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viewpoint
PUBLIC POLICY FOR THE **PRIVATE SECTOR**

NOTE NUMBER 322
MAY 2010
THE WORLD BANK GROUP FINANCIAL AND PRIVATE SECTOR DEVELOPMENT VICE PRESIDENCY

Privatization Trends

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This Note is based on a World Bank Group database that uses transaction values as a proxy for measuring privatization trends. It includes only the values resulting from the full or partial sale, concession, lease, or initial public offering of existing state-owned enterprises or other government assets. For more on methodology, see http://rru.worldbank.org/Privatization.

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A Sharp Decline but No Widespread Reversals in 2008

An update of the World Bank Group's Privatization Database shows that in 2008 privatizations in developing countries fell to US$38 billion, down 70 percent from 2007. Privatization slowed as the global financial crisis took hold and as political difficulties continued. At the same time, the wave of nationalizations expected in the wake of the crisis did not occur. Instead, preliminary results for 2009 show a slight uptick in privatization value as markets began to stabilize—and as growing budget deficits led to new pressures for privatization.

In 2008, 32 developing countries carried out 196 privatization transactions, valued at US$38 billion. Total transaction value plummeted by 71 percent from 2007, the number of transactions fell by nearly 20 percent, and 19 fewer countries reported activity. A nearly 85 percent drop in the value of initial public offerings (IPOs) was the main reason for the overall decline.[1] IPOs accounted for 75 percent of total privatization value in 2007—a peak year for IPOs globally—but just 40 percent in 2008, mainly because of a sharp drop in IPO value in East Asia (83 percent) and Europe and Central Asia (88 percent). Non-IPO value also declined, but only by a third.

Ten countries accounted for nearly 90 percent of total value. China, the Russian Federation, and Turkey together generated nearly 65 percent of total value in 2008, compared with 80 percent in 2007 thanks to mega-IPOs in finance in China and Russia. The other top 10 countries were India, the Philippines, Brazil, Serbia, Poland, Ghana, and the Arab Republic of Egypt.

Nearly a third of the 196 transactions in 2008 occurred in Serbia, which had a surge of smaller transactions. Transaction size fell sharply: the top 10 transactions in 2007 ranged from US$3.9 billion to US$9.2 billion; in 2008, from US$1.1 billion to US$3.8 billion. Average transaction size fell by 66 percent, with the sharpest declines in the financial sector (96 percent) and in Latin America (74 percent).

Regional highlights

All regions except South Asia saw a decline in value, with the biggest declines in East Asia, Latin America, and Europe and Central Asia (figure 1).

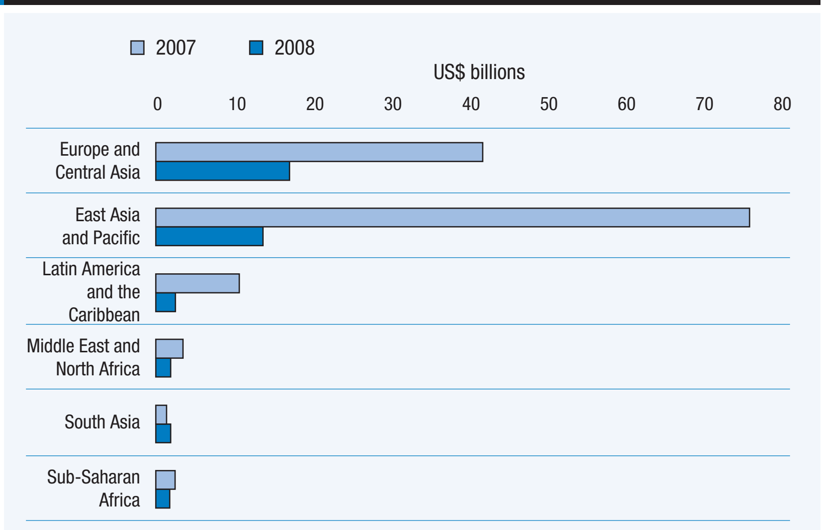
East Asia: sharp decline in IPOs

In East Asia value declined by 82 percent to US$13.4 billion, while the number of transactions fell by 58 percent. The declines stemmed from fewer and smaller IPOs, a result of stock market instability, financial sector troubles, and reverse capital flows. China—with nearly 90 percent of regional value—had only 7 IPOs (down from 21 in 2007) with a total value of US$11.4 billion (down from US$70 billion). In 2007 two energy IPOs alone raised US$18.2 billion; in 2008 the largest IPO, China Coal, raised just US$3.8 billion. China had no finance IPOs in 2008, while in 2007 nine finance IPOs generated US$38 billion. Most of the remaining regional value came from two electricity sales in the Philippines for US$1.3 billion. Vietnam raised US$405 million, nearly all of it from the IPO of Saigon Beer Alcohol Beverage Corporation.

Europe and Central Asia: growth in Turkey

Europe and Central Asia raised US$16.7 billion, down 60 percent from 2007, when two Russian banking IPOs alone raised an equivalent amount. In the absence of large IPOs, Russian value dropped by nearly 80 percent to US$6 billion—most of it from continuing electricity sales—and Russia's regional share fell by half to 36 percent. In contrast, Turkish value grew by 57 percent to US$6.7 billion (40 percent of regional value), thanks to large sales in petrochemicals, telecommunications, and tobacco. With a sevenfold increase in transactions, Serbia generated US$1 billion and expanded its share from less than 0.5 percent in 2007 to 6 percent. Poland also had 6 percent, mainly from the US$738 million IPO of ENEA S.A.

Figure 1 Value of privatization transactions in developing countries by region, 2007–08



Source: World Bank Group, Privatization Database.

Latin America: back to previous levels

Value in Latin America declined by 77 percent to US$2.4 billion, returning to levels of earlier years because of smaller transaction size and dwindling privatization opportunities. In 2007 value nearly tripled to US$10.4 billion thanks to three large transactions in the US$2–4 billion range. In 2008 the region had just one transaction as large as US$1 billion—a road project in Brazil that, along with two other transactions, gave Brazil a 51 percent regional share. Ecuador's share grew to nearly 30 percent thanks to two mobile sales for US$670 million. Remaining value came from Mexico (two transport projects) and Panama (two mobile sales).

Middle East and North Africa: gains in Egypt and Tunisia

In the Middle East and North Africa, while total value dropped by 45 percent to US$1.9 billion, two countries reported gains. Egyptian value nearly tripled to US$926 million thanks to sales of a mobile license, several manufacturing companies, and government stakes in 17 joint ventures. Tunisian value jumped from US$61 million to US$480 million, most of it from partial share sales in three financial companies. Remaining regional value came from the IPO of the Telecommunications Company of Iran (US$370 million) and two electricity sales in Jordan (US$104 million).

South Asia: only region to post gains

In South Asia value grew by 40 percent to US$1.9 billion as Indian value quadrupled, accounting for nearly all regional value. India's program gained from the withdrawal from the coalition government of political parties that had long opposed privatization. Nearly 38 percent of Indian value came from four mobile license sales, 37 percent from a road concession, and the rest from the US$415 million IPO of the Rural Electrification Corporation. Pakistan had just one small transaction, compared with three finance transactions totaling US$936 million in 2007.

Sub-Saharan Africa: minimal activity

Value in Sub-Saharan Africa declined by 29 percent to US$1.7 billion. The number of transactions fell from 28 in 2007 to 3—in Ghana and Kenya, all in telecommunications. Nigeria had no transactions, after having 17 for US$1.4 billion in 2007.

Sector highlights

Eighty-five percent of total value came from the infrastructure and competitive sectors, and 11 percent from the primary sector. Driven to astronomical highs by record-setting IPOs in 2007, finance value came crashing down (figure 2). No transactions occurred in energy.

Finance: a virtual halt

Reflecting the global financial crisis and stock market turmoil, finance value fell by 98 percent to US$1.4 billion—just 4 percent of total value, down from 46 percent in 2007. The record high in 2007 was driven by mega-IPOs of nine Chinese institutions and two Russian banks, which together accounted for US$54.6 billion, or 96 percent of IPO value in finance that year. In contrast, 2008 had only two finance IPOs: India's Rural Electrification Corporation and the Vietnam Bank for Industry and Trade. Tunisia had three partial sales, while Egypt sold government stakes in a joint venture bank.

Infrastructure: growth in telecoms

Infrastructure value declined by a third to US$19.1 billion as heightened financial risk, investor anxiety, and scarce liquidity made it difficult to obtain financing and conclude transactions, especially in the second half of the year.[2] Value declined in all subsectors except telecommunications.

Electricity and natural gas transactions fell by 41 percent in value and by 34 percent in number. Nearly two-thirds of the US$8.8 billion total came from Russia's sale of nine generation companies. Another 30 percent came from two sales in the Philippines, the IPO of Poland's ENEA S.A., and the sale of Romania's Electrica Muntenia Sud.

Transport value fell by nearly half to US$3.4 billion. There were 15 transactions in 2008, the same number as in 2007, but they were nearly 50 percent smaller on average. Road transactions in Brazil, India, and Mexico accounted for 62 percent of value. Another 26 percent came from Turkey's two airport projects. Ports in Brazil, Georgia, and Russia made up the rest.

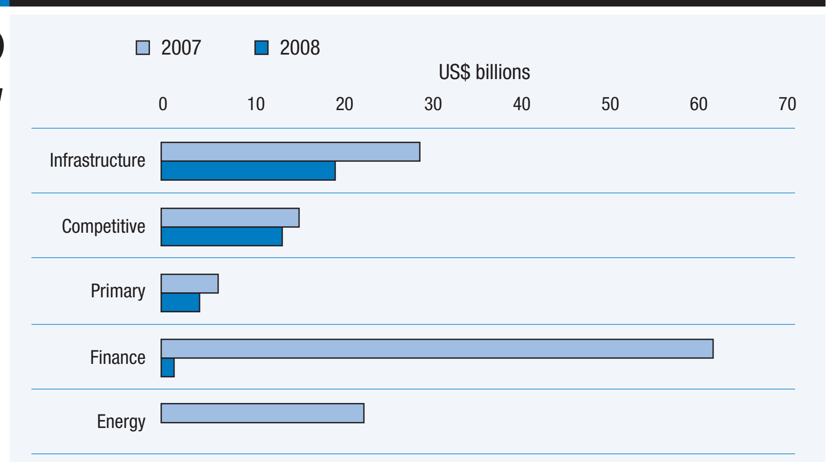
Water and sewerage transactions fell by more than half in value (to US$425 million) and in number.[3] Seven of the nine transactions were in China. Three transactions—in China, Russia, and India—accounted for 80 percent of value.

Telecommunications was the only subsector where value grew, increasing by 12 percent to US$6.5 billion. With 31 percent fewer transactions, the gains were spurred by a doubling of average transaction size from US$174 million to US$360 million. The Turk Telekom IPO was the largest, at US$1.9 billion, followed by the partial sale of Ghana Telecom (US$900 million) and the IPO of Safaricom in Kenya (US$775 million). The sector had nine other transactions over US$100 million—in Ecuador, India, the Islamic Republic of Iran, Belarus, Egypt, and Azerbaijan.

Competitive, primary, and energy sectors: declines in all

Competitive sector value declined by 12 percent to US$13.2 billion. In manufacturing, however, value nearly doubled to US$13 billion thanks to activity in China and Turkey. In contrast, service value plummeted by 91 percent to US$486 million because of smaller transaction size: in 2007 nine transactions exceeded US$150 million; in

Figure 2 **Value of privatization transactions in developing countries by sector, 2007–08**



Source: World Bank Group, Privatization Database.

2008 just one did (in Bulgaria), accounting for nearly 70 percent of service value.

Primary sector value fell by 32 percent to US$4.2 billion, nearly 90 percent of it from the IPO of China Coal and the rest from a copper mining sale in Serbia. In energy, where a few large IPOs raised US$22 billion in 2007, there were no transactions.

Conclusion

- Privatization declined sharply in 2008, driven mainly by a sharp fall in IPOs. The financial crisis contributed through the collapse in private sector demand and turmoil in equity and credit markets. But fewer privatization opportunities (such as in Latin America) and political difficulties (such as in Algeria and Ukraine) also contributed to the decline.[4]
- Yet while value in 2008 declined sharply from 2006 and 2007—both record years thanks to mega-IPOs in finance in a few countries—it was still higher than in any other year since 2000 except 2005.
- Moreover, preliminary data suggest a pickup in activity in 2009 as stock markets and investor confidence began to stabilize: in China, eight competitive sector IPOs for nearly US$21 billion; in India, the IPOs of the National Hydroelectric Power Corporation and Oil India Corporation for US$1.8 billion; in Poland, the IPO of PGE S.A. for US$2.1 billion; in Turkey, two electricity sales for US$1.8 billion; and in Mali and Burkina Faso, telecommunications sales.
- The crisis itself has created pressures for privatization as increased government spending and declining revenues have led to growing budget deficits. India has made it mandatory for all profitable state-owned companies to offer at least 10 percent of shares in the stock market, while the Russian government recently announced an ambitious program aimed at generating revenues.[5]
- Concerns that the crisis would produce a wave of nationalizations appear to have been unfounded. Government interventions occurred mainly in developed countries, primarily in the form of a temporary rescue of troubled financial institutions rather than a permanent government takeover of the private sector. Bank nationalizations in developing countries appear to have been limited to a few cases in Latvia (Parex Bank) and Kazakhstan (BTA and Alliance Bank). In other sectors nationalization was limited to electricity utilities in Argentina (at the provincial level) and Bolivia (at the national level), although Bolivia began nationalizing in 2006 (oil, telecommunications), as did República Bolivariana de Venezuela (cement, electricity, telecommunications).
- In most countries the legal and institutional framework for privatization remains in place, while regulatory and corporate governance reforms in response to the crisis are likely to improve the climate for privatization and enhance the likelihood of success.

Notes

1. While IPOs do not involve outright transfer of ownership or management control, they dilute government ownership and so are included in the database.
2. Infrastructure value includes only payments to the government through sale revenues and concession or lease fees. It excludes greenfield investments and investment commitments by new owners and operators, which grew in some sectors and declined in others in 2008. See "Private Activity in Infrastructure Down, but Still around Peak Levels," PPI Data Update Note 28 (Public-Private Infrastructure Advisory Facility and World Bank, Washington, DC, 2009).
3. This Note excludes management contracts that occurred in the water sector in such countries as Algeria, India, and Mauritius.
4. Economist Intelligence Unit, "Economic Policy: Algerie Telecom Privatisation Is Officially Abandoned," March 19, 2009, http://www.eiu.com/; Economist Intelligence Unit, "Economic Policy: Privatisation Plans Are Optimistic," February 2, 2009, http://www.eiu.com/.
5. Alexander Kolyandr and William Mauldin, "Russia Revives Privatization," *Wall Street Journal*, September 30, 2009, http://online.wsj.com/.

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