

private sector

Privatization Trends

Sunita Kikeri and
Verena Phipps

Sunita Kikeri
(skikeri@worldbank.org)
is an adviser, and
Verena Phipps
(vphipps@worldbank.org)
a consultant, in the
Corporate Governance
and Capital Markets
Department of the World
Bank Group.

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>.



A Record Year in 2006

An update of the World Bank Group's Privatization Database shows that privatizations in developing countries amounted to US\$70 billion in 2006—or US\$105 billion including two mega Chinese offerings. Both results beat all previous years in nominal terms. Contrary to popular perceptions of a slowdown, the data show that privatization in its various forms continued in a broad range of countries and sectors, particularly infrastructure and banking. Initial public offerings were prominent, especially in China.

In 2006, 48 developing countries carried out 249 privatization transactions valued at a record US\$104.9 billion. This result was driven by two mega minority initial public offerings (IPOs) in China—of the Industrial and Commercial Bank of China for US\$22 billion and the Bank of China for US\$13.7 billion. These two deals, the largest and the fifth largest offering ever, accounted for a third of the total.¹

Excluding these two deals, transaction values amounted to nearly US\$70 billion, a record in nominal terms but in line with results in the late 1990s (figure 1)—and in real terms 17 percent less than the peak of 1997. Ten countries accounted for nearly 80 percent of the total. China again led, with US\$14.6 billion, most of it from 17 other large IPOs in various sectors.² The Russian Federation followed with US\$10.8 billion, mostly from the IPO of Rosneft (an oil and gas concern). Turkey's US\$8 billion came

largely from oil refinery and steel sales. More than half of the Arab Republic of Egypt's US\$7.6 billion came from three transactions in telecommunications and banking. Romania's fifth place resulted mostly from the US\$4.7 billion sale of Banca Comerciala Romana (BCR). Rounding out the top 10 were the Republic of Serbia, Kazakhstan, Tunisia, Hungary, and Nigeria, with large transactions in banking, telecommunications, and oil and gas.

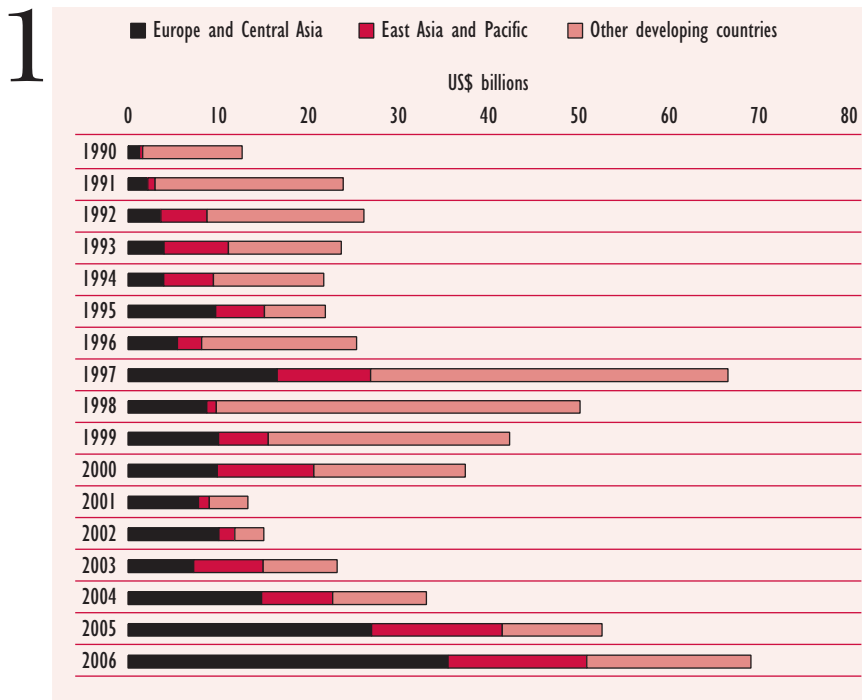
Regional patterns

Europe and Central Asia again led, followed by East Asia. Value increased in both the Middle East and North Africa and Latin America, and declined in Sub-Saharan Africa and South Asia.

Europe and Central Asia: still the leader

A leading region since 2000, Europe and Central Asia saw value grow from US\$27.1 billion in 2005

Figure Value of privatization transactions in developing countries, 1990–2006



Note: Data for 2006 exclude the minority IPOs of the Industrial and Commercial Bank of China and the Bank of China.
Source: World Bank Group, Privatization Database.

to US\$35.5 billion (51 percent of the total) in 2006, though the number of transactions fell from 112 to 83. Nearly 70 percent of the value came from five transactions in the US\$2–10 billion range: Rosneft in Russia, an oil refinery and steel company in Turkey, BCR in Romania, and an oil and gas concern in Kazakhstan. Another 10 percent came from three deals over US\$1 billion in the Republic of Serbia (telecommunications), Hungary (natural gas distribution), and the Slovak Republic (electricity). Accounting for most of the rest were other sales in Turkey and the Republic of Serbia along with significant transactions in Bulgaria and the former Yugoslav Republic of Macedonia (electricity), Bosnia and Herzegovina (telecommunications), and Lithuania (oil and gas). Poland’s share declined from 7 percent in 2005 to just 1 percent following a shift in political leadership. Georgia had 34 transactions, most under US\$10 million.

East Asia: Chinese IPOs dominant

East Asia remained in the US\$15 billion range (22 percent of the total) with 62 transactions, down from 84 in 2005. China’s share of regional value

has increased steadily—from 50 percent in the 1990s to 94 percent in 2006. Besides the 2 mega banking deals, China had 17 other large IPOs in 2006, motivated by the demand for shares and need for capital. These alone accounted for 85 percent of regional value, and nearly 20 percent of the total value in developing regions. Another 10 percent came from China’s 17 other transactions, mostly infrastructure concessions. The rest came from 3 infrastructure transactions in the Philippines and 3 in Indonesia as well as 22 transactions in a range of sectors in Vietnam, all but 3 under US\$10 million.

Middle East and North Africa: growth in Egypt

In the Middle East and North Africa value nearly tripled to reach US\$11 billion (16 percent of the total) in 2006, and the number of transactions grew from 21 to 33. Egypt, with half the transactions, led with US\$7.6 billion. Its regional share grew from 52 percent in 2005 to nearly 70 percent in 2006, driven largely by sales of a third mobile license (US\$2.9 billion) and government stakes in a joint venture bank (US\$2.2 billion) and the 80 percent strategic sale of the Bank of Alexandria (US\$1.6 billion). Tunisia’s 20 percent share came mostly from the 35 percent block sale of Tunisie Telecom to a foreign investor for US\$2.25 billion. With sales also in Jordan, Morocco, and the Republic of Yemen, telecommunications again led, accounting for 53 percent of regional value. Banking followed with 37 percent.

Latin America: sharp growth

In Latin America, which led throughout the 1990s but saw a consistent decline in 2000–05, activity picked up in 2006: value nearly tripled to US\$3.5 billion (5 percent of the total), and the number of transactions nearly doubled to 17. Yet 94 percent of regional value still came from 10 transactions in three countries. Mexico’s 40 percent came from two airport concessions, including the Pacific Airports Group concession for US\$1 billion. Colombia’s 37 percent share, though down from 50 percent in 2005, reflected a more diversified program, with six transactions in petroleum, telecommunications, electricity, water, and ports. Brazil’s 17 percent came from two electricity transactions. Smaller-scale activity occurred in Jamaica (telecommunications),

Peru (electricity, telecommunications), and Costa Rica and Chile (transport).

Sub-Saharan Africa: more countries, fewer deals

In Sub-Saharan Africa value fell from US\$2.3 billion in 2005 to US\$1.9 billion (3 percent of the total) in 2006, and the number of transactions from 46 to 30. Concentration grew, with the top 10 transactions accounting for 94 percent of regional value, up from 82 percent in 2005. But more countries had activity. With 18 transactions, Nigeria again dominated, though its share of regional value declined from 93 percent in 2005 to 73 percent. It also had only 5 of the top 10 transactions (down from all 10 in 2005). These included Nigerian Telecommunications (US\$750 million) and the Sunti sugar company (US\$427 million)—the region's two largest transactions. Others were in manufacturing, tourism, ports, and mining. Telecommunications sales—in Burkina Faso, Guinea, and Malawi as well as Nigeria—accounted for 60 percent of regional value. Large transactions also took place in Kenya (electricity) and Uganda (sugar), and a few smaller sales in Angola, Equatorial Guinea, and Rwanda.

South Asia: Indian states active

South Asian value declined from US\$3.8 billion in 2005 to US\$1.65 billion (2 percent of the total), though the number of transactions grew from 16 to 22. Pakistan's regional share fell from 96 percent in 2005 to 70 percent in 2006; more than 90 percent came from the sale of the Oil and Gas Development Company and Pak-American Fertilizers. India's share grew from 2 percent to 28 percent as a result of 14 road and airport concessions at the state and local levels (political opposition stalled privatization at the national level).³ Mobile license sales in Afghanistan, Bhutan, and Sri Lanka accounted for the rest.

Sector patterns

Three sectors again accounted for about 80 percent of total value: infrastructure (telecommunications; electricity generation, transmission, and distribution; natural gas transmission and distribution; transport; and water), energy (production of oil and gas, other hydrocarbons), and finance (banking, insurance).

Infrastructure: continued recovery

Infrastructure again led, with value in the US\$23 billion range (34 percent of the total) and 110 transactions, up from 87 in 2005 (table 1). Telecommunications accounted for nearly half the infrastructure value, with more transactions (30 compared with 22) and more countries (21 compared with 16) than in 2005. Egypt, Tunisia, and the Republic of Serbia had the three largest transactions in telecommunications, amounting to two-thirds of its value.

Transport's share rose from 8 percent of the infrastructure value in the early 2000s to 32 percent in 2005, then declined slightly to 30 percent in 2006. Transport also recorded more transactions in more countries. Three-quarters of the value came from five railway and airport deals in China and Mexico. Other contributors included Russia (airport), India (toll roads, airports), and Latvia, Nigeria, and Georgia (all ports).

Electricity and natural gas activity expanded, with 32 transactions in 2006, up from 22 in 2005. Value grew fourfold to US\$5.3 billion. Activity was spread among 16 countries, up from 9 in 2005. Three transactions—in Hungary, the Slovak Republic, and Brazil—accounted for 60 percent of the value. The Philippines, Indonesia, Bulgaria, FYR Macedonia, Kenya (a newcomer), and Colombia were other important contributors.

Water and sewerage again accounted for barely 1 percent of the infrastructure value, with just nine transactions—in the Philippines, Colombia, and China—totaling US\$173 million.

Table Privatization transactions in developing countries by sector, 2005–06

Sector	2005		2006	
	Value (US\$ billions)	Transactions	Value (US\$ billions)	Transactions
Infrastructure	24.7	87	23.4	110
Electricity and natural gas	1.2	22	5.3	32
Transport	7.8	30	7.1	39
Telecommunications	15.3	22	10.9	30
Water and sewerage	0.4	13	0.2	9
Energy	2.2	9	19.9	12
Finance	15.5	39	12.9	32
Competitive	10.1	148	10.1	82
Primary	0.4	5	2.8	11
Total	53	288	69.1	247

Note: Data for 2006 exclude the minority IPOs of the Industrial and Commercial Bank of China and the Bank of China. Source: World Bank Group, Privatization Database.

Energy: three big transactions

With 12 transactions and US\$20 billion, the energy sector accounted for nearly 30 percent of total value in 2006. The number of countries with activity grew from five in 2005 to nine in 2006. But nearly 90 percent of the value came from just three transactions—in Russia (54 percent), Turkey (21 percent), and Kazakhstan (12 percent). Four transactions in Lithuania, Pakistan, Colombia, and Hungary contributed most of the rest. Georgia and Vietnam together had five small transactions.

Finance: large transactions, more countries

The financial sector raised US\$12.9 billion (excluding the two mega transactions in China), almost 20 percent of the total. Value became more concentrated, with the top 10 transactions accounting for 97 percent. But transactions were spread across more countries than in 2005, when Chinese banks dominated, and in previous years, when countries acceding to the European Union dominated. The four largest were Romania’s BCR sale (37 percent), Egypt’s Commercial International Bank and Bank of Alexandria sales (30 percent), and the US\$2.6 billion IPO of China Merchant Bank (21 percent). Transactions in the Republic of Serbia, Turkey, and Uruguay accounted for much of the rest.

Competitive sectors: modest decline

Value in competitive sectors remained in the US\$10 billion range (15 percent of the total), but both transactions and countries declined in number. Half the value came from the steel company sale in Turkey and the IPO of China Communications Construction. With other transactions, these two countries accounted for 77 percent of the value. Morocco (tobacco), Nigeria (sugar, tourism), Egypt (retail, tourism), and Pakistan (fertilizers, cement) had the rest.

Primary sector: China dominant

The primary sector had 11 transactions for more than US\$2.8 billion (4 percent of the total), a sixfold increase from 2005. China drove the growth with 93 percent of the value, nearly 70 percent of it from the US\$1.9 billion IPO of China Coal Energy Company. The rest came

from transactions in Jordan, Georgia, and Nigeria along with small ones in Egypt and Vietnam.

Conclusion

Privatization continued in 2006:

- IPOs were important, accounting for more than a third of total value. Half of all IPO value came from two oil and gas transactions in Russia and Kazakhstan. The other half came from China, which used IPOs in a range of sectors to raise funds for its enterprises and satisfy the appetite for stock market listings. While IPOs resulted in the dilution of ownership, enterprises remain majority owned and managed by the state, raising a new set of corporate governance issues for the future.
- Political leadership continued to be decisive, with its presence facilitating privatization in Colombia, Egypt, Nigeria, and Turkey and its absence stalling privatization in India (at the national level) and Poland.
- Popular perceptions notwithstanding, private participation in infrastructure expanded (except in water) and was more evenly distributed among more transactions and more countries.

Notes

1. PricewaterhouseCoopers, *Greater China IPO Watch 2006* (March 2007). These two deals are excluded from the rest of the analysis because of their disproportionate size.
2. While minority IPOs do not involve outright transfer of ownership or management control, they dilute government ownership and so are included in the database.
3. Road concessions in India were awarded on the basis of the lowest subsidy requested, treated here as a proxy for direct payments to the government.

viewpoint

is an open forum to encourage dissemination of public policy innovations for private sector-led and market-based solutions for development. The views published are those of the authors and should not be attributed to the World Bank or any other affiliated organizations. Nor do any of the conclusions represent official policy of the World Bank or of its Executive Directors or the countries they represent.

To order additional copies contact Suzanne Smith, managing editor, Room F 4K-206, The World Bank, 1818 H Street, NW, Washington, DC 20433.

Telephone: 001 202 458 7281
 Fax: 001 202 522 3480
 Email: ssmith7@worldbank.org

Produced by Grammarians, Inc.

Printed on recycled paper