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THE WORLD BANK GROUP FINANCIAL AND PRIVATE SECTOR DEVELOPMENT VICE PRESIDENCY

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Privatization Trends

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This Note is based on a World Bank Group database available at http://rru.worldbank.org/Privatization. The database uses transaction values as a proxy for measuring privatization trends. For a detailed discussion of methodological issues, see "Methodology" on the database Web site.

Near-Record Levels in 2005

An update of the World Bank Group's Privatization Database shows that privatization in developing countries continued to pick up in 2004 and 2005, with 400 transactions worth US$90 billion. Apart from 1997, the 2005 result in nominal terms is the highest since 1990 (when the data start). Transaction values remained concentrated in 10 countries, with 4 new entrants joining the group. The top 10 deals, largely in banking and telecommunications, again accounted for 40 percent of the total.

In 2004–05, 62 developing countries carried out nearly 400 privatization transactions worth US$90 billion. In 2004 some 170 transactions generated US$33 billion. In 2005 the number of transactions increased by 15 percent while total value rose by 72 percent to US$57 billion (figure 1). Ten countries accounted for nearly 80 percent of total value, with Romania, Ukraine, Pakistan, and Hungary entering the top 10 group for the first time since 1990.

Together, China and Turkey accounted for a third of total value. China again led, with US$18 billion—70 percent of it from minority share sales in banking and an insurance company. Turkey followed with US$12.6 billion—half of it from the 55 percent sale of Turk Telekom for US$6.55 billion, the period's biggest transaction. Romania's sale of Banca Comerciala Romana (BCR) for US$4.7 billion and other large transactions put it in third place. Ukraine's fourth place resulted from the sale of the Kryvorizhstal steel mill for US$4.8 billion. A host of major transactions, including in telecommunications, brought Pakistan into the top 10 group. Airport and gas transactions did the same for Hungary.

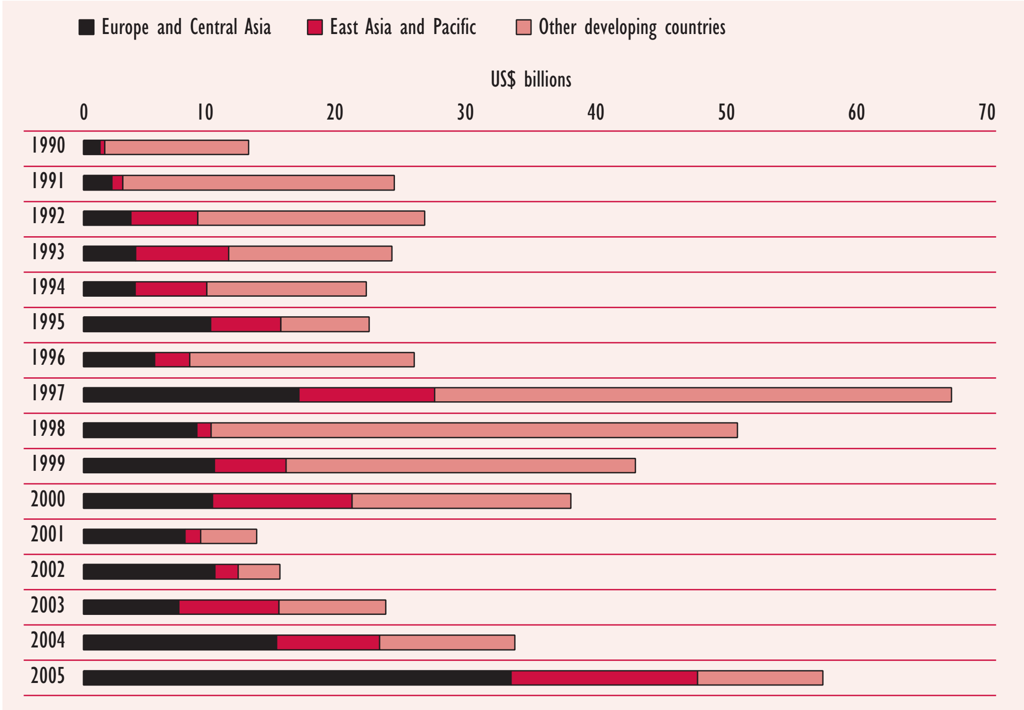
Regional patterns

Europe and Central Asia—still the leader—and East Asia together accounted for 80 percent of total value and 9 of the top 10 transactions in 2004–05. South Asia doubled its share, while Latin America's declined dramatically. The Middle East and North Africa had a modest decline, as did Sub-Saharan Africa.

Europe and Central Asia: still the leader

The region generated US$47 billion from 200 transactions, increasing its share of total value from 40 percent in 2000–03 to 54 percent.

Figure 1 **Value of privatization transactions in developing countries, 1990–2005**



Source: World Bank Group, Privatization Database.

Accession to the European Union was a major driver in the top two countries: Turkey, with 26 percent of regional value (from airports, ports, petrochemicals, aluminum, oil, and banking in addition to Turk Telekom); and Romania, with 15 percent (from petroleum, electricity, and gas in addition to BCR). The Czech Republic (telecommunications, oil, petrochemicals, mining) and Poland (banking, oil and gas, manufacturing) each had 10 percent. Ukraine, Hungary, and the Russian Federation were other important contributors.

East Asia: Chinese banks dominate

East Asia, with US$22 billion from 51 transactions, remained the second largest value generator, its share holding steady at 25 percent. China generated 80 percent of regional value, nearly 70 percent of this from eight minority share sales to foreigners in five of its biggest banks and an insurance company (driven by accession to the World Trade Organization and financial sector liberalization). Activity also occurred in water, gas, and container terminals. Three other countries had a few large transactions: Malaysia (power, ports), Thailand (airlines, airport), and Indonesia (banks, power, gas).

South Asia: Pakistan takes off

South Asia, with US$8 billion from 39 transactions, increased its share of total value from 4 percent in 2000–03 to 9 percent in 2004–05. But activity was limited to two countries, despite a large regional stock of state enterprises.

Pakistan expanded its regional share from 15 percent in 2000–03 to 53 percent in 2004–05 following the appointment of a new privatization minister in April 2003. Among its major transactions: sale of a 26 percent controlling stake in its telecommunications company, its biggest transaction ever at US$2.6 billion and the ninth largest transaction in the period; sale of mobile licenses and majority stakes in electricity, oil refining, and fertilizers; and public share offerings in gas, power, and petroleum. Remaining regional value came from small minority share offerings in some of India's largest state enterprises (Oil and Natural Gas Corporation, National Thermal Power

Corporation, Gas Authority of India Limited); strategic sales in India came to a halt with the election of a new government in 2004.

Latin America: the sharpest decline

Latin America raised US$3.1 billion from 26 transactions in 2004–05, with its share of total value dropping from 17 percent in 2000–03 to 3 percent. The decline stemmed in part from a shrinking portfolio of state enterprises and in part from political and public backlash to privatization.

Chile accounted for a quarter of regional value with concessions in toll roads, water, and railroads. Brazil's share plunged from 85 percent to 23 percent, most of it from two large concessions in transport and sanitation. Remaining regional value came from five large transactions: Granahorrar Bank in Colombia (the region's largest transaction at US$420 million), telecommunications in El Salvador, airports in Mexico, and a hydroelectric plant and mine in Peru.

Middle East and North Africa: telecommunications leads the way

The region raised US$7.5 billion from 27 transactions, accounting for 8 percent of total value, down from 11 percent in 2000–03. Two countries again had nearly 70 percent of regional value. Morocco's 37 percent share came from the US$2.5 billion sale of Maroc Telecom. The Arab Republic of Egypt's 30 percent share resulted from a more active program, including the sale of Telecom Egypt (US$892 million) and other large transactions in such sectors as cement, fertilizer, petrochemicals, and mineral oil. Telecommunications was again the leading sector (70 percent of regional value), thanks to sales in these two countries along with Oman (fixed line) and Algeria, the Islamic Republic of Iran, and Tunisia (mobile licenses).

Sub-Saharan Africa: few countries, few transactions

Sub-Saharan Africa, with US$975 million from 23 transactions, generated 1 percent of total value in 2004–05, down from 3 percent in 2000–03. Activity was limited to a few countries despite a heavy state enterprise presence. Nigeria alone accounted for 70 percent, with 40 percent of its value coming from the 25-year concession of the Apapa port terminal and the rest from two large transactions (fertilizer, hotel). Tanzania and Ghana together accounted for another 12 percent, mainly from the sale of telecommunications shares and mobile licenses. Telecommunications generated most of the rest through sales in Sudan, Kenya, Rwanda, South Africa, and Madagascar.

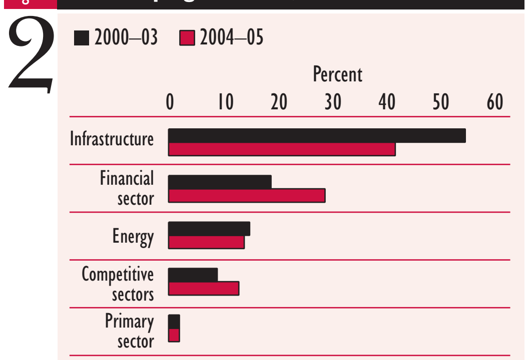
Sector trends

Three sectors again accounted for nearly 90 percent of total value: infrastructure (telecommunications, electricity and natural gas, transport, water), finance (banks, insurance, other financial services), and energy (exploration and production of oil and gas, other hydrocarbons; figure 2).

Infrastructure: telecommunications and transport grew

Infrastructure's share of total value declined from 55 percent in 2000–03 to 42 percent in 2004–05. Telecommunications again generated the most revenue, increasing its share of infrastructure value from 50 percent to 60 percent—with 10 transactions in 10 countries accounting for 90 percent of that share. Transport also expanded its share, from 8 percent to 21 percent. Airport concessions in Turkey, Hungary, Thailand, and Mexico generated 70 percent of transport value; the other 30 percent came from ports (Turkey, Nigeria) and toll roads and highways (Brazil, Chile, Mexico, India).

Figure 2 Sector distribution of total transaction value in developing countries, 2000–03 and 2004–05



Source: World Bank Group, Privatization Database.

Electricity's share again fell, from 39 percent to 16 percent, with three transactions (Malaysia, the Slovak Republic, India) accounting for nearly half its value. Water held steady at 3 percent, with more than 80 percent of its value concentrated in Chile (34 percent), China (32 percent), and Brazil (17 percent).[1]

Financial sector: sharp growth

The financial sector's share grew from 19 percent in 2000–03 to nearly 30 percent in 2004–05. But nearly 90 percent of the sector's value came from 10 transactions, 7 involving minority share sales in Chinese banks and accounting for 60 percent. Two transactions in Europe and Central Asia—Romania's BCR and Poland's PKO-Bank Polski—accounted for most of the rest. Other countries with activity in the sector: Colombia, Brazil, Albania, Serbia, Egypt, Lebanon, and Tunisia.

Competitive sectors: on the rise

After declining in earlier years, competitive sector value increased to reach 13 percent in 2004–05. Nearly 40 percent of the value came from the sale of the steel mill in Ukraine. Large manufacturing transactions also took place in Poland, Turkey, Hungary, Serbia, Egypt, and Pakistan, in such sectors as cement, fertilizer, and aluminum. Privatization of services increased, notably in airlines (Thailand, Pakistan, Lithuania, the Slovak Republic, and Turkey).

Energy and primary sectors: steady state

Energy value remained at about 15 percent of the total, with activity mostly in Europe and Central Asia (Russia, Romania, Poland) and South Asia (India, Pakistan). The primary sector held steady at 2 percent, with 92 percent of its value generated in Europe and Central Asia (the Czech Republic, Ukraine, Armenia, Turkey) and the other 8 percent from Peru's sale of the Las Bambas mine.

Conclusion

Privatization picked up in 2004–05, especially in banking, transport, telecommunications, and competitive sectors:

- Countries such as Turkey, Romania, Pakistan, and Egypt actively privatized, motivated by political leadership, international agreements, and fiscal pressures.
- Privatization in some cases (such as Chinese banks) involved minority share sales on the stock market with state control remaining. The impact of such sales has yet to be systematically assessed, a task that requires putting in place greater capacity to monitor holdings and evaluate performance.
- Privatization was a vehicle for foreign direct investment—increasingly South-South investment, which helped make privatization politically easier.
- While accelerating in some countries, privatization stalled in others (Croatia, Moldova) because of dissatisfaction with price or lack of bidders. In still others (Bolivia, Russia, República Bolivariana de Venezuela) the state increased its influence through nationalization or restrictions on foreign investment in such sectors as oil and gas and utilities (UNCTAD 2006). In such circumstances, exposing state enterprises to competition and improving their corporate governance become critical.

Note

1. Numbers for the water sector exclude management contracts (in growing use), as they do not generate revenue.

Reference

UNCTAD (United Nations Conference on Trade and Development). 2006. *World Investment Report 2006*. Geneva.

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