

PRIVATIZATION IN DEVELOPING COUNTRIES

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PRIVATIZATION: THE BIG QUESTIONS

- **How much, of what sort, where?**
- **With what results?**
 - **For privatized companies,**
 - **For privatizing governments,**
 - **For economy as a whole**
 - **For “stakeholders” in society; e.g., consumers, workers, competitors; &**
 - **For poor & disadvantaged in society**

...& the big political question:

If privatization produces such good results, why do so many people, in so many countries, dislike it?

**How much privatization,
& where?**

Table 1

Privatization Proceeds

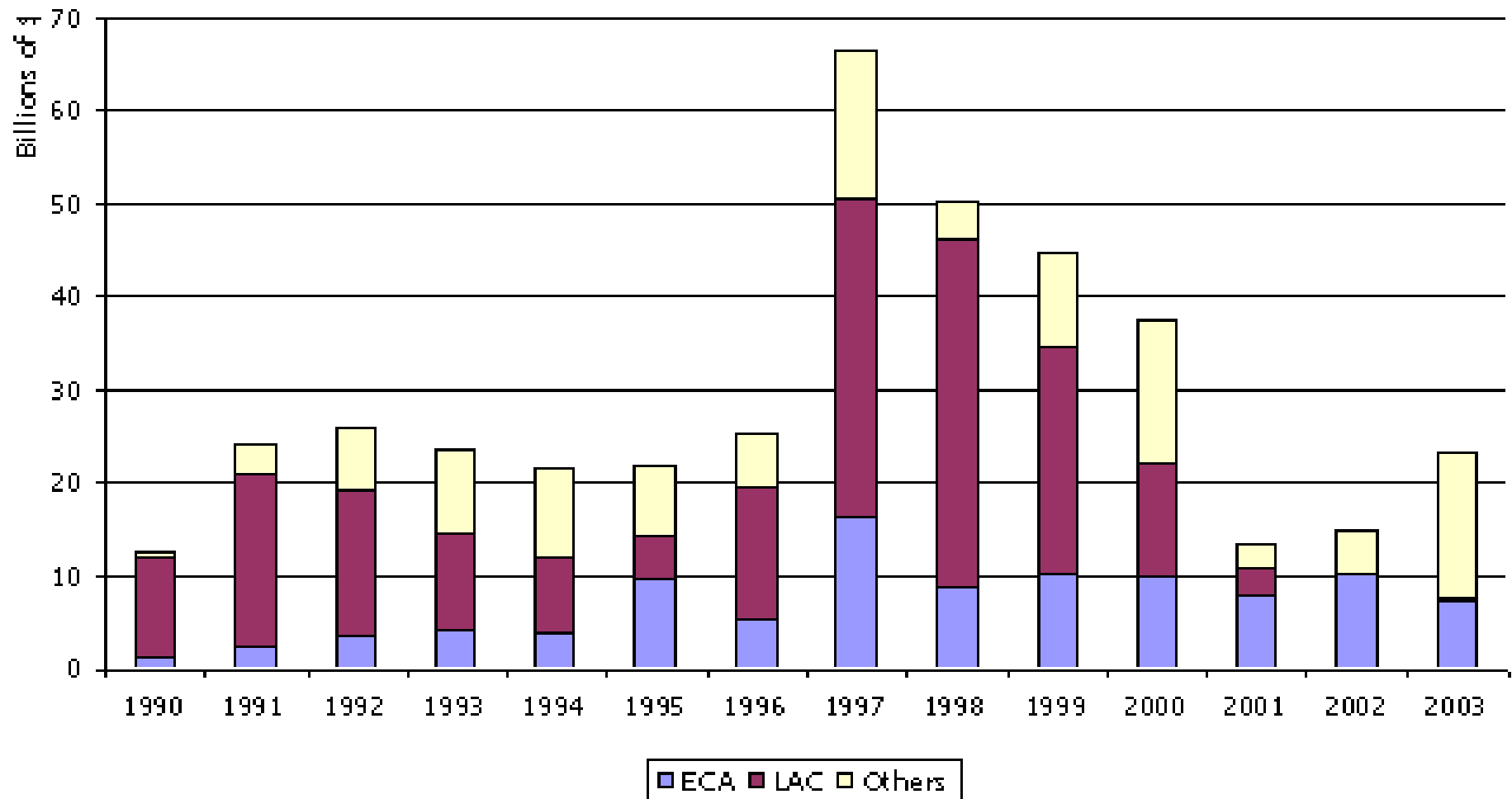


Table 2

Transaction #s & Proceeds

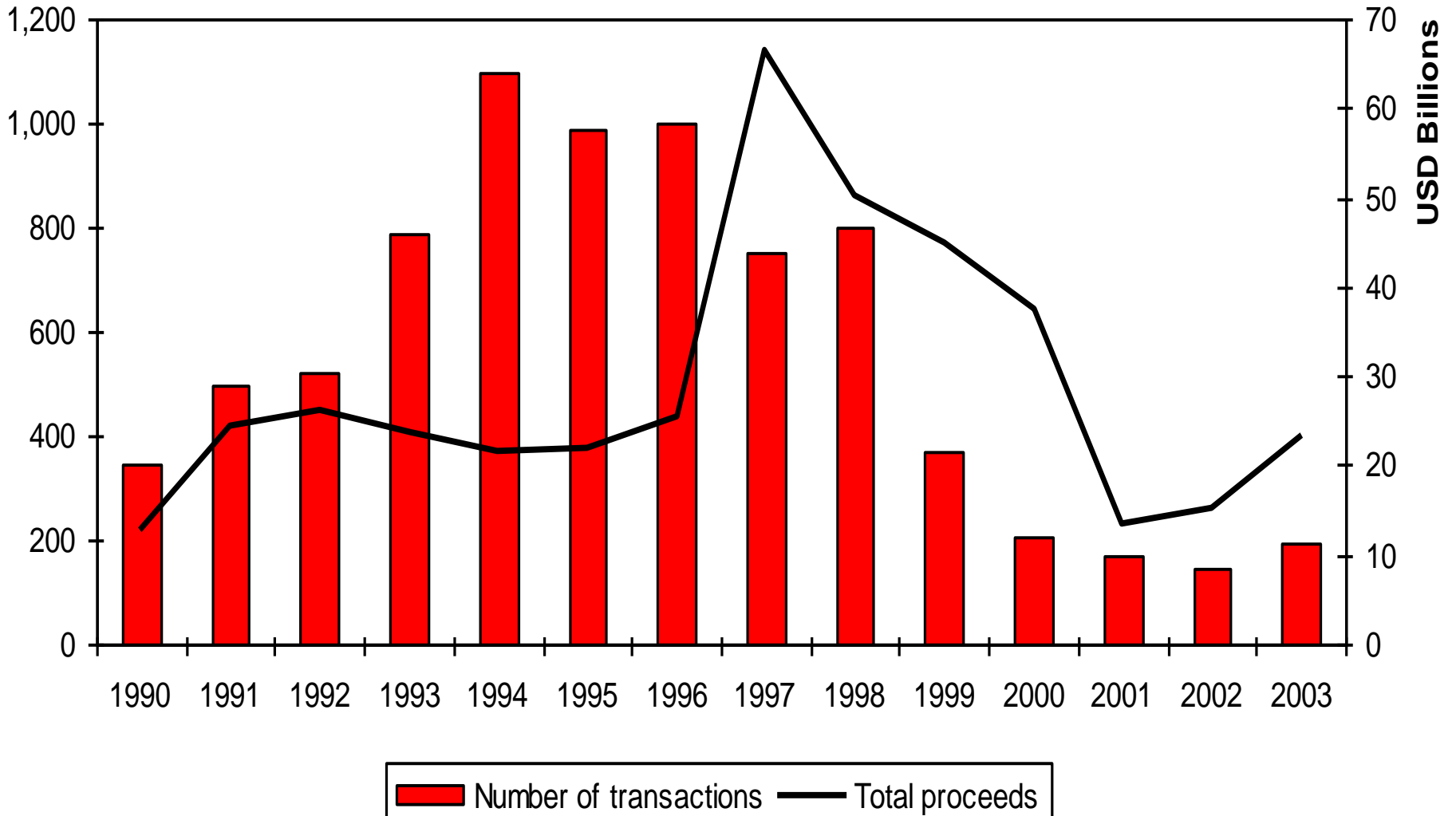


Table 3
Proceeds by Region: 1990-99; 2003-03

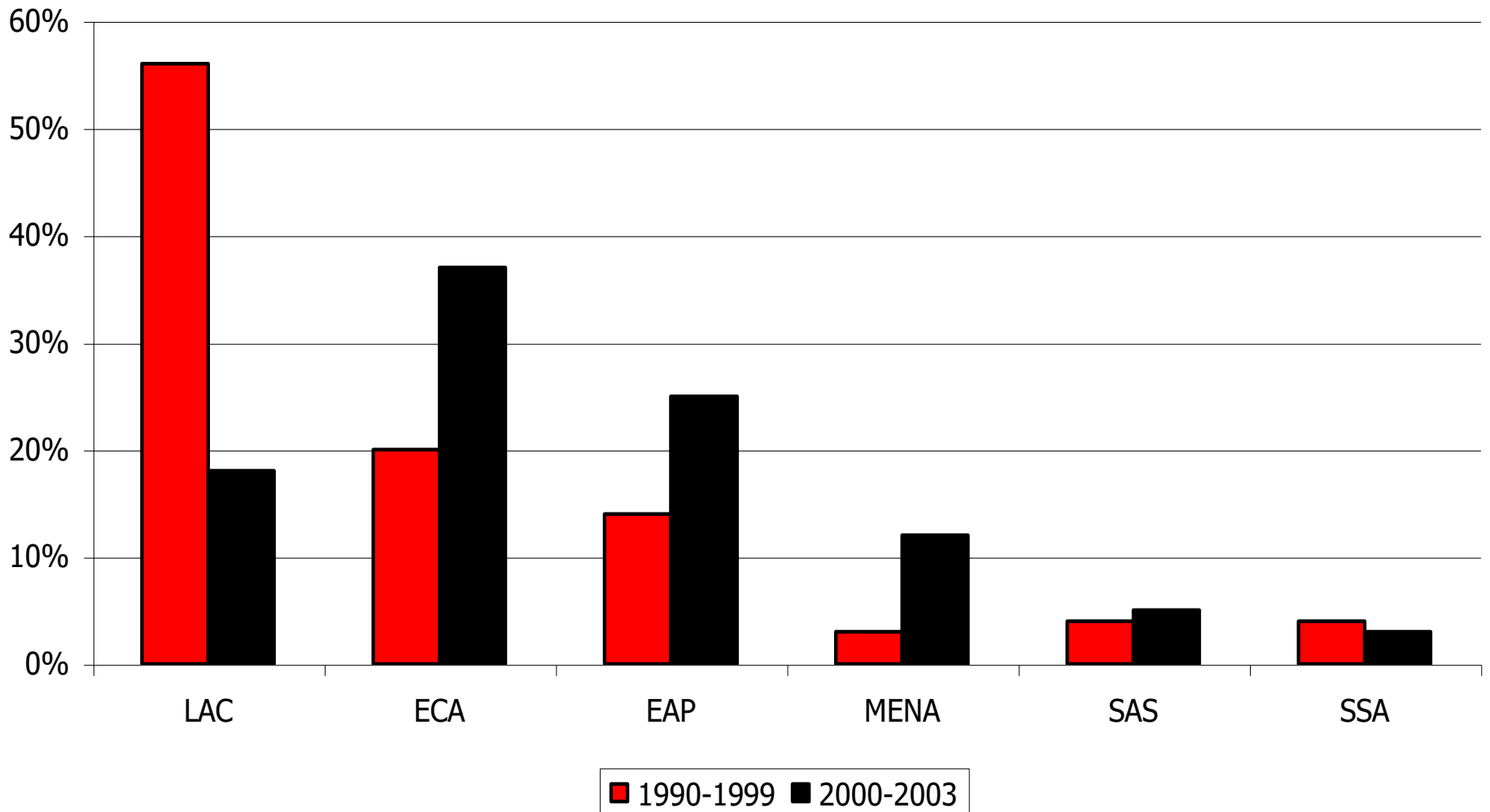


Table 4
Priv. #s & Proceeds, by Region 1990-2003

<u>REGION</u>	<u># TRANSACTIONS</u>	<u>PROCEEDS (US \$ BNS.)</u>
Middle East, North Africa	302	\$18.9
South Asia	399	\$15.4
East Asia/Pacific	417	\$65.8
Sub-Saharan Africa	981	\$11.5
Latin America, Caribbean	1,265	\$195.1
East & Central Europe, Central Asia	5,634	\$104.1
Totals	8,998	\$410.8

Leading countries & sectors

- ***NUMBERS:*** RUSSIA (16,000 +) & other transition countries; then Latin American states
- ***SECTORS:*** Manufacturing, commercial, service & finance; then infrastructure; i.e., energy, telecoms, transport & water & sewerage
- ***LARGEST DEALS:*** Telecoms, banks, cement

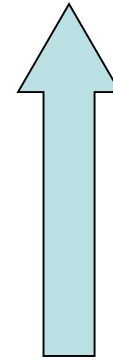
Most proceeds raised

• BRAZIL	\$83.5 billion	
• ARGENTINA	\$44.4	“
• CHINA	\$38.9	“
• MEXICO	\$34.8	“
• POLAND	\$22.4	“
• HUNGARY	\$15.4	“
• CZECH REP.	\$15.2	“

Impact:

Positive Microeconomic Impact

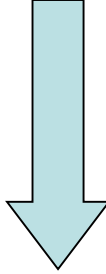
- Profitability
- Efficiency
- Returns to owners
- Output
- Leverage



Good results spread widely...

- Found in 2/3 to 3/4 of cases**
- Found across sectors; i.e., manufacturing, commerce, service, &**
- Infrastructure & finance**
- Found across regions**

Macroeconomic impact good (with caveats)

- **Proceeds large, generally saved**
 - **Budgetary transfers**
 - **Deficits & quasi-defs**
- 
- **Strong correlation between
privatization & growth**

How are proceeds spent?

- **Some evidence (LAC) that social spending increases as debt servicing declines**
- **But Brazil & Sri Lanka cases show misuse of revenues**
- **Privatization an opportunity, but no guarantee it will be seized**

Positive welfare effects

- **Privatization promotes general welfare, not just firm profits**
- **Privatization increases total resources in economy**

METHODS & PROCESSES

- **Restructure before or after sale?**
- **Downsize labor before or after?**
- **Sell all or part?**
- **Floor prices?**
- **How to involve public?**
 - **Public offerings**
 - **Reserved or discounted shares**
 - **Vouchers**

Privatization caveats

- **No performance improvement in 1/4 to 1/3 cases**
- **Unclear why & how privatization aids efficiency**
- **More problematic in low income & some transition countries**
- **Much more difficult in infrastructure**

Social impact criticized:

- **Harms workers---lost jobs**
- **Harms consumers---higher prices**
- **Encourages corruption**
- **Transfers resources to foreigners,
&, in general:**
- **Aids the rich & agile at expense of
poor, local, honest folk**

Are the allegations true?

- **Many do lose jobs**
- **Prices often do rise**
- **A number of shady deals concluded**

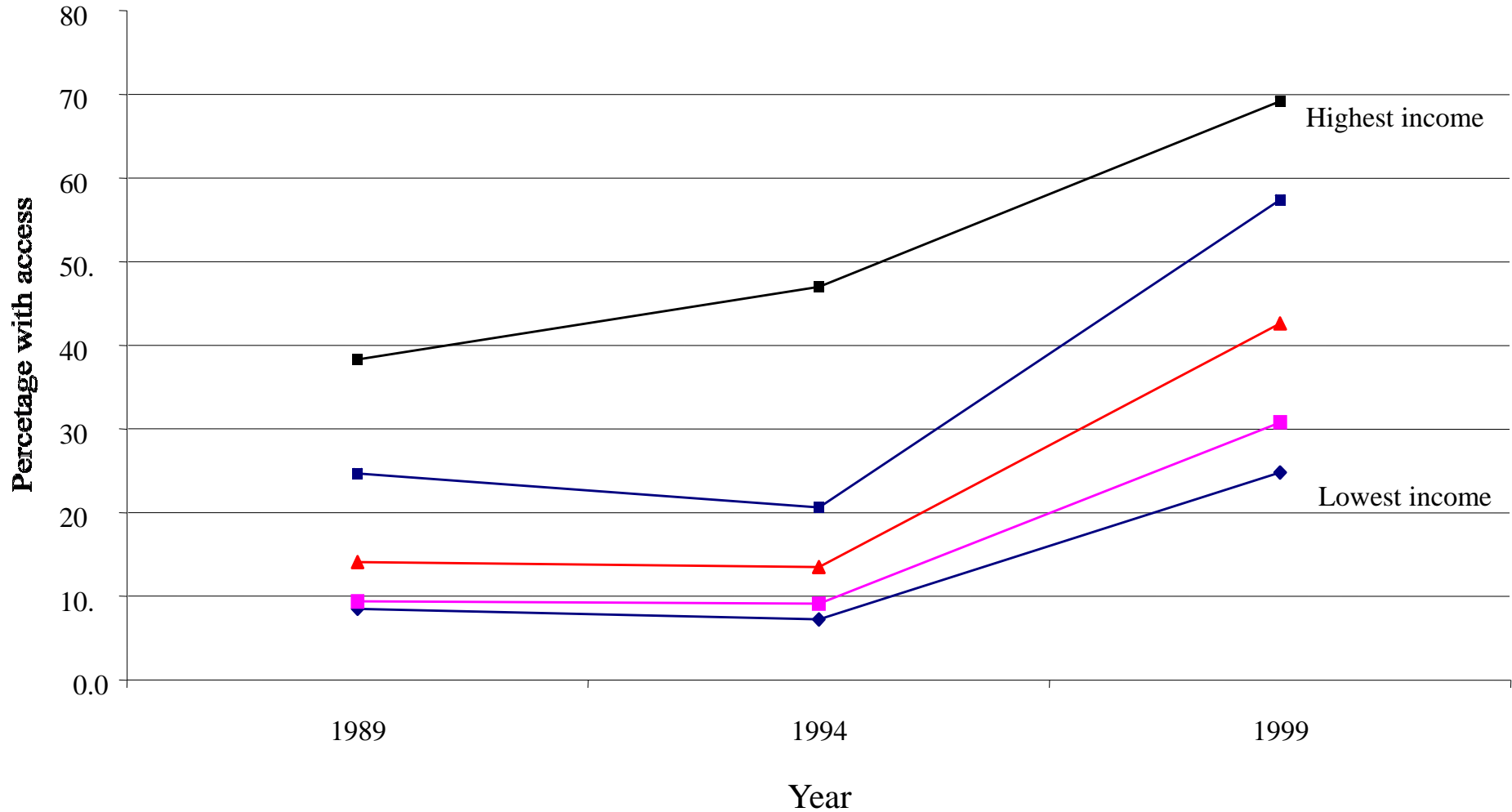
but....

Careful studies conclude:

- **Privatization contributed slightly to rising general unemployment**
- **Increased access to infra. services; access up most for poor**
- **Very small effect on inequality**
- **No effect on poverty; may even reduce it**

(Latin America)

Figure1
Bolivian depart. capitals: percentage of households that have access to telephone services, by income quintile: 1989-1999



True elsewhere?

- **Good results not as likely in Africa or transition states.**

Why?

- **Weak “institutions;” i.e., contracts not enforced, property rights weak, regulatory bodies absent, public admin. corrupt, etc.**

1990s:

Institutions overlooked

- Transition states: massive & unfair wealth transfer to a few**
- Low-income states: absence of regulatory systems produced weak contracts**
- Poor results fueled public discontent**

Privatization in MENA

Table 5

Share of government revenues from public enterprises

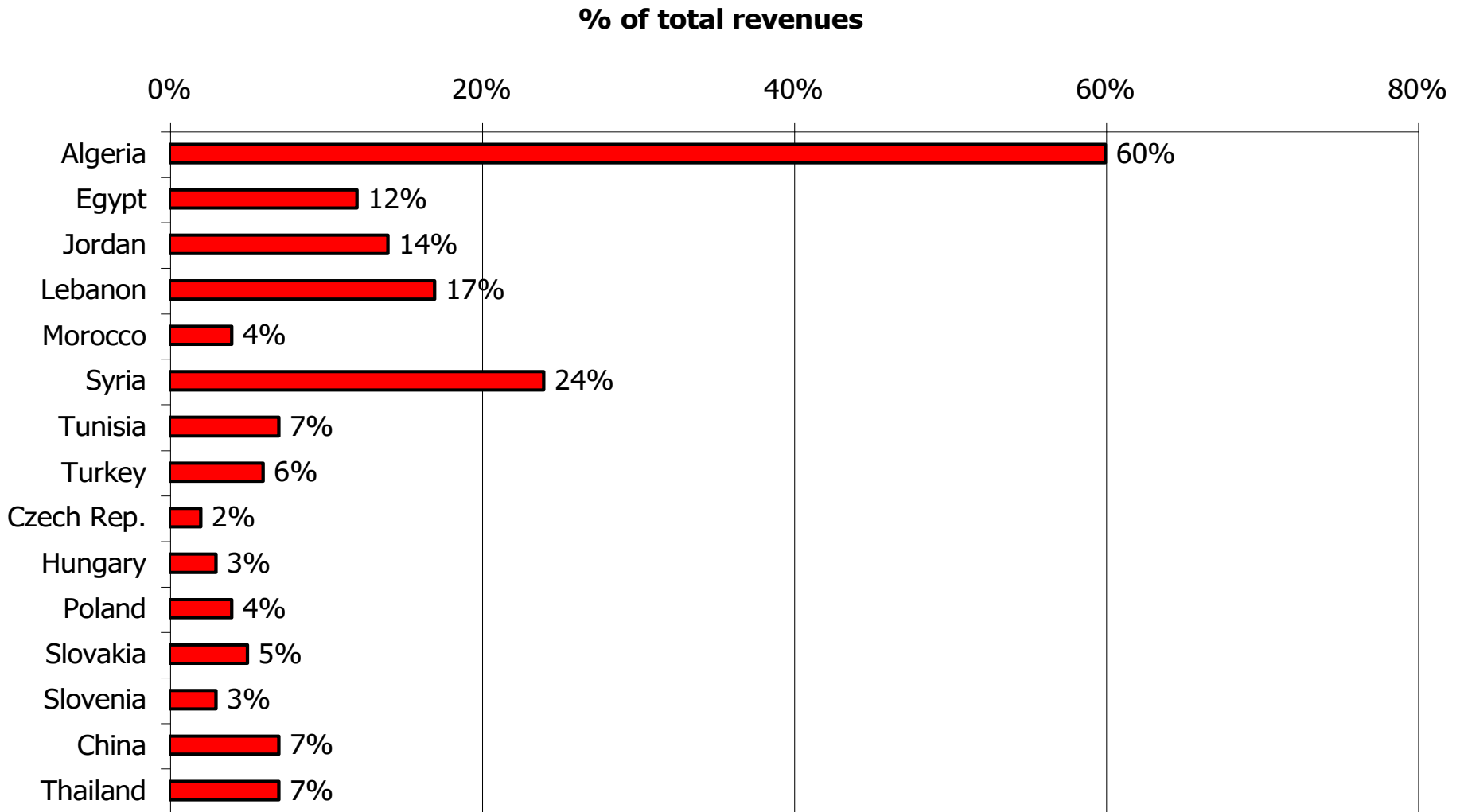


Table 6

Privatization in MENA Countries: 1990-2003

<u>Country</u>	<u># Firms Sold</u>	<u>Total Proceeds (US \$ Millions)</u>	<u>Largest Single Sale as % of Total Proceeds</u>
Algeria	4	152	19 %
Bahrain	1	10	100 %
Egypt	117	4,688	8 %
Iran	3	19	37 %
Jordan	9	937	54 %
Lebanon	1	122	100 %
Morocco	80	6,769	31 %
Oman	8	535	89 %
Qatar	1	681	100 %
Saudi Arabia	1	4,080	100 %
Tunisia	70	800	29 %
United Arab Emirates	1	190	100 %
Yemen	6	1	100 %
Totals	302	18,984 mn US \$	

Table 7
PPI PROJECTS BY REGION & INVESTMENT
AMOUNTS, 1990-2003

<u>REGION</u>	<u>COUNTRIES</u>	<u>PROJECTS</u>	<u>INVESTMENTS</u> <u>\$ US billions</u>
Middle East/ North Africa	14	76	38.3
South Asia	6	198	45.0
Africa	47	224	33.4
Europe/ Central Asia	26	524	118.6
E. Asia/ Pacific	18	701	187.7
Latin America/ Caribbean	28	1008	378.8
Totals	139	2,731	801.0

MENA's caution justified?

- **Slow down; build institutions, get better buyers, higher prices, better outcomes?**

Perhaps----BUT:

- **Long & expensive**
- **High present demand for infra. expansion & improvement**
- **Some favoring slow pace protecting their rents**

Political economy of privatization

Privatization widely disliked

Why?

- ***Benefits:*** individually small, widely dispersed, occur over medium term
- ***Costs:*** individually large, narrowly focused, occur in the short-run
- ***Winners*** less visible, organized & vocal than ***losers***

Political economy (cont.)

- **Easier to mobilize support & sympathy for losses than for = gains**
- **Priv a proxy for all of liberalization & globalization: easy target**
- **Priv previously oversold by governments & donors**

Political economy (cont.)

- Sales to foreigners opposed**
- Failure/bankruptcy seen as failure of privatization**
- Alleged & real corrupt transactions turns public against privatization**
- Public not informed of costs of poor public operation or benefits of privatization**

Conclusions: Privatization....

- Very widely applied**
- Improves performance of affected firms**
- Provides resources & relief to divesting governments**
- Signals creditors, investors, donors of policy shift**

Conclusions (cont.)

- **Widely & successfully applied in firms in competitive markets**
- **In transition states, priv. an economic success, but moral & legal nightmare**
- **Public opposition centered on infrastructure privatization**

Conclusions (cont.)

- **PPI, even in poorest countries, produces results better than those of SOEs**
- **Telecom & transport; PPI everywhere the norm**
- **Problem areas: energy & especially water & sewerage**

Conclusions (cont.)

- **For firms producing “tradables:”
No economic & few social reasons
to retain-----sell them off**
- **For infrastructure (& finance): 1st
best--policies & institutions in
place prior to ownership transfer**
- **But: adjustment postponed = pain
compounded**