.A. (Paraguayan Merchant Fleet), was sold at the end of 1996. The sale of the total number of shares amounted to approximately USD 4.8 million. Another of the companies arising

from the privatisation was the Compañía Transporte Fluvial S.A. (River Transport Company), sold to Medill & Associates Financial Services<sup>2</sup> at the end of 1996. The sale of the total number of shares amounted to USD 4.8 million. In February 1998, a shipping agent informed the Ministry of Finance and the Privatisation Council that the three ocean-going vessels of the company had been robbed and abandoned in Porto Alegre, Brazil. The authorities were unable to find the company officials.

In April 1998, the Privatisation Council cancelled the contract with the company and ordered it to be officially inspected. Additionally, the Paraguayan State started legal action against the officials of Medill & Associates Financial Services for damages, demanding them to deliver the goods that had been sold. The main argument of the government was that the company had abandoned the vessels that they had sold it. This scandal caused great turmoil in the mass media, which underscored for many weeks the extremely poor business done by the State. In July 1999, the judge ruling on the case authorised the Paraguayan State to have the Privatisation Council resume management of the company. Presently the vessels that used to belong to the company are beached and practically useless, and the company has ceased operating.

Paraguayan Airlines (LAP) was established in 1963 as a company for passenger and cargo air transport. It was privatised in 1995. Eighty percent of the shares were sold to the Ecuadorian Consortium «Cielos de América» at a sales price of USD 22,125,000. The transfer was carried out in October 1994. The Cielos de América Consortium then transferred the company rights to TAM and Trans América Línea Aérea S.A. In 1999, TAM purchased the remaining shares (20%) at approximately USD 5 million. So far, the company has not paid out the total compensation to the state workers who had been part of LAP.

Finally, in 1997, the Paraguayan State sold Acepar to the Paraguayan Steel Works Consortium (Cosipar), comprising the Multi-active Cooperative of Acepar Workers and the Lorito S.A. Company. The sale amounted to USD 35 million. However, the buyers were unable to continue paying their instalments and a long conflict between them and the State started.

### Insufficient coverage and excessive rates

In the sectors where private companies can offer their services on the market (such as housing, education, water and sewage, health and cellular telephony), naturally they only invest where they can obtain fast returns on their capital. Given the conditions of poverty of most of the population, the results are meagre coverage and a high cost of services.

<sup>1</sup> Fernando Masi, compiler. *Privatizaciones en América Latina y en Paraguay*. Asunción: Centro de Análisis y Difusión de la Economía Paraguaya (CADEP), 2000.

<sup>2</sup> The company Medill & Associates Financial Services was conformed by American capital at the moment of the purchase of the Paraguayan merchant fleet. Once the ships were found abandoned, the government tried to locate the directors of the company, but it was in vain. The company had dissolved.

Thus, in the health sector, 81% of the population does not have any medical insurance whatsoever. This rate is approximately 95% among the poorest groups of the population. Medical insurance by the Institute for Social Security (State IPS) covers 10.9% of the population, where constant complaints of corruption, misappropriation of funds, shortage of drugs and poor service are recorded. Only a small percentage of the population has private medical insurance, as most of these services have high costs.

Regarding urban public transport companies, the State grants licences to private companies enabling them to operate in a given area. This measure has not had a positive impact either, and the population constantly complains about the poor service they provide and the terrible state of repair of the buses. The service is interrupted during the night and the cost of tickets goes up several times a year. Presently the price of an inter-urban ticket is approximately USD 0.20, and the minimum wage is barely USD 180 a month. However, many companies continue to operate, given their privileged relationship with the politicians that protect them, because the main political parties use the transport companies' buses on voting days to take voters to the election centres. In return, the government in office grants the bus companies tax privileges and allows buses in poor condition to continue operating, even placing the lives of users at risk. The main transport companies owe millions of dollars to the state National Development Bank for loans taken out almost ten years ago.

Presently there are two state bodies responsible for regulating the public transport system: the National Transport Office (Dinatrán) and the Metropolitan Area Transport Secretariat (Setama), which comprises officials from the executive power, the local governments and the municipalities. These bodies have obtained some victories for the citizenship, preventing an increase in the price of tickets on various occasions.

Regarding cellular telephony companies, 28.5% of the population enjoys the service,<sup>3</sup> which is only provided by private companies. The number of users continuously increases in spite of the high cost of calls. It is estimated that presently there are over 1,150,000 subscribers to the cellular telephony companies existing in the country. According to the National Telecommunication Commission, (Conatel), there are 50,000 new subscribers every month. However, the users continuously complain about over-invoicing, cuts in transmission and excessive costs.

### Social mobilisation against privatisation

In 2000, President González Macchi reactivated the Reform Secretariat and promulgated Law 1615 on Privatisation of State Companies, set up as the legal framework for privatisation. The first state company on the privatising agenda was basic telephony (the National Telecommunication Administration, ANTELCO), which became a private company with 100% state capital under the name of COPACO, S.A. (Paraguayan Communication Corporation). The Reform Secretariat was advised by national and international companies that accompanied the process and prepared the technical framework. An international call for bids was made for the purchase of ANTELCO with submission of bids by the major multinational telephony companies (Telefónica Española, France Telecom and Deutsch Telecom, among others).

At the same time, severance negotiations started between the government and the workers of the former ANTELCO and at the end of 2001 an agreement was reached on the sale of COPACO. The government offered two options:

either to pay two month salary per year of employment (option selected by 3,425 employees) or to pay one-and-a-half month salary per year of employment in cash and the remaining amount in shares of the new company (this option was selected by 962 employees). The total amount of compensation agreed on for the 4,287 employees amounted to some USD 79 million.

The privatisation process was marked by various corrupt actions, such as missing money (USD 192,174) under the previous minister and the Secretariat coordinator;<sup>4</sup> hiring of a notary public, a friend of the President of the Republic, for an amount of USD 536,000, to prepare a protocol that could have been done gratis by the High Notary of the Republic; and direct hiring of private companies (without an open bid), by the Reform Secretariat.<sup>5</sup>

This attempt at privatising basic telephony cost the State USD 6.4 million. This amount was shared in payment of foreign and national consultants, officials assigned to the Secretariat, travel and unnecessary payments to officials' friends, plus the explicit theft of USD 383,000 by the Reform Secretariat staff. These expenditures were funded from a World Bank loan of USD 12.6 million granted for the reform of the water and telecommunication sectors.

In the midst of these denunciations, peasant, trade union and left wing sectors set up the People's Democratic Congress that took up the repeal of Law 1615 as one of its main demands.<sup>6</sup> During May and June 2002, many mobilisations took place (such as the blockage of highways and demonstrations), which paralysed the country. Finally, following the repression of the demonstrators during which a young peasant died, Parliament repealed the law. The government then raised rates in sectors such as water, electricity, public transport and basic telephony, putting the blame on the suspension of privatisation. It also announced that 550 COPACO employees would be dismissed at the end of the year.

As a result, no legal framework presently exists in the country for privatisation. The official candidate of the National Republican Association (the government party, known as the Colorado Party) has stated the privatisation issue will be taken up again by the next government.

### State decentralisation: a more hopeful direction

Through state decentralisation, the citizenship has achieved some successful ventures that are slowly being reproduced throughout the country. For example, in the drinking water sector, various communities, mainly those in municipalities near Asunción and the departmental capitals, have organised themselves and set up Sanitation Boards. These are organised in places the state drinking water services do not reach and, through a collaborative system, the neighbourhood establishes the whole system of water pipelines, distribution and sanitation for their own benefit. Each member of the community or family pays an accessible price for this service and can control it, as it is the neighbours themselves, with the acknowledgement of their municipalities, who administrate the funds and monitor the quality of the system. ■

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3 Office of General Statistics, Survey and Census (DGEEC). *Integrated Household Survey 2000-2001*.

4 Juan Ernesto Villamayor and Luis Sisul, respectively. The latter has fled the country and has an international search and capture warrant over him.

5 Baker & McKenzie, Banco Santander, Sanchis Asociados and the sub-consulting company Vouga & Olmedo.

6 Other demands were to curb the public banking reform process, to withdraw the law on highway concessions, to withdraw the anti-terrorist law, to withdraw the law on VAT on agricultural and livestock products in their natural state, and to struggle against corruption and impunity.