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# PRIVATIZATION: TRENDS AND RECENT DEVELOPMENTS

**Sunita Kikeri and Aishetu Fatima Kolo**

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## **PRIVATIZATION TRENDS AND RECENT DEVELOPMENTS**

### **I. INTRODUCTION**

1. This paper takes stock of recent privatization trends, examines the extent to which government ownership is still prevalent in developing countries, and summarizes emerging issues in state enterprise restructuring and privatization going forward. It shows that:

- Privatization activity for developing countries as a whole dropped off in the late 1990s and, while still at overall low levels, is slowly creeping back up towards the more typical levels prior to the sharp one-time spike in activity in 1997;
- Despite more than 15 years of privatization activity, government ownership is still prevalent in some regions and countries, and in certain sectors in virtually all regions;
- Despite recent evidence of declining public support for privatization, the evidence shows privatization's resounding success in competitive sectors. In infrastructure the experience is more mixed, with positive outcomes achieved when private participation is combined with proper market structure, regulatory frameworks, and sound contract design;.
- Continued efforts need to be made to improve the performance of state-owned enterprises by: improving privatization policies and institutions; adopting more of a case-by-case approach for complex sectors and countries; and exposing state enterprises to market discipline by allowing new private entry and exit of unviable state-owned firms and improving their corporate governance.

2. The analysis in the paper uses estimated proceeds from privatization transactions that were carried out between 1990 and 2003 as an indicator of privatization activity. Proceeds are defined to include all monetary receipts to the government resulting from partial and full divestitures (via asset sales or sale of shares), concessions, leases, and other arrangements. As such the data do not cover the following: management contracts; new green field investments; investments committed by new private operators as part of concession agreements; and the vast numbers of transfers resulting from mass or "voucher" privatizations across Eastern Europe as these methods did not generate revenues for government.

3. Data were amalgamated from a variety of sources. For the earlier period, 1990 to 1999, data are drawn from the World Bank Privatization Database which provides the sale price of a privatization transaction and the year in which the privatization took place. As the sale price is recorded on an "announcement" basis rather than on the basis of actual receipts, proceeds do not necessarily reflect receipts in a particular year since transactions may be paid for over several years. Data for the more recent years, 2000 to 2003, are aggregated from the following sources: (i) the World Bank's Private Participation in Infrastructure (PPI) database; (ii) the World Bank Africa region's privatization database; (iii) OECD's database on privatization in

Africa; (iv) EBRD data on privatization in Europe and Central Asia (the tens of thousands of enterprises that were privatized through mass privatization or voucher schemes are not covered in this database); (iv) Privatization Barometer for selected European countries; (v) various other sources such as Latin Finance and Privatization International; and (vi) various government and non-government websites. All data are in current U.S. dollars.

4. While proceeds are commonly used to measure privatization trends, several caveats should be highlighted upfront. First, the heterogeneity of data sources covering a long time period may inevitably lead to data discrepancies, though every effort has been made to ensure consistency. Second, proceeds may be underreported in some countries because of lack of data or poor quality data. Third, data on privatization methods, the percent of shares divested, and the extent of foreign vs. domestic participation are only available in a few cases or for the earlier time period, and these factors are therefore not covered in any great detail in the analysis. Fourth, and related, proceeds from minority share sales may raise revenues but do not necessarily imply major changes in the control of state-owned enterprises or their improved efficiency. Fifth, proceeds are subject to swings from a few large transactions in a few countries and are thus not necessarily indicative of widespread activity or radical restructuring of the state sector in a particular country or region. Sixth, there are varying definitions of proceeds but for the most part data are based on gross proceeds rather than net proceeds to the government, which are likely to be lower after all privatization costs have been covered. Finally, the analysis includes only central level enterprises, with a few exceptions of state or provincial level utilities in a few major countries for which such data are available. In light of these caveats, the set of numbers presented here are meant to be seen as an overall indication of approximate broad trends rather than an exhaustive listing of each and every transaction in developing countries.

5. Section II of the paper highlights privatization trends for developing countries as a whole, followed by regional and sectoral breakdowns. Section III examines the extent to which government ownership is prevalent in developing countries, by region and sector. Section IV concludes with a summary of recent developments and issues going forward.

## **II. PRIVATIZATION TRENDS: 1990 to 2003**

6. The reasons for privatization are well established and are not covered in any great detail here. Developing countries have used privatization as a tool to: improve the productivity of state enterprises which is typically two to three times lower than private firms and in some cases significantly lower; access investment capital and improve service delivery of high cost critical sectors that impact the economy as a whole; and reduce the fiscal burden of loss-making firms.

7. With these objectives in mind, 120 developing countries carried out 7,860 transactions between 1990 and 2003, generating close to \$410 billion in privatization proceeds, or 0.5

percent<sup>1</sup> of total developing country GDP during that period. An overview of the broad trends over time and by region and sector is provided below.

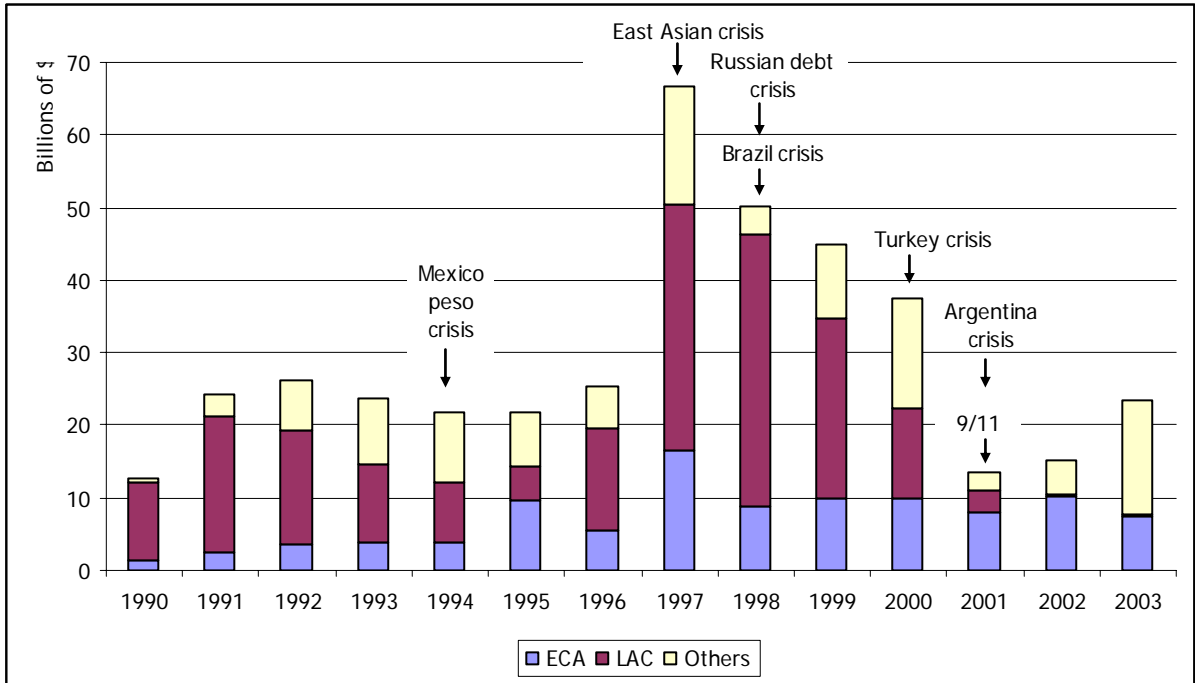
#### **A. Overview of developing country trends**

8. The analysis of overall developing country trends shows that: (i) privatization activity dropped off after 1997 but picked up, albeit modestly, in recent years; (ii) the average size of a transaction increased over the years as countries moved towards privatizing larger firms; and (iii) while a large number of countries are involved in privatization, proceeds are highly concentrated in a handful of countries.

9. In the early to mid-1990s, privatization proceeds in developing countries averaged between \$20 to 30 billion on an annual basis (Figure 1). Proceeds peaked sharply in 1997 to almost \$70 billion. The sudden and one-time jump resulted from increased activity in large infrastructure and energy (oil and gas) transactions across virtually all regions, with the largest share coming from three countries in Latin America (Argentina, Brazil, Mexico), Kazakhstan, Russia, and China. Revenues declined thereafter as Argentina's stock of enterprises dwindled and as activity in Asia and Europe slowed down following the East Asian financial crisis of 1997 and the Russian debt crisis of 1998. By 2001 activity had reached the level of 1990, but starting in 2002 proceeds began a modest pick up and is slowly creeping back up to pre-1997 levels. The recent increases resulted mainly from share sales in telecoms, power, and banking in countries such as China (additional share offering of China Telecom), the Czech Republic (partial sale of Transgas), Slovakia (partial sale of the electricity company), India (telecoms), Pakistan (United Bank), and Saudi Arabia (telecoms).

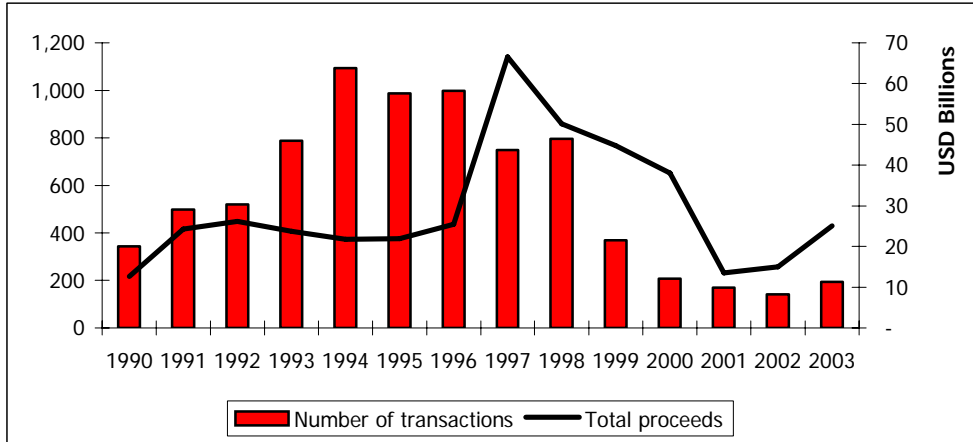
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<sup>1</sup> Over 1990-2003, gross domestic product from the six regions amounted to US\$75.8 trillion (in current USD) and US\$75.7 trillion (in constant 2000 USD). Using current USD, privatization proceeds as a share of total GDP (from all six developing country regions) is 0.54%.

**Figure 1: Global privatization proceeds**

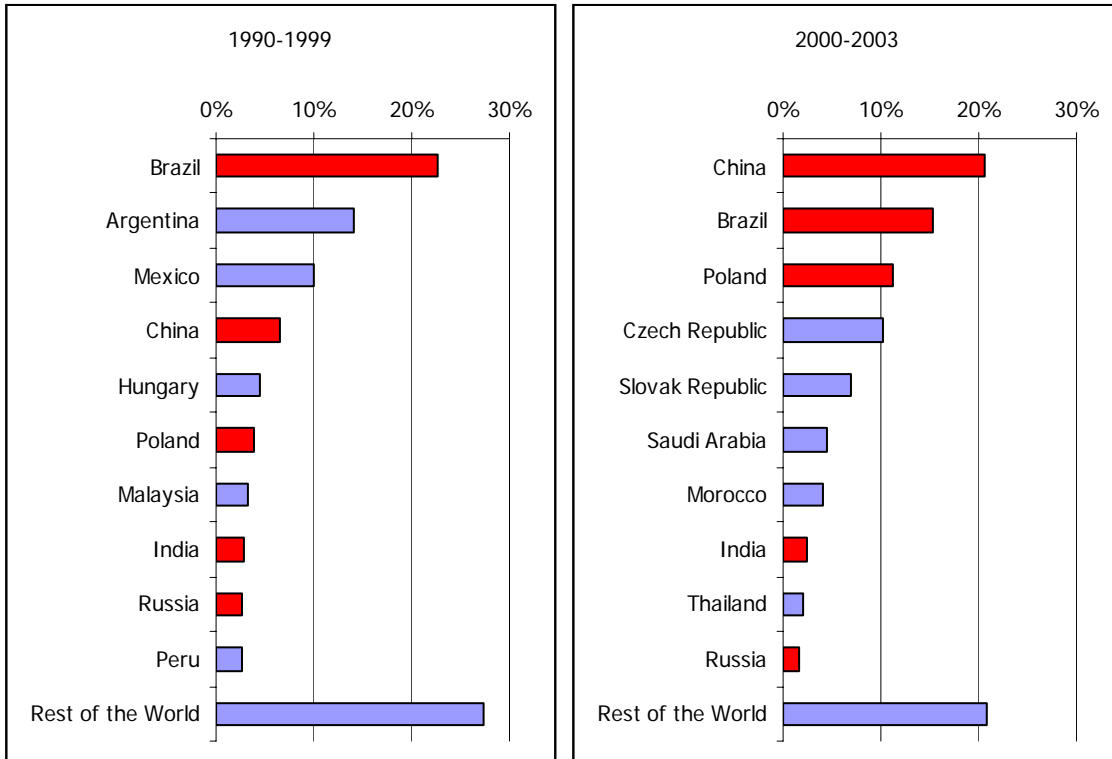
Source: World Bank Privatization Database

10. The average value of transactions increased over time as larger companies were privatized. While close to 70 percent of the 7,800 plus transactions occurred before 1997, they consisted mostly of small and medium firms resulting in an average transaction value of \$30 million (Figure 2). The bulk of the transactions were concentrated in Europe and Central Asia where the early years of transition involved a massive transfer of small-scale firms to the private sector, followed by Latin America and Sub-Saharan Africa. By contrast, fewer but larger firms were privatized after 1997 in these and other regions (East Asia in particular), increasing the average transaction size to \$96 million. Another indicator of increasing average size shows the top ten transactions in 1990-99 accounting for 16 percent of total proceeds, compared to 40 percent in 2000-03.

**Figure 2: Number of transactions and proceeds**

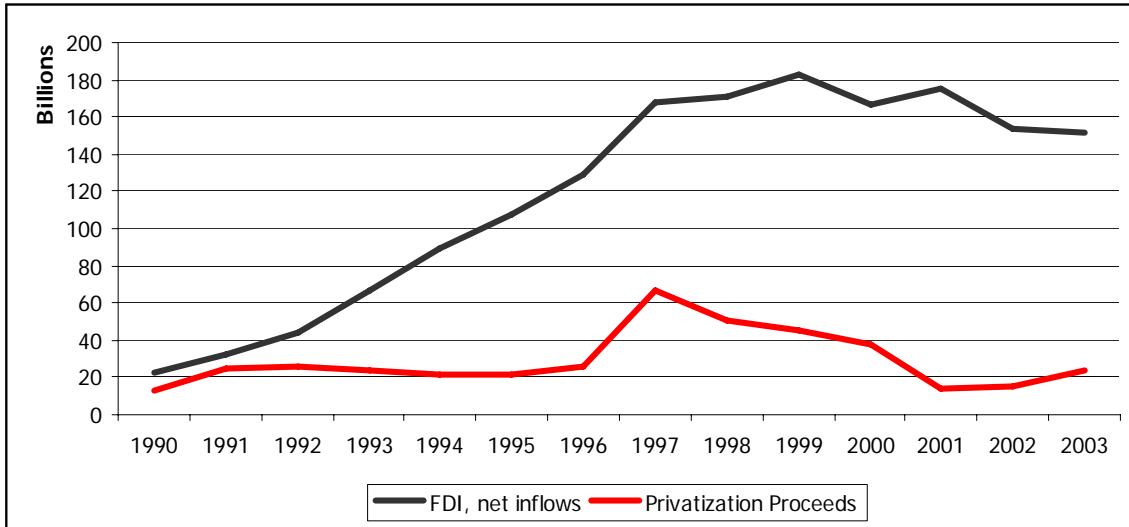
Source: World Bank Privatization Database

11. While 120 countries have engaged in privatization over the past 14 years, proceeds are highly concentrated in a handful of countries: over two-thirds of total developing country proceeds over the entire time period were generated in just ten countries—or 8 percent of all privatizing countries—with over half of all proceeds generated by the top five alone. While ten countries consistently generated the bulk of all proceeds, the composition of the group changed over time (Figure 3). Brazil, Argentina and Mexico dominated the 1990s, with these three countries alone accounting for virtually 50 percent of all proceeds. Argentina and Mexico fell off the list in more recent years due to near completion of much of the privatization agenda, but Brazil remained and together with China, Poland, and the Czech Republic accounted for nearly 60 percent of all proceeds since 2000. For the first time, two countries in the Middle-East and North Africa region made it to the group of ten on account of the partial sale of Saudi Telecom and the sale of Regie de Tabac (tobacco manufacturing) in Morocco. Five countries remained on the list in both periods - Brazil, China, India, Poland, and Russia – representing 41.3 percent of total proceeds from 1990-2003.

**Figure 3: Top ten revenue generating countries**

Source: World Bank Privatization Database

12. Data on foreign vs. domestic privatization revenues is available only for the earlier period, 1990-1999. Foreign revenues comprised 50 percent of total privatization proceeds in developing countries; three-quarters of foreign revenues were raised through direct investment and the balance through portfolio flows (World Bank 2001). The Latin American region represented 56 percent of all foreign investment as a result of sales in telecommunications, banking, and oil and gas, followed by Europe and Central Asia (23 percent) and East Asia (15 percent). China was the main recipient of foreign investment in East Asia and Pacific followed by Thailand, Indonesia, and Malaysia. Despite the decline in total privatization proceeds after their peak 1997 level, foreign investment in privatization remained steady and increased in 1999 due to large transactions in East Asia and Latin America. Data on the FDI share in privatization is not available for the 2000 to 2003 time period. A comparison of general FDI trends and privatization trends (Figure 4) shows, however, that while total FDI declined from 2001 onwards, privatization proceeds began to pick up, albeit modestly--largely as a result of share sales of a few large companies via domestic stock markets.

**Figure 4: Total FDI and privatization proceeds from all developing countries, 1990-2003**

Source: World Bank Development Data Platform and FDI Database

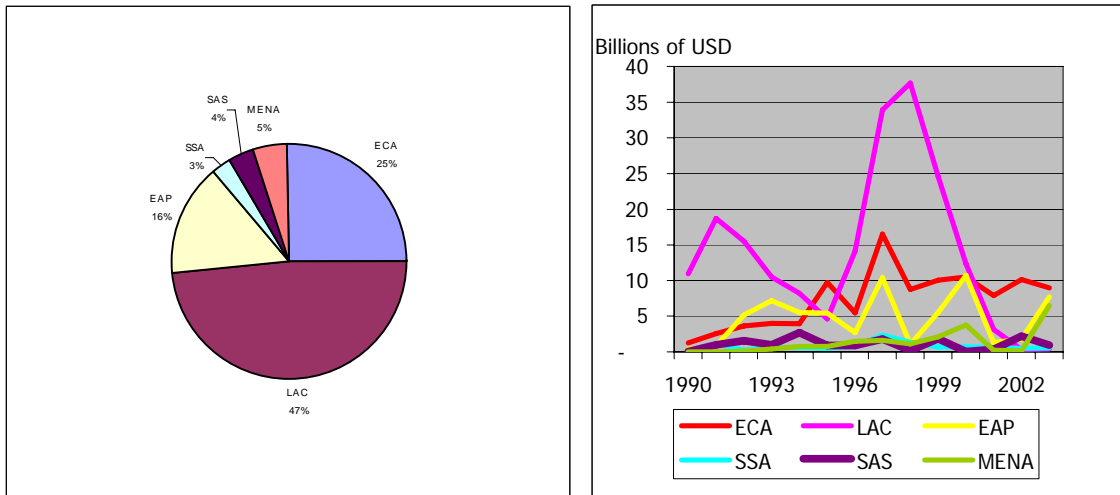
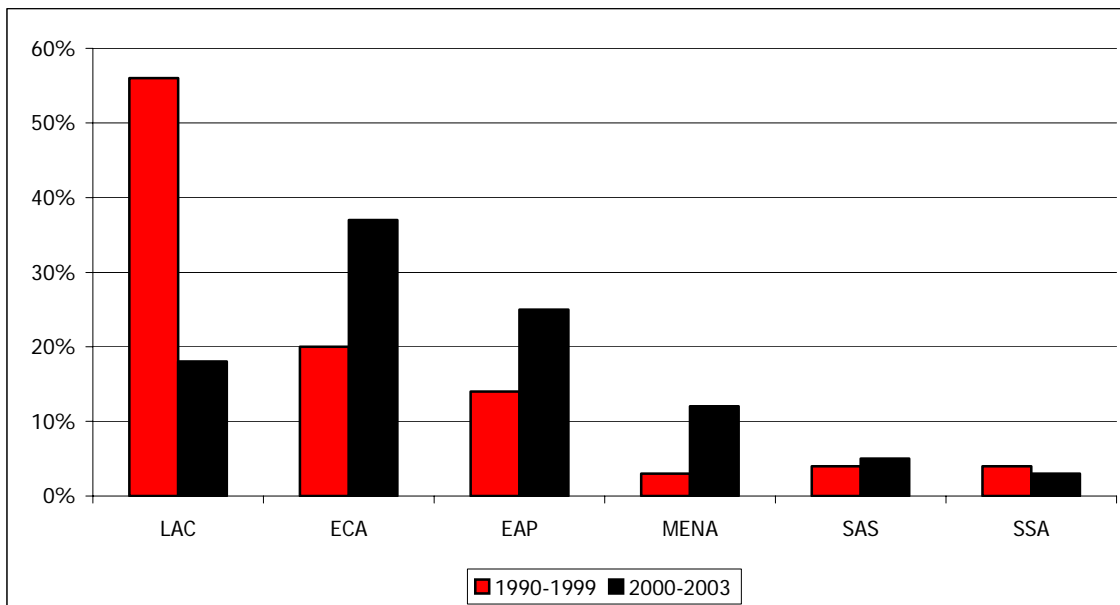
## B. Regional trends

13. Proceeds are highly concentrated in a few countries in three regions. Regional shares have changed over time—with Latin America declining sharply and both Europe/Central Asia and East Asia increasing their shares in recent years.

### *Latin America*

14. Latin America is the biggest contributor to developing country proceeds, raising \$195 billion or 47 percent of total proceeds from 1,300 transactions over the entire time period (Figure 5). But its share fell dramatically over time from almost 60 percent in the 1990s to under 20 percent between 2000 and 2003 (Figure 6) and to only two percent at its lowest point in 2003. The decline is largely attributable to the drop-off in activity in Argentina and Mexico, which together with Brazil accounted for over 80 percent of regional proceeds in the 1990s, mainly from telecoms and electricity (65 percent of regional proceeds) and energy (20 percent). As activity in Argentina and Mexico tapered off due to the dwindling stock of enterprises and/or political will, Brazil became more or less the only active Latin American country after 2000: large transactions in electricity (CELPE), energy (Petrobras), and banking (Banespa) accounted for its 85 percent share of regional proceeds, and made it the number two revenue generator among all developing countries since 2000.



**Figure 5: Regional distribution of privatization proceeds: 1990-2003****Figure 6: Regional distribution of privatization proceeds: 1990-1999 and 2000-2003***Europe and Central Asia*

15. Europe and Central Asia—with \$101 billion or 25 percent of total proceeds from 4,620 transactions—grew its share over time, raising double the proceeds of Latin America since 2000 and making it the leading revenue earner since then. The early to mid-1990s focused on small-scale privatization, with large telecoms, power, and oil and gas deals in the mid 1990s taking place in a relatively small number of countries (Hungary and Russia). During this period, tens of thousands of enterprises were transferred to the private sector using the small-scale or “voucher” method or through management-employee buyouts (as these did not involve any cash transactions or very little in the latter method they are not included in this paper). These forms of divestiture fundamentally altered the ownership structure of former Soviet Union economies. In Russia alone, over 15,000 companies were privatized using the mass-

privatization method (Box 1). But the latter part of the decade and the years thereafter saw a shift in activity to infrastructure sectors: telecoms and electricity transactions now constitute two-thirds of regional proceeds compared to less than 50 percent in the 1990s. Privatization of banks is also on the rise, accounting for 10 percent of regional revenues since 2000, with recent activity taking place in Albania, Bulgaria, Czech Republic, Latvia, Russia, and Slovakia. The region's recent rise is attributable to activity in these newer sectors, concentrated largely in three countries—Poland, the Czech Republic, and Slovakia—which together accounted for nearly 70 percent of regional proceeds since 2000.

**Box 1: Privatization in Russia**

Privatization in Russia unfolded rapidly following the collapse in 1991 of the Soviet Union and its centrally planned economy. In late 1992, about 150 million privatization certificates (vouchers) were distributed which gave the bearer the right to buy small-scale business or shares at auctions, as well as to pay for housing. To get the plan through parliament, the reformers agreed to allow managers and workers to buy 51 percent of shares in businesses, rather than the maximum 40 percent originally proposed. This often kept enterprises in the hands of "insiders," Soviet-era bosses with little idea of how to run private business, creating a delay in the influx of new management and the shake-out of inefficient companies. The voucher-based scheme ended in mid-1994, marking the beginning of the second stage of the privatization process, the loans-for-share scheme. By then, 75 percent of small-scale enterprises had been privatized, along with over 80 percent of the industrial workforce. Overall, 15,000 companies were privatized using vouchers, which accounted for 60 percent of industrial assets. Cash privatizations or the loans for shares scheme resulted in a compromise where businessmen would bail out the government with loans and in return would receive shares in big enterprises as collateral. This was attractive as many crown jewels of Russian industry - oil companies, metal smelters and mines - had been kept back from voucher privatization. In 1997 the privatization process entered a third stage, case-by-case privatization. In this phase, financial, insurance, aluminum and coal companies were sold. By the end of 2001, 129,811 enterprises had been sold, representing about 66 percent of the entire inventory of enterprises at the beginning of privatization. About 700 enterprises and packets of share were sold in 2001.

More recently international attention has been drawn to the partial re-nationalization of Yukos (the oil and gas giant) which had been privatized as part of the 1990s program when majority stakes in lucrative mining and energy enterprises were sold. This occurred when Yukos' main subsidiary, Yuganskneftegaz, was auctioned off to a little known company which was quickly taken over by a state-owned firm, Rosneft. The future of Yukos itself is uncertain because of the large tax liability Russian authorities have imposed on it in the form of back taxes. The president of Russia recently promised an end to legal challenges to the results of the privatization program, suggesting there would be no repeat of the Yukos case, which has damaged both investment and economic growth.

*Source: Privatization Link.com and Financial Times.com (May 6 2005)*

*East Asia and the Pacific*

16. East Asia and the Pacific—with \$66 billion or 16 percent of total proceeds from 420 transactions—also increased its share over time, almost doubling revenues between 1990-99 and 2000-03. One country alone—China—accounted for nearly 90 percent of regional proceeds in the past four years, compared to 50 percent in the 1990s when Indonesia and Malaysia were other major contributors (with transactions in transport, electricity, energy and telecoms).

China's recent share sales in large central enterprises in telecoms and energy made it the top revenue earner among all developing countries after 2000 (Box 2).

### **Box 2: Overview of SOE Reform in China**

Reform of China's state-owned enterprises (SOEs) has been a major aim since urban reforms began in 1984. Although there were calls to privatize the SOEs, the Government's initial emphasis was on boosting performance by changing the internal governance of SOEs and improving the market environment in which they operated. By the late 1980s the Government had decided that the best way to reform small SOEs was to lease them out, with the manager paying the state a fixed proportion of the firm's profit. Incorporation was another significant measure that led to privatization.

Since the start of the present century the reform of China's state enterprise sector has accelerated and acquired some qualitatively new features. First, the scale of change has expanded to affect almost every kind of SOE – small, medium, large, and very big; under both central and local control. Second, ownership diversification has been so extensive that the wholly state-owned non-financial company has become an endangered species in China. Third, the range of restructuring mechanisms being used has expanded dramatically to include bankruptcies, liquidations, listings and de-listings, debt-for-equity swaps, sales to private parties (domestic and foreign), auctioning of state firms and their assets or liabilities, standard corporate governance techniques, and so on. Finally, mass layoffs – unheard of just four or five years ago--have become a widespread phenomenon.

Some restructuring of SOEs is occurring through the four state-owned asset management companies (AMCs) that have been created to take more than \$170 billion in nonperforming loans from the big four state-owned banks. As part of their program, 580 SOEs, accounting for about 40 percent of the state sector's assets and sales, have been selected for debt-equity swaps. The AMCs have emerged as important, and often majority, shareholders in a number of large SOEs.

In the strategically important infrastructure and energy sectors where the regulatory framework is still evolving, monopolies have been broken and competition has been introduced. Many companies have been corporatized, and some have been listed on local and international exchanges. China has nurtured over 20 giant corporations and conglomerates that have proven competitive in the international market. Some of these companies are laying off tens—or even hundreds—of thousands of employees, not because they are in financial distress (some of them are hugely profitable) but because they wish to position themselves as important international players. As of 2002 the top 12 Chinese transnational corporations, mainly SOEs, controlled over \$30 billion in foreign assets and had some 20,000 foreign employees and \$33 billion in foreign sales.

*Source: Garnaut et al 2005*

### *Middle East and North Africa*

17. The Middle East and North Africa region raised \$19 billion or 5 percent of total proceeds from 310 transactions. In the 1990s, activity was concentrated in two countries: Egypt (with 50 percent of regional proceeds) and Morocco (nearly 40 percent). Transactions in both countries were mainly in manufacturing, although Morocco's program was more diversified with transactions in energy (oil refining) and banking. In 2000, Maroc Telecom was the first telecoms privatization in the region, raising \$1.4 billion. This transaction together with the partial sale of Jordan telecoms (\$508 million) later in that year and the partial sale in 2003

of Saudi Telecom (\$4.1 billion) made the telecoms sector the region's leading revenue generator in recent years, accounting for nearly 65 percent of regional proceeds since 2000 (compared to less than 1 percent in the 1990s). Among the other recent large transactions in the region: the sale of Morocco's Regie de Tabac (tobacco manufacturing) in 2003 for \$1.6 billion, and chemicals and cement companies in Egypt.

### *South Asia*

18. South Asia—with 4 percent of total proceeds or \$15 billion from nearly 400 transactions—remains at the same levels as in the past. India and Pakistan together account for 75 and 15 percent respectively of South Asian proceeds. Indian revenues were generated largely from minority share sales in banking and oil and gas, with only a few recent manufacturing sales transferring strategic control through majority or full share sales and the divestment of the telecoms company in 2002. Pakistan privatized enterprises in a wide range of sectors, including telecoms, banking and manufacturing. Sri Lanka had an active program but its share of regional revenues remained small given the size of its economy. While Bangladesh recently closed a number of large loss-making jute and textile mills, enterprise sales proceeded at a slower pace (liquidation is an important aspect that is covered in greater detail in Section III below).

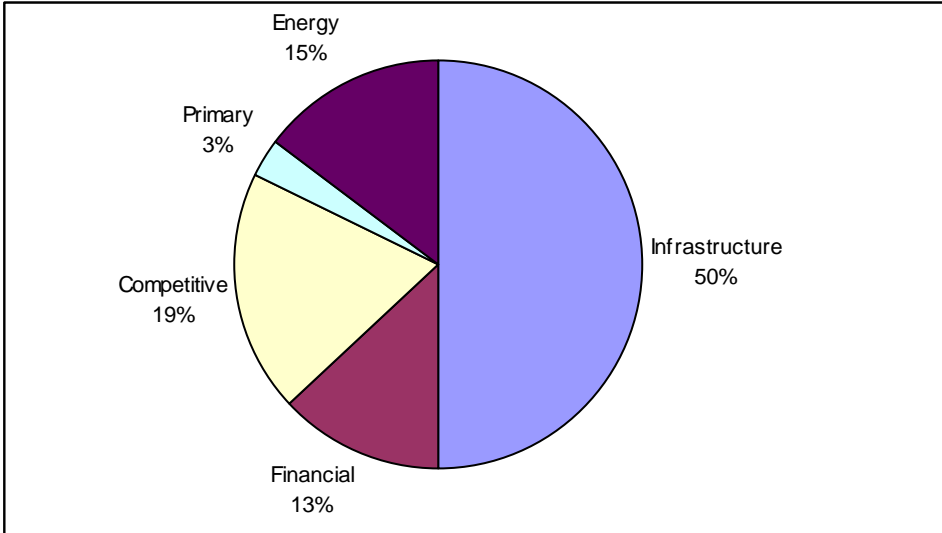
### *Sub-Saharan Africa*

19. Sub-Saharan Africa—with \$11 billion or 3 percent of proceeds and some 960 transactions—had the third highest number of transactions (after Eastern Europe and Latin America), but 70 percent were mostly small, low-value firms in competitive sectors. While 37 countries were engaged in privatization, the bulk of regional revenues in the 1990s was accounted for by a few large transactions in Ghana (Ashanti Goldfields and Consolidated Diamond Mines), South Africa (telecoms, steel, petrochemicals), and Nigeria (selected oil fields). South Africa was by far the biggest contributor to regional proceeds starting in 2000, accounting for nearly half of all regional proceeds, mainly due to additional share sales in Telkom, the sale of South African Airways, and sales in the petrochemicals sector. Other recent large transactions in the region: the partial divestitures of Mauritius Telecom (for \$261 million) and the Cotton Company of Zimbabwe (\$93 million).

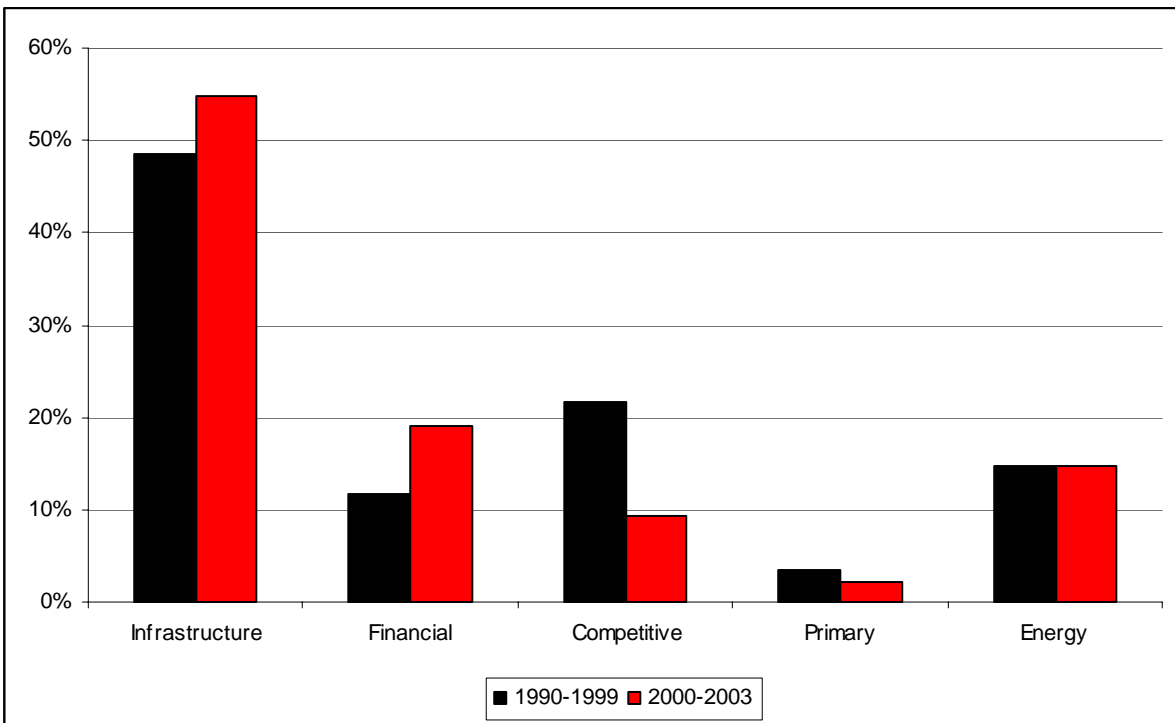
## **C. Sectoral trends**

20. Infrastructure (telecoms, electricity/natural gas, transport and water) accounted for half of all developing country proceeds between 1990 and 2003, followed by competitive sectors (manufacturing, services, tourism, and other firms), energy (oil and gas, petrochemicals, hydrocarbons), banking, and the primary sector (Figure 7). While the shares of competitive sector proceeds declined over time and those of primary and energy sectors remained more or less steady over time, the share of infrastructure and financial sector proceeds grew in recent years, accounting together for nearly three quarters of total proceeds compared to 60 percent in the 1990s (Figure 8).

**Figure 7: Sectoral distribution of privatization proceeds: 1990-2003**



**Figure 8: Sectoral distribution of privatization proceeds: 1990-1999 and 2000-2003**

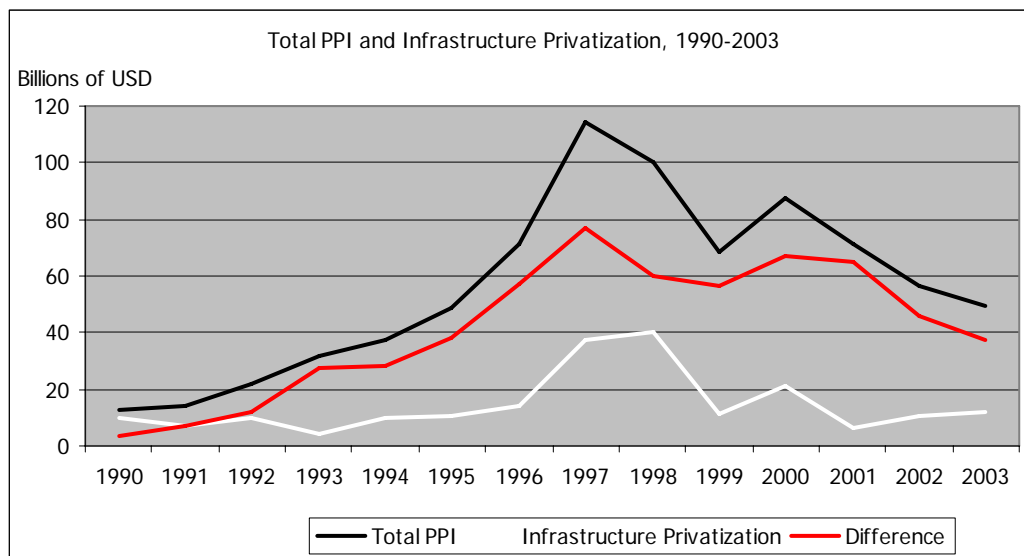


*Infrastructure*

21. Infrastructure proceeds grew over time as more countries started to tackle these sectors in the late 1990s. They are overwhelmingly concentrated in telecommunications and power, accounting for 50 and 36 percent respectively of total infrastructure proceeds between 1990 and 2003. Nearly 65 developing countries (or 42 percent of developing countries in the PPI database) had generated telecoms proceeds through private participation in one form or another, concentrated largely in Latin America, Europe/Central Asia, East Asia, and more recently the Middle East and North Africa. In electricity and natural gas, 72 countries (or 46 percent of all developing countries) had some form of private participation in existing utilities, with activity concentrated largely in Latin America, Europe/Central Asia, and East Asia. The share of telecom proceeds remained more or less steady over time, while electricity grew slightly mainly due to recent sales or concessions in Europe/Central Asia. Proceeds in the transport sector declined from 14 percent in the 1990s (mainly Latin America) to 8 percent between 2000 and 2003 (in China and Malaysia). And while activity in the water sector grew from 1 to 3 percent, it still continues to account for a very small share of total infrastructure proceeds, again mostly concentrated in Latin America (management contracts, which are excluded from this paper, have been a frequent method of bringing in private sector participation in the water sector).

22. On the whole, privatization of existing infrastructure assets raised \$204 billion since 1990, compared to new green field investments which were significantly higher at \$350 billion (Figure 9).

**Figure 9: Total PPI and infrastructure privatization, 1990-2003**



Source: PPI and World Bank databases

### *Financial sector*

23. The share of financial sector proceeds has almost doubled since the 1990s, increasing from 12 percent to 19 percent of total proceeds in recent years. Banking and other financial service firms represented 88 percent of financial sector revenues, with insurance firms accounting for 10 percent and real estate the rest. The increase in financial sector revenues came mainly from banking transactions in Eastern and Central Europe, driven by EU accession

in countries such as Poland, Turkey, Czech Republic, Bulgaria, Slovakia, and Croatia. Bank privatizations also took place in Latin America (Mexico and Brazil), East Asia (China, Philippines, Indonesia and Thailand), South Asia (Pakistan), and sub-Saharan Africa (Nigeria, Uganda).

#### *Competitive sector*

24. Proceeds in competitive sectors, comprising largely manufacturing and service firms, had the largest number of transactions, registering at over 6,000. Manufacturing firms accounted for over two-thirds of competitive sector proceeds for the period as a whole, while service and other sectors accounted for the rest. The largest transactions in manufacturing were in steel, cement, fertilizer and other chemical sub-sectors. Countries in Europe and Central Asia were the most active in manufacturing, while Latin American countries divested the largest share in service and other sub-sectors. Proceeds in the competitive sectors declined from a 22 percent share of total proceeds in 1990-1999 to 9 percent in 2000-2003, reflecting in large part the shift to activity in infrastructure and finance.

#### *Other sectors*

25. Energy sector proceeds (oil and gas, petrochemicals) remained more or less steady: transactions over the period as a whole were concentrated in a few countries—Argentina, Brazil, China, South Africa, Kazakhstan, Russia and Poland. The primary sector declined slightly, with most of the revenues concentrated in Latin America, Europe and Central Asia, and Sub-Saharan Africa.

### **III. GOVERNMENT OWNERSHIP: WHERE IS IT AT?**

26. The privatization of more, and more important, enterprises would tend to suggest that government ownership has declined over the years. But a systematic assessment is difficult in the absence of data on state enterprise sectors, in particular their share of GDP, investment, domestic credit, formal sector employment, and the like. Such data was last captured for industrial and developing countries for the period 1978-91 in the World Bank's Bureaucrats in Business Report (1995). Since then the 2000 World Development Indicators updated a few measures for a few selected countries, covering the period 1990-97. But spotty and relatively old data continue to make a systematic analysis difficult.

27. Nevertheless, anecdotal information shows that while privatization activity has grown, it appears at the aggregate level to be still small relative to the stock of state enterprises. Since 1990, the average number of transactions per country per year has been only five, compared to three in the earlier time period from 1980 to 1993 (World Bank 1995), and compared to a much larger number of enterprises that could have been divested in almost all countries. Moreover, most countries in fact fell short of the average given the concentration of transactions in a few countries. This suggests that after more than 20 years of privatization, government ownership is still prevalent in many developing regions and in certain sectors more or less across all regions of the world.

## **A. Regional highlights**

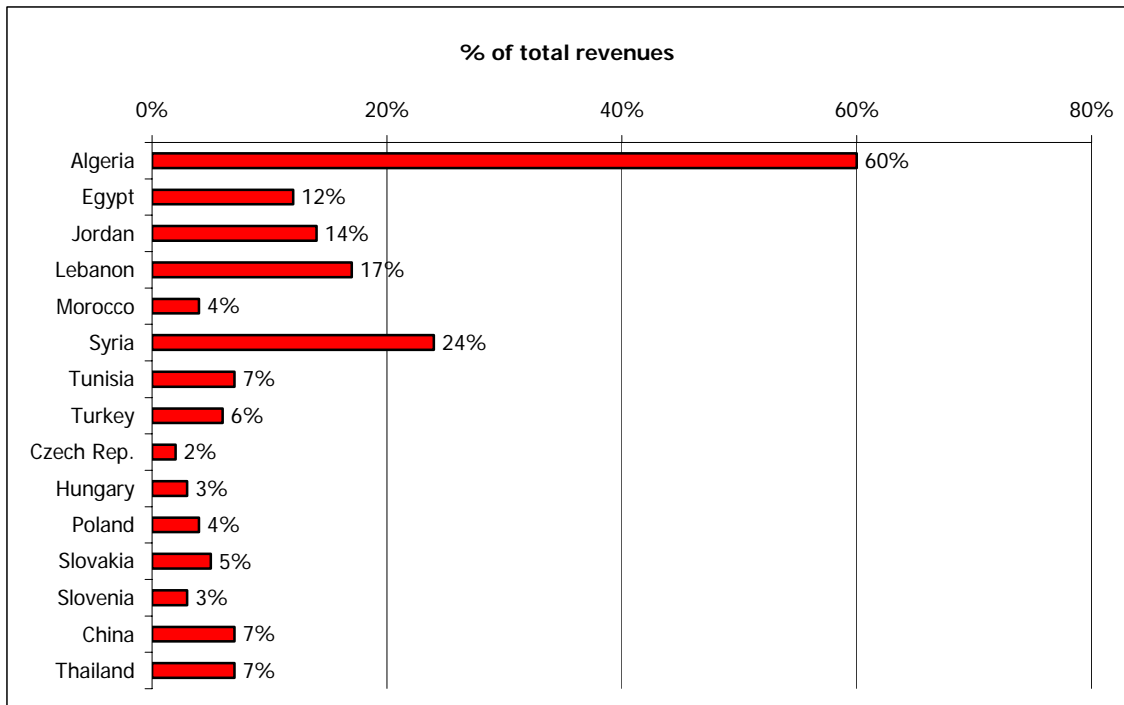
### *Sub-Saharan Africa*

28. Government ownership is widespread in Sub-Saharan Africa—in both competitive and other sectors. While state enterprises in 1991 accounted for 17.3 percent of GDP in African countries (World Bank 1995), total privatization proceeds since 1990 amounted to only 0.2 percent of regional GDP. Another estimate suggests that state enterprises in Africa still account for over 15 percent of GDP on average (Chong and Lopez-de-Silanes 2004). In competitive sectors, over 300 enterprises in over 30 countries that have long been earmarked for privatization are still pending for sale (OECD 2004); and in most countries in the region, the water, electricity, telecommunications, railways, airlines, and petroleum product distribution sectors are still state-owned and operated.

### *Middle East and North Africa*

29. In the Middle East and North Africa region, government's economic role remains large. The private sector accounts on average for less than 50 percent of GDP in the region, while the public sector (including state enterprises) is estimated to account for more than a third of formal employment compared with 18 percent worldwide excluding China (World Bank 2005). In countries such as Algeria, Iran, and Syria, state ownership is pervasive: a large share of the industrial sector is in state hands (80 percent in Syria for example); state-owned banks still account for 95 percent of banking assets (World Bank 2003); and many of the countries derive a large share of government revenues from state enterprises (Figure 10). And in the Gulf States, most of the larger, non-oil industries are government owned (World Bank, 2003). In many if not most countries in the region, critical services (in transport, power, and finance) are still provided mostly by the public sector.



**Figure 10: Share of government revenues from public enterprises\***

\* Includes mostly revenues from property and tax payments as a percentage of total revenue. Data refer to the most recent year available during the period specified.

Source: ANIMA- Euromediterranean Network of Investment Promotion Agencies

### *Asia -- China and India*

30. In China, the state's economic role declined dramatically from 80 percent of GDP in 1978 to 17 percent in 2003, but state enterprises still remain a dominant economic force, employing half of China's 750 million workers, controlling 57 percent of its industrial assets, and dominating key industries such as financial services, power, and telecommunications (McKinsey Quarterly October 2004). Only recently has China started restructuring its medium and larger state enterprises, but largely through minority share sales or new share offerings via the capital market which came to be viewed as a new source of funds for state-owned companies given the growing strains in the banking sector. Government ownership still remains dominant in these firms: non-tradable state shares account for about two-thirds of equity in listed state-owned companies (Financial Times, March 29, 2005).

31. Similarly, the Indian government launched a "disinvestment" policy in 1991 when aggregate losses of non-financial public enterprises added to the overall fiscal deficit by about 2 to 3 percent of GDP. In the 1990s disinvestment mainly involved the sale of minority shares to raise revenues. Starting in the late 1990s and early 2000s, a few centrally owned enterprises were fully or majority divested to private investors, but these were small compared to the value of the assets of the public sector. The momentum picked up in 2002 with the sale of telecoms shares to a strategic partner, but the program came to a standstill later that year when the proposed sale of two oil companies was postponed. A recent analysis shows that between 1991 and 2004, only 28 percent of planned privatizations were achieved, with 2001-02 being the

most successful year in which 47 percent of privatization targets were met (Oxford Analytica, March 29, 2005). Meanwhile more than 40 percent of the country's capital stock is still state-owned (McKinsey India study 2001). At the sub-national level as well there are a large number of enterprises in sectors such as manufacturing, agro-processing, power, and transport which continue to remain in state hands.

### *Europe and Central Asia*

32. State enterprises are playing substantially less of a role in Europe and Central Asia compared to the 1990s. By 2003, all but two countries in the region had completed or were on the verge of completing small-scale privatization, while 20 countries had privatized at least 25 percent of large enterprises. The private sector's share of GDP by 2003 grew to more than 50 percent in 22 countries, compared to only nine in 1994, with eleven of the 22 countries at 70 percent or more (World Bank 2004).

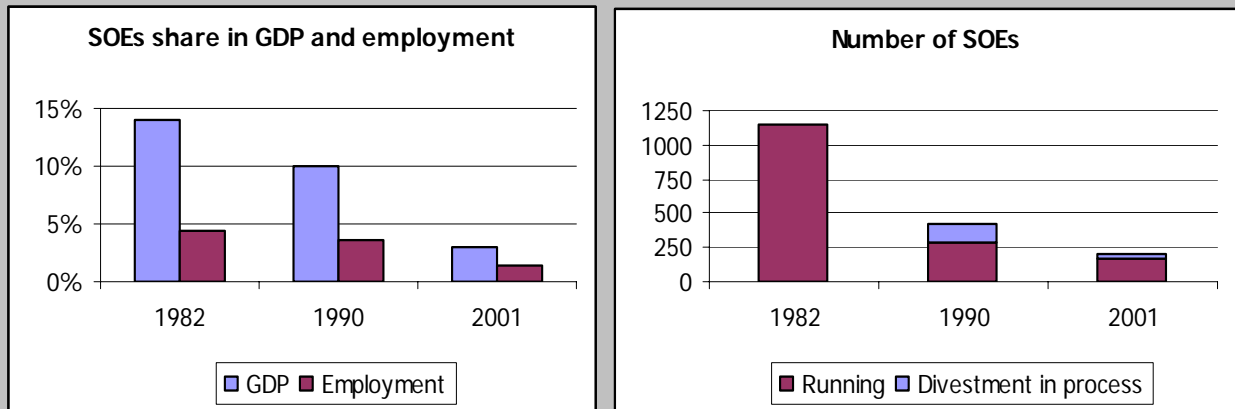
33. Yet, many countries, including EU accession countries with longstanding privatization programs, e.g. Poland, still have large "strategic" companies in competitive sectors such as steel, petrochemicals, and manufacturing that are state owned. State ownership is especially pervasive in Central Asia: in 2002 state enterprises accounted for over 50 percent of GDP in Belarus, Moldova, Tajikistan, Turkmenistan, and Uzbekistan (World Bank 2004). In the Balkans, countries such as Kosovo and Serbia have thousands of "socially-owned" firms. Residual government ownership in privatized enterprises in the region as a whole is also quite high (Lieberman 2003). And across the region, despite recent advances in sectors such as telecoms, there is still a large stock of utilities (power and water in particular), banks, and non-bank financial institutions such as insurance companies that are still state-owned.

### *Latin America*

34. Privatization has been big business in Latin America. But the activity has been concentrated in the three largest countries-- Argentina, Mexico, Brazil--and a handful of smaller ones such as Bolivia and Peru. Indeed, these countries have substantially reduced the role of state enterprises: in Mexico, for example, the share of public enterprises in GDP went from nearly 15 percent in 1982 to less than 5 percent in 2001 (Box 3). But in most other countries in the region, state enterprises are still in operation.

### Box 3: SOEs in Mexico

The role of SOEs in the Mexican economy has dropped dramatically over the last two decades. In 1982, there were 1,155 SOEs that accounted for 4.4 percent of the labor force and 14 percent of GDP. By 1990, the number of SOEs had dropped to 418 accounting for 3.7 percent of employment and 10.1 percent of GDP. These figures decreased even further during the 1990s when the government continued to withdraw from many economic activities, including in strategic and priority areas. The privatization process included ports, several airports, and railroads. Progress was also made in allowing private participation in secondary petrochemicals and electric power generation.



In 2001 there were 205 SOEs accounting for 3 percent of GDP and 1.5 percent of employment. In this year 20.3 percent of the federal budget was assigned to subsidies and transfers of which 31.4 percent was accounted for by SOEs. Three major SOEs in the energy sector accounted for 2.9 percent of GDP, 0.62 percent of employment, and contributed about 55.9 percent of the federal budgetary income. At the end of 2003, about 80 of the 210 remaining SOEs performed commercial activities in the following areas: petroleum, electricity, transport, communications, postal services and the commercialization of basic or mass consumption products. The rest were financial and social institutions with programs in health, housing, education, culture, food and other products and services. SOEs still maintain control over important industries such as petroleum (Pemex) and electricity (CFE and LFC) that remain reserved areas for the State.

*Source: Regulating Market Activities by Public Sector, 01-February-2005, Organization for Economic Co-operation and Development*

## B. Sectoral highlights

35. Government ownership in existing infrastructure and financial sector entities continues to exist despite increasing emphasis on private sector participation over the past decade.

### *Infrastructure*

36. Power utilities in nearly 85 developing countries--or 55 percent of all developing countries in the PPI database--are still owned and operated by the state. In a survey of 52 developing countries with generating capacity of between 29 megawatts (the Gambia) and 318 gigawatts (China), almost 70 percent had not started or completed the process of bringing private sector participation into the sector, and a further 18 percent had just begun the process; by contrast, independent power providers had been established in 67 percent of the countries with

another 21 percent planning to open electricity markets to them (World Bank 2004). State ownership is most prevalent in low-income countries with weak institutional and regulatory capacities. Of the 47 Sub-Saharan African countries, for example, power utilities in 32 remain fully state-owned and operated, while only eight countries have had concession contracts and another seven have management or lease contracts (Gökgür 2004). But state ownership is not prevalent in Africa alone: a recent survey of nearly 20 low-income countries in different regions--including 11 in South Asia, East Asia, and Europe and Central Asia--shows that while many have corporatized their state-owned firms and/or brought in the private sector through IPPs, only one country (Mali) had private participation in distribution (while four are in advanced stages of the process), and only four countries had private participation in generation (Briceño-Garmendia et al 2004).

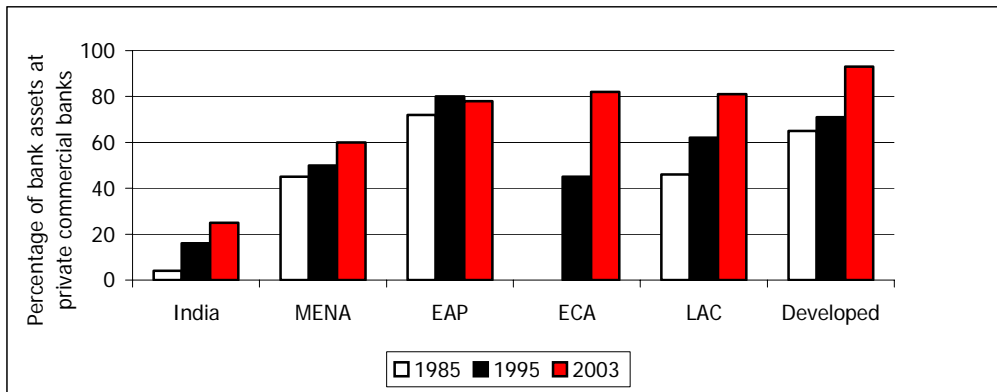
37. Similarly telecoms utilities are still owned and operated by the state in 60 percent of the developing countries included in the PPI database. State-ownership exists in virtually all regions. While Sub-Saharan Africa has had some successes with PPI (Mauritania, Uganda for example), the incumbent operator is still fully state-owned in 27 countries, seventeen of which have not initiated reform while the remaining ten are either stalled or delayed for political and/or market reasons (World Bank 2005). The remaining 20 countries in the region have had varying levels of private participation: one (Somalia) is fully private, 13 have majority private participation, and six involve minority share sales. In Latin America, telecom operators in 40 percent of the countries are still fully state-owned and operated, while in the Middle East, South Asia, and Europe and Central Asia the numbers are at 65, 60 and 30 percent respectively (ITU 2003).

38. The numbers for transport and water are substantially higher, with nearly 60 and 70 percent of developing countries respectively not having any form of private participation in these sectors. In transport, concessions have been concentrated in Latin America and East Asia, with relatively minimal activity in other regions.

#### *Financial sector*

39. Privatization has decreased government ownership in the banking sector: in Europe and Central Asia, for example, the portion of total assets in state-owned banks declined from almost half in 1995 to less than 20 percent in 2003, with the biggest gain in EU accession countries compared to CIS countries; in Bulgaria, for example, 85 percent of the banking system has been privatized (Lieberman 2003).

40. But government ownership in developing countries has not been reduced to negligible levels: in South Asia, India--which represents half of the region's activity--still has over 70 percent of total assets in public commercial banks, while in the Middle East and North Africa region as a whole 40 percent of assets remain in state-owned banks (Figure 11). Many developing countries in other regions still have at least 30 percent share of banking assets under state control. Among them: Albania, Argentina, Belarus, Brazil, Costa Rica, Romania, Russia, Thailand, Turkmenistan, and Uruguay (Clarke, Cull and Shirley 2003). In China, state banks remain a major liability: nonperforming loans of major financial institutions at the end of 2003 were equivalent to about 18 percent of the loans of the banks and 21 percent of GDP, with as much as 90 percent of loans regarded as government contingent liability (Caprio et al 2004).

**Figure 11: State-owned banks are still holding on especially in India and MENA**

Source: World Development Report 2005

### *Energy*

41. In energy, political issues surrounding private and in particular foreign investment are paramount in sectors such as oil and gas and thus many such companies remain either fully or majority state-owned. Some inroads are being made: in Mexico, for example, the need to inject funds into heavily indebted Pemex, the state-owned oil company accounting for 36 percent of government revenues, has recently led policy-makers to consider a “new model” for the company, including the removal of an explicit prohibition on private investment and possible share offering of shares on the domestic stock market.

42. In short, the above analysis suggests that despite a long track record of privatization over more than a decade, government ownership still appears to be prevalent in many regions and sectors.

43. The costs of not reforming state enterprises are high: the productivity of state enterprises is typically two to three times lower than private firms, and in some cases significantly lower; they continue to remain a fiscal burden; lack of investment capital has led to poor service delivery in critical sectors that impact the economy as a whole. A high percentage of sub-Saharan African and South Asian firms identify poor infrastructure services in telecommunications and electricity as major or very severe obstacles to private sector development and growth (World Bank Investment Climate Database). Thus the longer governments wait to address these issues, the greater the economic and financial burden and the greater the barriers to achieving economic growth.

## **IV. EMERGING ISSUES**

44. A vast body of empirical work on the impact of privatization that has been summarized in detail elsewhere shows that in competitive sectors privatization has improved firm performance (Megginson and Netter 2003 and Kikeri and Nellis 2004 provide recent reviews). Available studies conclude that privatization in these sectors improves performance and

increases returns to new owners and shareholders, with more robust findings in high and middle income countries than in low income countries.

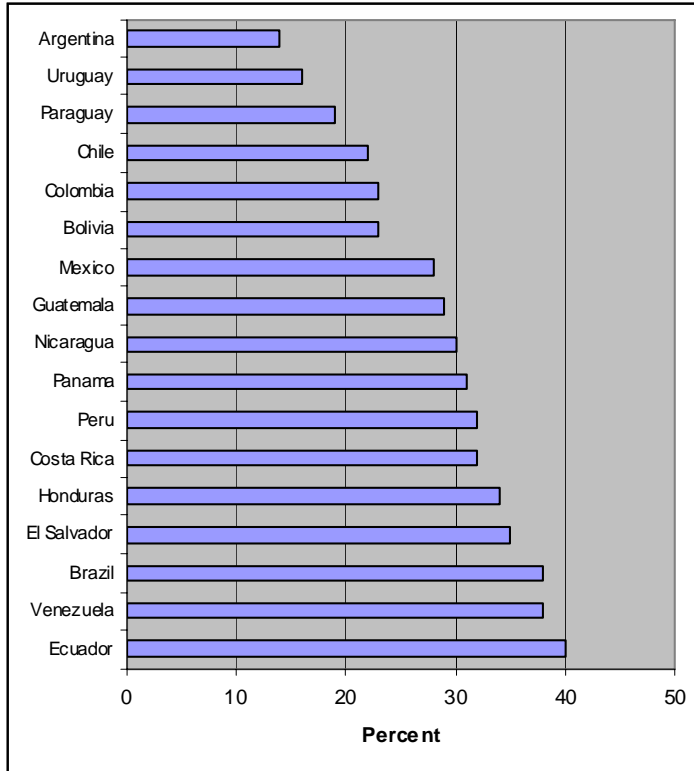
45. In infrastructure sectors the evidence is more mixed: recent reviews show that private participation yields benefits when accompanied by proper policy and regulatory frameworks (Estache 2004, Harris 2004). Efficiency gains tend to be concentrated in certain regions (Latin America, East Asia) and sectors (telecoms and electricity). The gains also tend to be concentrated in urban rather than rural areas; urban areas for example constitute less than 30 percent of the populace in low and middle income countries and have access rates at about 70 percent higher than their rural counterparts (Briceño-Garmendia et al 2005). In general the gains have been harder to achieve and sustain in low-income, institutionally weak countries and in sectors such as water where the social implications of tariff adjustment make private participation more of a challenge.

46. Contract renegotiations are frequent. In Latin America, for example, half of all infrastructure concession contracts have been renegotiated, with transport and water having the highest rates (Guasch 2004). Renegotiations are not always bad, and some may be required to deal with poorly designed contracts, but cancellation or distress as a result of failed renegotiations is on the rise, totaling 140 or 9.7 percent of all infrastructure projects by the end of 2003 (Izaguirre 2004). Water and sewerage sectors have been most affected; in Buenos Aires and Manila, for example, water concessions encountered difficulties when devaluations led to large tariff increases that were politically difficult to implement. In sub-Saharan Africa, difficulties in negotiating and enforcing credible contracts have led concessions in the water to come under stress, and in some cases (e.g. Uganda, Mozambique) to be terminated.

47. Compared to the large number of privatization transactions there have been few instances of outright reversal or re-nationalization. Those that have taken place usually occurred when very large heavily indebted privatized firms failed, or in times of crisis and/or political change. Among the prominent examples: Rail Track in the UK (as a result of bankruptcy), Air New Zealand (a \$300 million rescue package), La Paz and El Alto water concessions in Bolivia, and banks in Chile and Mexico that had been poorly privatized in the first rounds with protection from foreign competition, then renationalized, and subsequently re-privatized.

48. Though relatively few in number these and other recent transactions under stress have contributed to declining public support, worldwide, for privatization. Recent public opinion polls show the following:

- In Latin America, about 75 percent of the population in 1995 supported privatization (Estache 2004), but a more recent Latinobarómetro poll found that between 1998 and 2002 the percentage of people who say that the state should leave productive activity in private hands fell from 51 to 35 percent. During the same period the percentage of those who believed that privatization has been beneficial for their country fell from 46 to 28 percent (Figure 12). And when asked specifically whether the state or the private sector should be responsible for service delivery in the water and power sectors, 70 percent of respondents wanted the state to take charge;

**Figure 12: Belief that privatization has been beneficial in their country (%)**

Source: Latinobarómetro, 2002

- In Sub-Saharan Africa, a recent AfroBarometer survey of 15 major countries undertaking economic reforms between 1999 and 2001 found that less than 35 percent of the population preferred privatization to state ownership -- ranging from 30 percent or less in Ghana, Lesotho, Mali, Uganda and Zambia to 40 percent or more in Botswana, South Africa, and Tanzania (AfroBarometer 1999/2001). In Ghana, for example, 70 percent of respondents opposed the privatization of public enterprises, with 50 percent “strongly” opposed. In Zambia, focus group researchers found people to be “deeply attached to public ownership and the public provision of employment” (Slattery 2004);
- In Eastern and Central Europe, a survey of 16 countries (excluding Central Asian states) found that 52 percent of the population between 1998 and 2001 supported private ownership over state ownership, with support being the highest (over 80 percent) in the Baltic states (New Democracies Barometer 1998, 2000). Yet, in Russia, 70 percent of people surveyed felt they were worse off after privatization and preferred state ownership, while in countries such as Belarus, Moldova and Ukraine less than 40 percent of the population favored privatization;
- In East Asia, a survey of eight countries (excluding Vietnam, Laos and Cambodia) found that only a third of the population surveyed favored privatization over state ownership (Asia Barometer 2001-02). While support was quite high in Korea (60 percent), it was low in China (17 percent), Thailand (33 percent), and the Philippines (39 percent).

- In South Asia, regional polls are not available, but a recent survey in Sri Lanka found that between 60 and 80 percent of people felt their living conditions worsened after privatization.

49. Declining public support is fueled by several factors: long traditions of state ownership in many countries and regions; the overselling of privatization and creation of unrealistic expectations; generally worsening economic conditions and painful liberalizing reforms that became associated with privatization; lack of public information; and badly designed privatization processes leading to poor outcomes and controversies about prices, particularly in sectors such as water and power (see Harris 2004 for a summary of evidence in these sectors).

50. At the same time, the costs of not reforming state enterprises in critical sectors such as infrastructure and finance are high. What then needs to be done? It is beyond the scope of this paper to answer the question in any great detail. It thus only highlights a broad framework for moving ahead on state enterprise reform, including the need to: (i) keep improving privatization policies and processes; (ii) bring market discipline to state owned firms; and (iii) pay greater attention to results measurement.

### **Continue to improve privatization policies and processes**

51. The experience from the past several years shows that privatization is neither a panacea nor a universal solution that can be easily applied to all countries and sectors. There is no “one size fits all” approach. Instead, policies and approaches need to vary taking into account sectoral and country circumstances, in particular market structures and levels of institutional development.

#### *Competitive sectors*

52. In competitive sectors there is no longer much of a debate about privatization or its impacts: many developing countries have already accomplished privatization or made significant strides in competitive sectors, while in others such firms can and should be privatized quickly. Concerns about privatization typically focus on the pricing of assets, transparency, and labor impacts. The experience shows these concerns can be addressed through proper valuation techniques, the adoption and enforcement of competitive bidding processes, setting up of the right institutional and decision-making arrangements, and the development of labor programs and broader social safety nets for workers negatively affected by privatization. As discussed in greater detail below, infrastructure and financial sectors are more difficult by contrast, requiring far greater attention to the development of competition policies and regulatory frameworks.

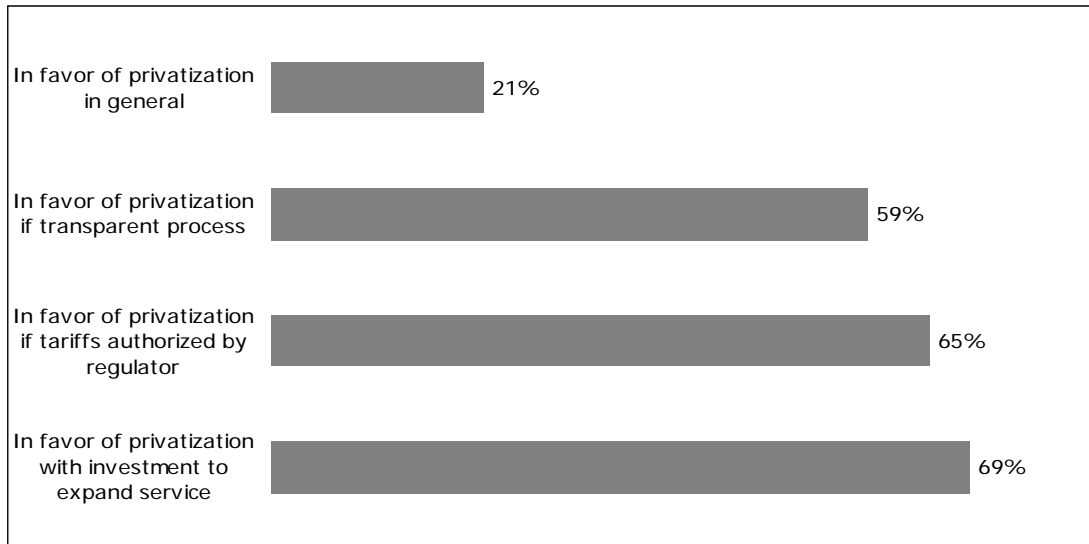
#### *Infrastructure sectors*

53. Infrastructure sectors--involving complex issues of price, access, and quality of services--call for more of a case-by-case approach taking into account prevailing market structures and regulatory capacities. Particularly in network sectors such as water and power and in low-income countries the challenges are greater. Care needs to be taken that private participation in



infrastructure is accompanied by policies and institutions that promote broader sector-wide reform by introducing competition, addressing tariff reform, developing regulatory frameworks and capabilities, ensuring better contract design and enforcement, and fostering transparency. Each of these topic areas is covered in depth in the large and rapidly growing literature on private participation in infrastructure. Surveys show that when such measures are put in place the outcomes are better--and the public is willing to support private participation (Figure 13).

**Figure 13: Opinion poll - Peru privatization of electricity generation**



Source: Apoyo 2002

54. Moreover, given the large investment needs in infrastructure (Box 4), the issue is no longer one of public or private. Meeting the financing needs will require resources from all possible sources including through well-designed public-private partnerships and output-based aid schemes, development of local financial markets, and better use of risk mitigation products (Estache 2004). Opening up private participation to a wider group of players can also be beneficial. Global investors may be withdrawing or becoming more selective because of political and market difficulties, but this is being balanced by a growing trend towards participation by regional and local investors. Four of the top 10 electricity sponsors in 2001-03 for example were companies from Malaysia, Brazil, Hong Kong, and Thailand (Izaguirre 2004). Participation by small-scale providers is also becoming an alternative and in some cases a complement to conventional providers in both rural and urban areas in sectors such as water and sewerage (McIntosh 2003).

#### **Box 4: Investment in infrastructure**

Improving infrastructure networks and service delivery in developing countries requires huge amounts of investment, estimated at 7.5 to 9 percent of GDP for low-income countries for the next five years. Meeting these needs will require more funding than is currently allocated. For low and low middle income countries, spending levels are up to 3 percent lower than estimated needs. The private sector accounts for about 20 percent share of infrastructure spending, equivalent to only 10 to 15 percent of estimated annual needs. The public sector (government, utilities) is the largest contributor, spending between 2 to 4 percent of GDP and accounting for about 70 percent of total infrastructure spending. In recent years public investment has declined as a result of expectations of private sector participation, fiscal adjustment programs, and decentralization. Eight Latin American countries, for example, saw a drop from 3 percent of GDP to 0.8 percent during the 1990s. Public investment declines have been compounded by a sharp fall in official development assistance (ODA), which accounts for the remaining 10 percent of investment spending. With overoptimistic expectations of private sector participation, ODA started to decline in the 1990s; infrastructure commitments from multilateral banks fell from \$18 billion in 1996 to \$13.5 billion in 1999, though by 2002 they had recovered to about \$16 billion.

*Source: Briceño-Garmendia et al 2004; Estache 2004; Izaguirre 2004*

#### *Financial sector*

55. In financial sectors, privatization is desirable but the impact on other firms and the economy as a whole means it needs to be done carefully compared to normal commercial firms. Experiences from countries such as Argentina, Chile and Mexico show the need for sequencing the phasing out of state ownership over time with new private entry and improvements in the regulatory environment. Involving reputable and experience foreign owners is also often part of a successful strategy as they can bring the necessary skills, products, and training to the host country and provide better allocation decisions (World Bank 2001). Minimizing government ownership in privatized banks appears to be important. A recent study of bank privatization in Nigeria, for example, found negative effects of minority government ownership on the performance of many of the privatized banks (Beck et al 2005). In the banking sector more broadly, Clarke, Cull and Shirley (2005 forthcoming) find that when government holds a portion of the stock, especially a majority of the stock, banks continue to perform poorly. Continued government ownership also reduces credibility, creates continued pressures for lending toward favored borrowers, and negatively affects the earnings prospects of the banks which then harm investors and taxpayers (Caprio 2004).

#### *Social sectors*

56. Public-private partnerships (PPPs) in social sectors such as health and education are on the rise because of the perceived inefficiencies of the state sector and the perceived advantages of bringing in the private sector in terms of increased competition, specialized skills, and flexibility and innovation. Yet, there are relatively few assessments of the impacts and lessons of PPPs in social sectors, most of which are found in health. The findings of recent reviews are summarized in Box 5.

### **Box 5: Public-Private Partnerships in Social Sectors**

Loevinsohn and Harding (2004) review the experience with contracting approaches (mainly management and service delivery contracts) in the delivery of primary health care or nutrition services involving non-profit organizations. Based on ten studies of mostly low-income countries, they show that rapid improvements were achieved in a variety of services and settings. The four cases with controlled before and after evaluations demonstrated large impact, with the median double differences ranging from 9 to 26 percentage points. Larger double differences were observed for parameters that are easier to change, such as immunization. Six of the ten studies compared contractor performance to government provision and all found that contractors were more effective, both in terms of quality of care and coverage of services. The concern that contracts are unlikely to enable service delivery on a large scale was not borne out: four of the examples involved millions of beneficiaries. In terms of cost, non-governmental entities performed better even when public institutions were provided similar amounts of resources. The programs were sustainable: of the nine programs, seven have been continued and expanded. The one study which examined equity found that contractors were able to significantly improve health services for the poor, actually saved them money, and did a better job than government provision.

Taylor and Blair (2002) review the experience with PPPs in managing and constructing public hospitals. In Australia, federal and state governments have introduced private participation in more than 50 public hospitals through different approaches, including build-own-operate (BOO) transactions, conversions or sale of hospital to a private operator, private management of a public hospital, build-own-leaseback arrangements, and collocations in which a private wing is located within or beside a public hospital. One example with positive results is the Mildura hospital BOO contract, awarded in 1999. Capital costs for the new hospital were 20 percent below those for public hospitals. All performance targets have been met, patient volumes increased by 30 percent in the first year, clinical services are provided at a lower cost, and the operator made a profit. In Sweden, the municipality of Stockholm leased a 240-bed public hospital to a private provider following a series of prior reforms launched in 1994. Since then, unit costs have been cut by 30 percent and the hospital is now able to treat 100,000 more patients annually with the same resources. Taylor and Blair show that PPPs provide innovative ways to control costs and improve service, but they also emphasize that gains are achieved only when policymakers structure the transactions carefully and create sound regulatory arrangements to ensure universal access, quality care, and improvements in efficiency.

LaRocque (2004) reviews the impact of private initiatives in the education sector, an area of limited analysis. Studies in the UK show that private finance initiatives appear to have been successful in delivering public infrastructure in a timely and cost-effective manner. The US experience with contract schools has been uneven, with education management organizations (EMOs) having mixed success. Early studies showed that while they yielded benefits for students in the form of individualized instruction, improved attendance, and greater access to computers, they had little systematic impact on academic achievement. Recent evidence is more promising: one recent study showed that EMO-operated charter schools registered gains in test scores over the 2000-2002 period and significantly out-gained non-EMO charter schools with similar demographic profiles. Evidence on the impact of choice and competition on student performance yields contradictory results: (i) some studies show that students at charter schools perform better than public school students, while others show the reverse; and (ii) competition from private schools improves achievement at public schools, while others show a small or no effect. As in the health sector, experience in education shows that good contract design and a well-designed contracting process are critical to achieving successful outcomes.

*Source: Loevinsohn and Harding 2004; Taylor and Blair 2002; LaRocque 2004*

### **Bring market discipline to state enterprises**

57. Policies to expose state enterprises to competition through deregulation and hard budget constraints are an important element of any state enterprise reform effort. Allowing new private entry forces firms to improve performance. In reforming the ports sector in Mumbai, India, for example, the authorities opted to create a new private port rather than undertake controversial reform involving private participation in the existing state-owned port trust JNPT. Its operational performance improved substantially as a result of competition--and learning--from the private sector port, which in turn is helping build constituencies for more fundamental reforms of JNPT, including possible private sector participation down the line (Ray 2003). The threat of failure and exit forces state enterprises to restructure and become more disciplined. It also signals government commitment to policies of preventing continued protection to inefficient state firms. In Bangladesh, for example, the recent closures of large loss-making jute mills proved a powerful commitment device in this regard compared to the privatization of a handful of smaller firms over the past several years. In Nigeria, after failed attempts to privatize the national flag carrier, Nigerian Airways, the government decided to liquidate the company.

58. Improving the corporate governance of state enterprises is another important avenue which has yielded success in a few cases, including electricity companies in New Zealand and South Africa where corporate governance principles have been modeled on private sector practices (Irwin 2004). The Organisation for Economic Co-operation and Development (OECD) has created guidelines on the corporate governance of state enterprises, focusing on developing an effective legal and regulatory framework, ownership policies which incorporate transparency and accountability, and equitable treatment of and relationship with shareholders. At the same time longstanding experience shows that such measures can be difficult to achieve and, more importantly, sustain given the potential for continued political interference. Moreover, effective reform of enterprises under state ownership requires that the same sensitive issues of tariffs and employment that arise in privatization need to be addressed under state ownership if efficiency and service delivery are to be improved.

### **Pay greater attention to measuring and monitoring results**

59. While there are a large number of studies assessing the impact of privatization on firm performance, and increasingly the welfare impacts, there are no systematic data on the size and performance of the state enterprise sector as measured by share of aggregate or sectoral GDP, share of SOE assets privatized, share of SOE losses, share of transfers and subsidies, share of domestic credit and the like. There are also few assessments of the results of reform under state ownership. In the absence of such data it becomes difficult to assess the extent and implications of government ownership. Results measurement along these lines would help assess whether objective are being achieved, increase transparency and accountability, provide a feedback loop to correct course as needed, and play a vital role in making the case for state enterprise reform.

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