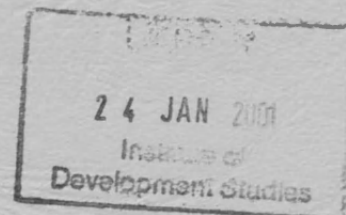


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W O R K I N G P A P E R

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***BOTSWANA INSTITUTE  
FOR DEVELOPMENT  
POLICY ANALYSIS***

**"TO PRIVATISE" WHAT IS & HOW?**

A paper presented at a seminar on "Competition, Productivity and Privatisation:  
Commonwealth

Experiences and Lesson for Botswana" organised by  
Botswana Institute for Development Policy Analysis  
&

Botswana National Productivity Centre  
under the sponsorship of the Commonwealth Secretariat,  
Gaborone Sun Hotel, Gaborone, Botswana, (21 - 23 April, 1997).

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BIDPA Working Paper No. 9  
August 1997

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### **Abstract**

This paper draws on lessons of experience and existing knowledge on privatisation, briefly addressing the main issues and describing how the privatisation process can be planned and implemented successfully. Privatisation is first defined, leading in to a discussion on how the privatisation process can be organised, managed and implemented. The potential obstacles to privatisation and conditions for its success are highlighted. The paper concludes that privatisation is not a panacea for public sector ills, but rather one facet of the larger policy issue of public enterprise reform and private sector development.

### **Keywords**

Privatisation  
Productivity  
Competition

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# **"To Privatisise"**

*What is & How?*

**Abdalla Gergis**

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A paper to be presented at a seminar on "*Competition, Productivity and Privatisation: Commonwealth Experiences and Lesson for Botswana*" organised by BIDPA & BNPC under the sponsorship of the Commonwealth Secretariat, Gaborone Sun Hotel, Gaborone, Botswana, (21 - 23 April, 1997).

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## I. Introduction

Privatisation has emerged as a major public policy issue in the 1980s in many parts of the world. Despite a slow beginning, the pace of privatisation appears to have accelerated during the 1990s [Cook and Kirkpatrick, 1995]. The international wave of privatisation began in the United Kingdom and thereafter spread rapidly to other industrial countries. Besides Britain, France, Germany and the United States are among the developed countries that have made considerable progress in the field of privatisation. In the developing world, some countries like Chile, Mexico, Argentina, South Korea, Malaysia, Bangladesh and Ghana have resorted to privatisation in a significant way whereas many other developing countries are at varying stages of planning and implementation in their privatisation programs. The other group of countries that has contributed significantly to privatisation are the transitional economies in Central and Eastern Europe and the former Soviet Union or Commonwealth of Independent States.

Hartley and Ott [1991] identify privatisation as one of a series of fashions in economic policy, following after *Laissez-fair*, Keynesianism, monetarism, nationalisation and supply-side economics. Like other fashions, privatisation carries the clear danger of persuasion by force of majority instead of by evidence [Yaffey, 1995]. However, these are not mere fashions; they are paradigms or models of thinking on policy issues that are subject to debate. Some steps have been taken, however, towards a unified theory of privatisation such as the cost-benefit methodology of Jones, Tandon and Vogelsang [1990].

In recent years, the World Bank, IMF and other donor agencies have advocated privatisation as a response to the poor performance LDC public enterprises (PEs) and in particular the impact of PE losses on budget deficits. Financial support for public enterprises reduced funds available for social services, crowded out private sector borrowing and undermined private sector development. However, the policy objectives and motives for privatisation varied between countries and over time. It could be argued that for most developed countries the motive has been adherence to the free-market ideology, while for LDCs the motive has had more to do with trying to reduce budget deficits and responding to donor pressure.



Experience has shown that in countries pursuing privatisation, the main challenge for governments is to manage the transformation process efficiently. While managing privatisation is a complex task, lessons of world experience provide guiding principles to improve the implementation of privatisation programmes in countries which are new to the experiment. This paper draws heavily on those lessons of experience and existing knowledge on the subject, briefly addressing the main issues and describing how the privatisation process can be planned and implemented successfully. The remainder of the paper is organised as follows. Privatisation is defined first in section II. Section III discusses how the privatisation process can be organised, managed and implemented. The potential obstacles to privatisation and conditions for its success are highlighted in section IV and some concluding remarks are included in section V.

## II. Definition

The word "*privatisation*" appeared in standard dictionaries only in the early 1980s. It appeared in *Webster's New Collegiate Dictionary* in 1983 [Ramamurti, 1991]. The verb "*to privatise*" has since been used to describe the action of making something private, or giving control of something to the private sector of the economy which has been controlled by the public sector. Privatisation can thus mean many different things [Gergis, 1996]. It may be used to refer to:

- the transfer of ownership from the public to the private sector through the sale of all or some of the assets of public enterprises (PEs) or other public entities - often termed divestiture to distinguish it from other forms of privatisation.
- the leasing of such assets while maintaining public ownership.
- the transfer of management of public entities (without transfer of ownership) to the private sector through management contracts.
- contracting out (out-sourcing) of public services to the private sector; involving private suppliers in activities previously provided by the state.
- deregulation and liberalisation of entry into activities previously restricted to public sector entrepreneurs and removal of constraints imposed upon competition against public enterprises.

### III. The privatisation process

A critical challenge for governments in countries pursuing privatisation and private sector development is to manage efficiently the process of transferring ownership and/or operation of public enterprises to the private sector and of eliciting private sector participation in providing public services and infrastructure. Privatisation policy should be consistent with the Government's macroeconomic policies and development strategy. In order to develop a privatisation programme, an important question that has to be answered first is: why privatise?.

#### A. Objectives of privatisation

The economic argument for public ownership is that governments can use PEs to correct for various types of market failures<sup>1</sup>. Poor performance of PEs in most countries has, however, prompted the argument that the risk of government failure is often greater than market failure. Because no individual or group owns a state enterprise, no one has a clear stake in PE returns, hence no one has the responsibility and motivation to set clear performance goals and assure that they are attained [World Bank, 1995]. The choice between private and public ownership is, therefore, less clear cut where markets fail; it will depend on the trade-offs between market failure on the one hand and government failure on the other.

Nonetheless, privatisation has been advocated as the best means to enforce market discipline and promote an efficient allocation and use of resources. While the reasons for privatising PEs differ from one country to another, among the objectives of privatisation that have often been cited in privatisation programmes are:

- relieving the financial and administrative burden of the Government in undertaking and maintaining a constantly expanding network of services and investments in infrastructure.
- promoting competition, improving efficiency and increasing the productivity of enterprises.

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<sup>1</sup> Examples of market failures include public goods (e.g. no individual will pay for everyone), lumpy investments (e.g. large outlays such as harbours or roads that the private sector is unwilling or unable to take on) and failures in co-ordination (e.g. no market for steel unless there is a steel mill, and no steel mill unless there is a market).

- accelerating the rate of economic growth by stimulating entrepreneurship and investment.
- reducing the size of the public sector, with its monopolistic tendencies and bureaucratic support, in the economy.
- increasing popular participation in the ownership of national assets (democratising ownership).
- increasing government revenues and reducing budget deficits.
- developing capital markets.

These goals may and often do conflict. Available evidence suggests, for example, that efficiency gains in resource allocation may have to be obtained at the expense of privatisation proceeds [Schwartz and Lopes, 1993]. This means that the fiscal stance may not improve even when efficiency is enhanced. Attempts to accomplish numerous objectives simultaneously can result in a failure to achieve any of them. Thus, a strategic Government task is to balance conflicting objectives. Clarity about objectives is especially important for success of privatisation efforts. The overriding goal, however, should be efficiency enhancement and promoting competition.

### **B. Evaluating the potential impact of privatisation**

The potential benefits and costs of privatisation must be critically examined and evaluated. The arguments in favour of privatisation are almost always couched in financial terms - shrinking the budget (or reducing budget deficit), mobilising financial and managerial resources, and improving the managerial efficiency of public enterprises. There are also frequent references to economic benefits. As indicated above, among the potential economic benefits are increased competition, productivity and economic efficiency. Privatisation can promote domestic investment, stretch distribution of equity ownership, increase government revenues from asset sales and taxation of profits. At the enterprise level, privatisation can lower production and delivery costs and allow more flexibility to respond to market signals<sup>2</sup>. By freeing them from government budget constraints, privatisation can offer enterprises the opportunity to have faster access to modern technology and greater flexibility to upgrade and maintain machinery and equipment.

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<sup>2</sup> It can be argued that PE autonomy can lead to similar results.

Costs of privatisation must not be overlooked. Developing countries strapped for cash cannot ignore the sometimes burdensome short-run transaction costs, which involve financial restructuring or physical rehabilitation of enterprises; redundancy and severance payments; restructuring or transfer of firms' debts to government and/or the private sector; advisory services; and the time of busy government executives. In countries with large public enterprise sectors as in the transitional economies of Central and Eastern Europe, privatisation may result in relatively high levels of unemployment in the short run due to displaced labour and, increases in poverty and income inequality as private entrepreneurs gain in income and wealth relative to the rest of the population.

Critics of privatisation also raise concerns about the potentially adverse effects of private sector provision of public services on their quality, availability, and delivery cost and on the working conditions of public services providers. Privatisation plans should identify ways to overcome or mitigate the worst potential impacts of privatisation and structural transformation and to support and reinforce positive outcomes.

### **C. Planning privatisation**

The complexity of the privatisation process means that it has to be carefully planned and organised. Once privatisation goals are determined, a privatisation plan should clearly state the scope, magnitude and procedures for privatisation. It should identify the privatisation agency and its responsibilities and how institutions will be developed to support privatisation.

#### ***1. Scope of privatisation***

Two approaches have been followed [Rondinelli and Iacono, 1996: 250] to determine the scope and magnitude of privatisation:



- The *selective privatisation approach* in which Governments, largely those of fully developed market economies, privatise selected public enterprises or government activities. Usually, privatisation is done on a case by case basis. This approach has successfully been used in the US, UK, France, Canada, Australia and New Zealand and in some newly industrialising countries such as Malaysia, South Korea, and Singapore. Privatisation has also been limited in scope or has been centred on particular enterprises in some African countries as in Malawi and Swaziland [Young, 1995].
- The *mass privatisation approach* which involves the transformation of all or most public enterprises to private hands as a part of a comprehensive national economic reform and restructuring programme. In this case, several industries or sectors are targeted for privatisation with many enterprises offered for sale simultaneously, or over a very short period. Most Governments in the former socialist countries such as Poland, Hungary, Russia, the Czech Republic and the Slovak Republic have used this approach to develop the private sector and transform their economies from planned to market-oriented ones [World Bank, 1993: 45]. Massive privatisation programmes have also been adopted by some countries in Latin America, Asia, and Africa where the state has played a significant role in the economy. In Nigeria, for instance, the military regime of General Ibrahim Babangida, having ordered the liquidation of all agricultural commodity marketing boards in April 1986, launched an ambitious scheme to restructure Nigeria's public enterprise sector in January 1988 involving the divestiture of 110 federal and state enterprises and the full or partial commercialisation of more than three dozen others; by the spring of 1993, some 55 state firms have been disposed of [Young, 1995].

## 2. *Structuring the privatisation machinery*

The management and implementation of the privatisation process requires an organisation or agency that has the authority, resources and technical skills to undertake the task without bureaucratic delay. Establishing an effective administrative machinery to manage privatisation programmes has proved to be rather difficult. The World Bank suggests that the most effective means of managing the privatisation process is by centralising responsibilities

for policy making in a single ministry or agency [World Bank, 1992]. At the same time, responsibilities for implementation should be decentralised to banks, financial institutions, management consulting firms, or to managers of PEs themselves with supervision by the national privatisation agency.

Governments must choose the most appropriate organisational structure for the privatisation agency and assign specific functions and tasks to it. Among the alternative organisational structures that have been adopted by different countries are:

1. Office of the President or the Prime Minister. In Malawi, for example, privatisation is the responsibility of the Office of the President through the Cabinet Department of Economic Planning and Development. In Turkey, the Public Participation Administration in the Prime Minister's Office conducts the privatisation programme, manages the Public Participation Fund, organises working groups for preliminary valuation and handles the legal and administrative problems of enterprises undergoing privatisation.
2. Ministries or Government Departments. In Canada, for example, the Department of Finance directly supervises the process through a Privatisation Branch, and the Ministry of Finance or its equivalent is responsible for privatisation in Germany, Thailand, Uganda, the Philippines, Nepal and Portugal. In some countries like Finland and Greece, it is the Ministry of Industry that carries out the privatisation programme. In other countries, privatisation is carried out by sectoral ministries. In Taiwan, for example, each sectoral ministry has the authority to plan for privatisation of enterprises under its control.
3. Special Privatisation Agencies. In some countries, a privatisation agency accountable to a Ministry or public agency has been created with special or semi-autonomous authority. The relative weight of private and public sector representation in such agencies varies significantly. The Zambian Privatisation Agency (ZPA), for example, is private led. It has a board of 12 directors of whom only three are appointed by the Government. The other nine directors are selected by representative private sector groups. In Hungary, on the other hand, the State Property Agency (SPA) created in 1990 to guide and direct the privatisation of state enterprises, consisted of an 11-member board of directors, 7 of whom were

government officials and 4 independent experts, led by a managing director. Board members are appointed by the Prime Minister for 5-year terms.

4. Privatisation Committees, Boards, Councils, or Commissions. In Bangladesh, the government established a Privatisation Board composed of government permanent secretaries to implement privatisation. The Board reported to the Prime Minister through a Cabinet Committee on Finance and Economic Affairs chaired by the Finance Minister. The Board was given autonomous operating authority, its own staff, budget, consultants and advisors. The National Council for the Modernisation of the State (CONAM) in Ecuador was given the responsibility of restructuring inefficient PEs and promoting capital markets.

5. Banks and Financial Institutions. The National Investment Bank was made the central implementing agency for privatisation of PEs in Jamaica. The National Bank for Economic and Social Development (BNDES) managed privatisation in Brazil working closely with private consulting firms. Investment Funds have played an important role in implementing privatisation in Russia, Romania and the Czech Republic although they did not have primary responsibility for privatisation.

6. State Holding Companies. In Croatia and Slovenia, the governments created development funds as holding companies for PEs. These funds were responsible for privatisation and restructuring of enterprises. The German Government established the Treuhandanstalt (THA) in 1990 as a holding company charged with privatising 12000 PEs in the former German Democratic Republic.

7. Commercial organisations. In Malta, for example, the Malta Investment Management Company Ltd (MIMCOL) was established as a commercial, autonomous agency to divest government holdings in subsidiaries and assist in preparing PEs for sale to private investors.

8. Local Governments. In Canada, provincial governments have authority independent of the national Department of Finance to privatise state assets under their control. In the Czech republic, Hungary and Poland, small enterprises owned by municipal governments could be privatised by the locality within guidelines set by the national privatisation agencies.

## **D. Managing privatisation**

Privatisation requires a managerial set-up that ensures speed, transparency and consistency of implementation [World Bank, 1993]. This entails developing a strategy for managing the programme and choosing the appropriate methods of privatisation.

### ***1. Management strategy***

The strategic management plan should describe the basic principles upon which privatisation will be implemented. These include the scope and pace of privatisation and the extent (distribution of ownership) and limits (individual vs. group holdings and domestic vs. foreign ownership) of participation in privatised enterprises. The strategy should also consider ways in which the government and the private sector will:

- provide a clear direction for privatisation and link it with broader structural and sectoral reforms.
- establish and sustain high-level political commitment to privatisation and supportive structural reforms.
- assist implementing institutions and participating organisations in developing the capacities to carry out changes effectively. These institutions include government agencies, labour unions, investors, PEs, legislators, business leaders and consultants.
- gain the co-operation of important stakeholders to overcome resistance to change and build coalition of support for reform.

### ***2. Privatisation methods***

The choice of privatisation method depends on several factors including the objectives of the government; the financial condition and performance record of the PE; and the ability to mobilise private sector resources, particularly through the domestic capital market. Different methods of privatisation result in different outcomes and the privatisation agency must understand how they can be used most effectively.

If privatising ownership is the objective of the privatisation programme, the following are the most common modes of enterprise divestiture:



- de-nationalisation or returning enterprises to former private owners.
- reorganisation of an enterprise into separate entities or into a holding company and several subsidiaries in preparation for selling.
- offering shares on the stock market to the public at large (emphasising widespread distribution of ownership or "popular capitalism") or to domestic and foreign investors.
- direct or private sales of enterprises or shares to domestic and/or foreign investors.
- management and/or employee buy-outs.
- liquidation of PEs by dissolving their business completely.

Of these instruments, the most popular - excluding liquidation - has been the direct or private sale of shares or assets to single buyers [Nankani, 1990]. The reasons are many: such sales often serve as the only alternative in the absence of equity markets; they frequently present the only alternative for weak-performing enterprises, or for those too small to justify a public offering; they provide an opportunity to evaluate new owners; and they offer flexibility in negotiating the operating rules that the buyer brings to the divested PE.

If divestiture is not the immediate goal of privatisation, or privatisation of ownership is not politically feasible, and the goal is to transfer management and operations to the private sector while maintaining public ownership, then the following methods could be used:

- out-sourcing and franchising: contracting-out and/or franchising production, or provision of services needed by the Government, to private firms.
- management contracts and leasing: contracting with the private firms to manage the operations or lease the business of the public enterprise.
- Joint-ventures: public-private partnerships between public and private companies for provision of public services, infrastructure and other projects.

If the goal is to restructure PEs and make them run like private firms without transfer of ownership or management control to the private sector, then the most appropriate method is:

- commercialisation of activities by eliminating subsidies to PEs and requiring cost recovery for public agencies, eliminating their monopoly status and requiring them to follow the same rules as private firms in their commercial activities.

If the objective is to reduce or eliminate the public sector role in providing goods and services and promote competition by encouraging private sector provision, methods may include

- deregulation of activities and liberalisation by removing price controls and barriers to entry.
- Government incentives for the private sector and NGOs to provide public services.

Clearly, each of these methods has its advantages and disadvantages that may be affected by political, economic and social conditions.

### **E. Preparing the institutional environment**

Privatisation involves a lot of contractual arrangements and monitoring mechanisms which require strong institutional capacity. But strong institutional capacity is scarce in most developing countries. A strong institutional capacity means the capacity of Government to design and implement credible contracts that promote sustainable growth with both public and private agents. Successful contracting depends on reasonably stable rules of the game, reliable information for monitoring, incentives for the principal and agent to adhere to the contract and mechanisms to resolve conflicts. The challenge is therefore to examine the adequacy of existing institutional capacity to implement the privatisation policy. Institutional weaknesses should be identified and amended and care must be taken in choosing activities to be privatised and methods of privatisation accordingly.

Privatising PEs operating in competitive markets for example is not as institutionally demanding as corporatising PEs, regulating privatised monopolies and writing and enforcing management contracts. Because PEs respond to multiple principals with diffuse objectives, monitoring is critical. The extent to which a PE will maximise social welfare depends on whether monitoring can motivate agents to pursue society's goals while preventing capture by managers, bureaucrats, politicians or others (workers, consumers) pursuing their own agendas. For this reason, government capacity to monitor PE managers is important for

corporatisation, which depends in turn on the incentives provided to monitors as well as managers, the extent of information asymmetries, and the strengths of institutions which can monitor the monitors and mediate conflicts or prevent collusion. Regulating private monopolies requires similar institutions, as well as skills and experience in monitoring more profit minded firms with imperfect information; weak capacity may lead to regulatory failure and capture. Negotiating management contracts demands the capacity to negotiate repeatedly with sophisticated private contractors and later to monitor and enforce the contracts.

It is essential that governments move quickly to strengthen institutional capacities to facilitate privatisation. These include

- programmes to foster and support an effective system of property rights, financial institutions, labour markets, legal institutions that can legitimise business transactions and adjudicate or resolve business conflicts effectively, and marketing and distribution channels.
- programmes to accelerate private sector development by providing incentives and support for developing small and medium-sized enterprises, restructuring large companies and attracting foreign investment.

An efficient market system requires a pervasive spirit of competition, innovation, entrepreneurship, autonomy and democracy. Creating a social milieu that supports entrepreneurial values and competitive behaviour is perhaps the most challenging aspect of institutional development.

## **E. Implementation**

This is perhaps the most important and challenging component of any privatisation programme. Procedures must be developed to carry out the transformation process in an effective manner. This entails redefinition of government's role in economic activities from controlling and producing to facilitating and regulating.

The redefinition of the role and responsibilities of Government implies a restructuring of activities and procedures. In a market-oriented system, government cannot operate effectively using a rigid system of hierarchical management; effectiveness depends more on

negotiation, persuasion, decentralised decision making and co-ordination [Rondinelli and Iacono, 1996]. Government takes on more responsibility for enforcing regulations that protect social welfare, ensure competition and promote the advantages of market discipline without restricting market forces with unnecessary controls. Public servants must be trained in 'adaptive management', in negotiation and interaction, in effective regulation, and in understanding how private firms operate [Rondinelli and Iacono, *ibid.*].

During the implementation of privatisation, Governments must pay special attention to protecting the interests of state workers who will be displaced by restructuring and divestiture of PEs, providing training, employment and social assistance, and health insurance for those in transition from one job to another while they are unemployed and social security for those who are retiring. Employee ownership schemes can be used to elicit support for privatisation; research shows that they can also enhance productivity, although profit sharing and bonus schemes are more powerful incentives [World Bank, 1993].

Transparency must obtain in every privatisation transaction. This can be ensured by having clear and simple selection criteria for evaluating bids; clearly defined institutional responsibilities; and adequate monitoring and supervision of the programme. The larger and more visible the transaction, and the less competitive the market for the enterprise's goods or services, the greater the importance of transparency. Furthermore, the privatisation process must not just be transparent, but be seen to be transparent. In other words, transparency has to be both emphasised and publicised. To avoid delays, many countries have established special commissions outside of the regular privatisation machinery to handle the sale of large firms that operate as monopolies (as in the sale of telephone companies in Jamaica, Mexico and Venezuela).

## **IV. Setting the stage for successful privatisation**

### **A. Potential obstacles to privatisation**

Privatisation has many enemies, and together, they pose a formidable challenge to the typical supporters (finance and planning ministers, donor countries and international development agencies). Top decision makers and local private sector may favour it but



- employed labour opposes divestiture for fear of job loss.
- Government ministries and officials may resent it because their jurisdictions become restricted.
- the intellectual community may oppose it because it tends to be perceived as primarily benefiting the rich and the privileged.
- the field of potential buyers that are acceptable to divesting governments is narrow. This is particularly the case when foreigners are ruled out and the local capital market is thin as in many small and poor countries.
- political leaders may find it risky because it could lead to
  - ♦ social upheaval as a result of job losses even though saved resources could be used to create more productive employment opportunities elsewhere or fund social programmes to benefit the poor. Such long-run gains must be weighed against short-run pains.
  - ♦ political leaders being accused of stripping national assets. Where sales to foreigners are allowed, sceptics and political opponents will often shout "re-colonisation".
  - ♦ accusation of corrupt dealings by officials when a considerable difference emerges between the original investment costs and the earning power of the PE assets upon which the buyers' offering prices are based.

In designing a privatisation programme, government should therefore take into account the potential obstacles that can undermine or complicate the management and implementation of the privatisation process.

## **B. Conditions for successful privatisation**

Three important factors contribute to privatisation success; privatisation agency conditions, country conditions and enterprise market conditions. In order for the privatisation agency to be successful in carrying out its task, it should have a strong political backing and high degree of financial and managerial autonomy. It must have substantial flexibility in selecting personnel who understand and can deal effectively with the private sector, authority to deal

with the varying conditions of PEs and freedom to use different methods of privatisation for different enterprises. The Government must create mechanisms to guarantee the privatisation agency's financial accountability, assure transparency of its procedures and encourage private sector participation in the privatisation process to protect the public interest.

Country conditions are determined by the overall macroeconomic policy framework and the capacity to regulate. Privatisation will yield more immediate and greater benefits the more market-friendly the overall policy environment. For example, the outlook for undertaking privatisation in an uncertain environment characterised by high inflation is poor, for the same reasons that private sector investment tends, under certain circumstances, to be dormant - prices lose their ability to transmit signals that improve the allocation of resources. Privatisation would therefore be more successful if it were part of an overall policy reform programme that induces greater competition, both domestic and international [Nankani, 1990]. A well functioning legal framework is also very important for successful privatisation since privatisation of enterprises operating in non-competitive markets require that a regulatory system be in place to protect consumers.

The privatisation process is also easier if the enterprise is in a competitive or potentially competitive market and the environment is market-friendly. For enterprises operating in non-competitive markets, the process is more difficult, especially where the capital markets are thin as is the case in poor countries.

Based on surveys of privatisation experience, some of the lessons about how to get the most from privatisation [World Bank, 1995: 72] are:

- Efficiency gains are usually higher when the transaction is transparent, competitive, and fair and undertaken as a part of a wider programme of reforms to open markets and remove price and other distortions.

- Once markets are open and function reasonably well, many potentially competitive firms can be divested without complex regulation. Financial PEs are an exception. Breaking up firms to reduce their market power can enhance competition. If the PE is a natural monopoly, then a well-designed regulatory contract, setting forth the obligations of the Government and the buyer is critical to positive results.
- Although Governments have sometimes had to cut the size of a firm's labour force and absorb some debt in order to make a firm attractive to potential buyers, more expensive investments in restructuring have usually not paid off in terms of higher privatisation proceeds.
- With a strong centralised body in place to oversee sales, actual implementation can be decentralised.

Pre-qualifying bidders and requiring buyers to put up sufficient equity are important in preventing later defaults; but restrictions on types of bidders (excluding foreigners, for example) or on changes that new owners can make after privatisation reduce the competitiveness of the bidding and the sale price.

## Concluding remarks

Privatisation is neither a panacea for public sector ills nor sufficient to ensure economic efficiency. Generating improvements in enterprise performance involves much more than simply a change in ownership through privatisation. Bringing about improvements in the performance of enterprises is not just a question of economics, but also involves issues of organisation, institutional building and political will.

In the final analysis, privatisation is just one facet of the larger policy issue of PE reform and private sector development. Its contribution should be seen as helping to further this development, as countries attempt to adjust toward more efficient and sustainable growth-oriented economies. Political commitment to encourage the expansion of the private sector as an instrument of economic and social development is therefore essential to the success of privatisation policy.

The case for privatisation rests less on fine-tuning the net benefits and more on a vision of changes in the roles of the public and private sectors as well as in the particular sector in which the enterprises selected for privatisation operate. For this to occur, privatisation must take place within a macroeconomic and sectoral environment that induces greater competition, both domestic and international. Unless effective competition and/or regulation are introduced, the privatisation of firms with market power brings about private ownership in precisely the circumstances where it has least to offer [Vickers and Yarrow, 1988: 427].

Clear privatisation objectives and strategy have been essential for success. This involves identifying and resolving policy trade-offs; establishing the appropriate scope, pace and sequencing of privatisation and choosing the right privatisation methods. Implementation involves decisions on restructuring PEs prior to sale, pricing of assets and shares, financing of sales and the institutional machinery for managing privatisation.



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