Privatization has helped reduce the government’s economic role in many countries and regions. In Mexico the share of state enterprises in GDP declined from nearly 15 percent in 1982 to less than 5 percent in 2001 (OECD 2005). In Europe and Central Asia the private sector’s share of GDP had surpassed 50 percent in 22 of the region’s postcommunist countries by 2003—up from only 9 countries in 1994 (World Bank 2004a). In China the state share of GDP has dropped dramatically, from 80 percent in 1978 to less than 20 percent in 2003.

Yet after more than two decades of privatization, government ownership and control remains widespread in many regions—and in many parts of the world still dominates certain sectors.

Is this a problem? Yes. State enterprises typically achieve productivity levels that are only a third to a half those of private firms and often significantly lower. They burden fiscal budgets. And they lack investment capital, leading to poor delivery of services that have wide economic impact. In South Asia and Sub-Saharan Africa, for example, a large share of firms identify poor electricity and telecommunications services as major or very severe obstacles to their operation and growth.

Regional roundup
State enterprises continue to play important economic roles in Sub-Saharan Africa, the Middle East and North Africa, and South Asia.

Sub-Saharan Africa
In most Sub-Saharan African countries state enterprises still operate in virtually all sectors, including manufacturing and service sectors long designated for privatization. Divestitures have taken place in such countries as Côte
d’Ivoire, Ghana, Senegal, Tanzania, Uganda, and Zambia. But in some 30 others there remained in 2003 more than 300 enterprises whose sale had been announced but not yet concluded (OECD 2004). And in almost every African country the state still owns and operates most infrastructure enterprises. In aggregate, state enterprises accounted for 17.3 percent of GDP in Sub-Saharan Africa in 1991; they still account for more than 15 percent today (Chong and López-de-Silanes 2005).

**Middle East and North Africa**

State enterprises continue to dominate many economies in the region, accounting for more than 50 percent of GDP on average. State ownership is even more pervasive in such countries as Algeria, the Islamic Republic of Iran, and the Syrian Arab Republic, where a very large share of the industrial sector is in state hands (80 percent in Syria, for example). In some of the region’s countries state-owned banks still account for more than 75 percent of banking assets, and in many a large share of government revenues comes from state enterprises (figure 1). Critical services (water, transport, electricity, finance) are still provided almost solely by the public sector.

**East and South Asia**

In China state enterprises remain a potent economic force despite the dramatic drop in the state’s share in GDP. They still employ half of China’s 750 million workers, control 57 percent of its industrial assets, and dominate such key industries as financial services, power, and telecommunications (Desvaux, Wang, and Xu 2004). Partial government ownership and control persists in firms that have been restructured or privatized through the stock market: nontradable state shares account for about two-thirds of equity in listed state-owned companies (Financial Times 2005).

In the 1990s India’s disinvestment program involved selling minority shares to raise revenues. Starting in the late 1990s and early 2000s a few enterprises were sold to strategic investors. Yet between 1991 and 2004 only 28 percent of planned privatizations were completed (Oxford Analytica 2005). Moreover, the asset value divested has been small relative to all public sector assets: in 2001 the state still owned more than 40 percent of the country’s capital stock (McKinsey Global Institute 2001).

**Europe and Central Asia**

Privatization has substantially reduced state ownership in Central and Eastern Europe. But state ownership is pervasive in Central Asia, accounting for more than 50 percent of GDP in such countries as Tajikistan, Turkmenistan, and Uzbekistan. Across the region, the state continues to own a large stock of electricity and water utilities, banks, and nonbank financial institutions.

**Latin America**

Privatization has been big in Latin America, but mainly in the region’s largest economies (Argentina, Brazil, Chile, Mexico) along with a few smaller ones (Bolivia, Nicaragua, Peru). State enterprise sectors in other Latin American countries remain largely untouched.

**Sector roundup**

Many developing countries have privatized competitive firms (such as manufacturing and services), in some cases almost all such enterprises.
But in infrastructure and finance government ownership and operation remains widespread despite the trends in recent years toward private sector participation.

**Infrastructure**

Power utilities in nearly 85 developing countries—55 percent of those in the World Bank’s Private Participation in Infrastructure (PPI) Project Database—are still owned and operated by the state.1 State power utilities are especially prevalent in Sub-Saharan Africa. Of the region’s 47 countries, only 17 had some form of private participation in power by 2003: 3 through divestiture, 7 through concessions, and another 7 through management contracts and leases (Gokgur 2004).

Africa is not alone. A recent survey of 19 low-income countries, including 9 outside Africa, shows that while many have corporatized their state-owned firms or brought in the private sector through new greenfield investments, by 2003 only one (Mali) had private participation in distribution and only 4 had it in generation (Bolivia, Indonesia, Mali, and Uganda) (Briceno-Garmendia, Estache, and Shafik 2004).

Telecommunications utilities are still state owned and operated in 60 percent of all developing countries. In Sub-Saharan Africa the incumbent operator is still fully state owned and operated in 60 percent of the region’s countries (World Bank 2005). In the Middle East and North Africa the share is 65 percent, in South Asia 60 percent, in Latin America 40 percent, and in Europe and Central Asia 30 percent.

Transport and water remain untouched in more than 70 percent of developing countries. In both sectors private participation has been concentrated in Latin America and East Asia, with minimal activity in other regions.

**Finance**

Privatization has reduced government ownership in the banking sector. In Europe and Central Asia the share of bank assets in state-owned banks declined from almost half in 1995 to less than 20 percent in 2003.

Yet government ownership in many countries remains high. In India, which represents half of South Asia’s banking activity, public commercial banks still held more than 70 percent of bank assets in 2003 (figure 2). In the Middle East and North Africa state-owned banks retained 40 percent of assets, with significantly larger shares in some countries (in Algeria, 90 percent). And the state still controlled at least 30 percent of bank assets in Albania, Argentina, Belarus, Brazil, Costa Rica, Romania, the Russian Federation, Thailand, Turkmenistan, and Uruguay.

**Energy**

In the energy sector (oil and gas production in particular) political concerns about foreign investment and the strategic nature of the sector are paramount. Reflecting this, many such companies remain either fully or majority state owned.

**Going forward**

Despite the privatization push of the past 20 years, government’s role remains prevalent in almost all regions and sectors, with adverse implications for growth and productivity.

What should be done? Approaches need to vary by market structure and level of institutional development. Enterprises operating in...
competitive markets can and should be privatized quickly. Concerns about transparency and labor can be addressed through well-developed valuation techniques, competitive bidding procedures, and severance and other programs.

In infrastructure sectors, especially water and electricity, the debate and the implementation challenges are greater. Many governments, and the public at large, are not persuaded that privatization is in their economic or political interest. And in poorer countries privatization has been difficult to implement, in some cases yielding more modest benefits than expected. Yet the urgent need to improve services and finance their expansion means that the private sector will continue to play a major role. This requires that governments pay greater attention to improving and sustaining sector performance through:

- **Policy action on pricing.** Whether or not the private sector is involved, pricing is the fundamental issue. Policymakers need to acknowledge more openly the need to bring tariffs in line with cost recovery, and manage the politics by phasing in tariff adjustments, creating regulatory bodies, and using output-based subsidy schemes for vulnerable groups.

- **Exposure to competition.** Exposing state firms to market competition through new private entry, hard budget constraints, and tighter corporate governance standards should help insulate them from political interference, improve performance, and enhance the prospects for more effective private participation arrangements.

- **Systems to better measure and monitor results.** Developing performance indicators and capabilities to track progress and assess outcomes and impacts should help foster transparency and accountability, provide a feedback loop to correct course as needed, and restore public support for reform.

### References


