Recent Privatisation Trends*

I. Introduction and summary

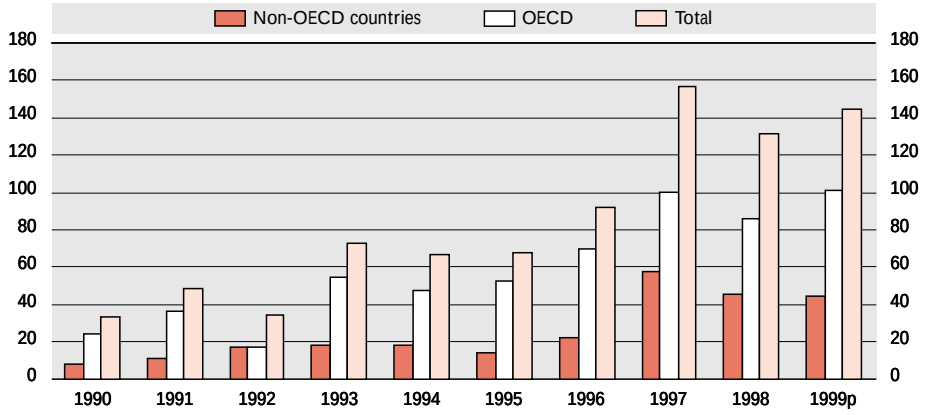
Global privatisation activity in 1999 reached around US dollars (USD) 145 billion, up by around 10% over 1998, but below the exceptionally strong showing of 1997 (Figure 1). In 1999 privatisation activities were largely driven by factors such as: the continuation of a general trend toward reducing the role of state in the economy; budgetary constraints; a need to attract investment; and a combination of technological change, liberalisation and globalisation of product and financial markets.

The weight of these factors has varied from one country to another. For example in member countries of the European Monetary Union (EMU) the key drivers have been the need to meet the fiscal objectives of the new monetary union, coupled with the European Union directives requiring liberalisation of markets such as those in telecommunications and energy. In OECD member countries that were formerly transition economies (Hungary, Poland and the Czech Republic), the continuation of the transition to a market economy, along with development of its institutions and the need for investment have shaped the activity.

In 1998, global privatisation proceeds had dropped significantly, with a large part of the decline concentrated in non-OECD countries. The 1999 recovery was focused in OECD countries where proceeds slightly surpassed their 1997 levels. However, preliminary estimates suggest that activity in non-OECD countries remained quite low and almost unchanged from the year before.

* This article was prepared by Ladan Mahboobi, a consultant in the Corporate Affairs Division. The data is from the OECD Privatisation Database. It was prepared under the supervision of Ayse Bertrand, head of the Financial Statistics Unit. The database captures from national sources the amounts raised from privatisation in OECD countries and incorporates privatisation data from the World Bank Privatisation Database for information on non-member countries. The amounts reported are gross proceeds, which may not necessarily correspond to the net amounts available to the government as a result of disposal of its assets.

Figure 1. ***Global amounts raised from privatisation***
US$ billion



p: Provisional.
Sources: OECD privatisation database and World Bank.

Privatisation activities in the OECD area continued to have a significant impact on the broadening and deepening of capital markets, particularly in Europe. The year 1999 witnessed some of the most important signs of the changing nature of the corporate control landscape in Europe. The hostile take-over battle for Telecom Italia between Olivetti and Deutsche Telecom and the three-way take-over contest between privatised banks (Société Générale, BNP and Paribas) in France were among the most important indications.

The highlights of 1999 privatisation activity were as follows:

- In continuation of the 1998 trends, OECD privatisations continued to account for the bulk of activity, with the majority of global proceeds coming from the members of the European Union. In non-OECD countries privatisation activities stayed at about the same level as in 1998, but there was a shift in their regional distribution towards Asia.

- Within OECD countries, 1999 saw a growing trend of asset disposals in the infrastructure sector. This was also a major factor behind non-OECD privatisation activities. The most important infrastructure privatisations occurred in telecommunications, followed by power sector sales.

- As in previous years, public offerings constituted the predominant method of sale in OECD countries. The trend towards large transactions appears to have continued, as indicated by the number of offerings in excess of USD 5 billion. By contrast, in non-OECD countries trade sales were still the dominant method.
- Since 1990, privatisation proceeds in OECD have generated close to USD 600 billion, or equivalent of 2.7 percent of the area's GDP,[1] with the figure reaching as high as 27% for individual countries.

The year 2000 is likely to see a continuation of strong activity in OECD countries, as is already evident from the flurry of announced plans and the privatisation transactions that have taken place to date. However, increasing market volatility, especially in the information technology segments of the equity markets, is a mitigating factor. Even so, there are signs that telecom sector shares have been less volatile than the other segments of the technology sector, and this bodes well for privatisation plans involving this sector. Other factors are the changing government priorities triggered by internal economic, political and strategic considerations, and possible delays in preparation of assets for sale. Whether 2000 will mark a full recovery from the 1998 reversal will depend on the extent to which non-OECD countries follow through with their privatisation plans, and the full resumption of investor confidence in emerging markets.

II. Regional distribution of activities and the extent of change

a) Privatisation in OECD countries

Since 1990, privatisation in OECD countries has raised close to USD 600 billion in revenues, with over 2/3 of the proceeds generated by the European members. Between 1990 and 1999, annual proceeds grew fourfold, from around USD 25 billion to more than USD 100 billion (Table 1).

In 1999, OECD countries accounted for over two thirds of the global privatisation activity. Consistent with earlier trends, western Europe alone accounted for more than half of all OECD proceeds. The continuation of the strong privatisation effort of these countries was influenced by an acceleration of privatisation programmes among members of the EMU. The desire to reduce the role of government in the economy, market liberalisation and the emergence of new technologies in sectors such as energy and telecommunications, as well as the drive for globalisation have also contributed to this change.

Since 1990, privatisation across OECD countries has generated proceeds equivalent to around 2.7% of GDP[2] of the area. This aggregate figure, however,

Table 1. **Country breakdown of global amount raised from privatisation**[1]

US$ million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Australia	19	1 042	1 893	2 057	2 055	8 089	9 052	16 815	7 146	15 048
Austria[2]	32	48	49	142	700	1 035	1 300	2 654	2 426	138
Belgium	–	–	–	956	549	2 748	1 222	1 817	2 277	–
Canada[3]	1 504	808	1 249	755	490	3 998	1 770	–	11	–
Czech Republic[4]	..	..	..	..	1 077	1 205	994	442	469	781
Denmark	644	–	–	122	229	10	366	45	4 502	19
Finland	–	–	–	229	1 166	363	911	835	2 068	3 645
France	–	–	–	12 160	5 479	4 136	5 099	8 189	12 951	9 509
Germany[5]	–	325	–	435	240	–	13 228	1 125	364	6 734
Greece	–	–	–	35	73	44	5 58	1 395	3892	4 880
Hungary	38	470	720	1 842	1 017	3 813	1 157	1 966	353	88
Iceland	–	–	21	10	2	6	–	4	129	229
Ireland	–	515	70	274	–	157	293	–	–	4 846
Italy[6]	–	–	–	1943	6 493	7 434	6 265	27 719	13 619	2 5611
Japan	–	–	–	15 919	13 773	–	6 379	4 009	6 641	14 856
Korea	–	–	–	817	2 435	480	1 866	539	600	2 705
Luxembourg	–	–	–	–	–	–	–	–	–	–
Mexico	3 124	10 757	6 864	2 531	766	170	73	2 670	987	291
Netherlands	716	179	–	780	3 766	3 993	1 239	831	335	1 481
New Zealand	3 895	17	967	630	29	264	1 839	–	441	1 331
Norway	73	–	–	–	118	521	660	35	–	454
Poland	23	171	373	433	725	1 101	1 442	2 043	2 079	3 422
Portugal	1 192	1 198	2 326	500	1 132	2 425	3 002	4 930	4 260	1 624
Spain	172	–	820	3223	1 458	2 941	2 679	12 522	11 618	964
Sweden	–	–	378	252	2 313	852	785	1 055	172	2 071
Switzerland	–	–	–	–	–	–	–	–	4 426	–
Turkey	4 86	244	423	566	412	572	292	466	1 020	38
United Kingdom[7]	12 906	21 825	604	8 523	1 341	6 691	7 610	4 544	–	–
United States	–	–	–	–	–	–	–	3 650	3 100	–
Total OECD	**24 824**	**37 599**	**16 757**	**55 134**	**47 838**	**53 048**	**70 081**	**100 300**	**85 886**	**100 765**
of which: EU 15	15 662	24 090	4 247	29 574	24 939	32 829	44 557	67 661	58 484	61 522
Other countries[8]	8516	11 605	17 458	17 983	18 436	14 551	22 026	57 155	45 153	44 000
Global total	**33 340**	**49 204**	**34 215**	**73 117**	**66 274**	**67 599**	**92 107**	**157 455**	**131 039**	**144 765**

.. Not available.
– Nil or insignificant.
p. Provisional.
1. The amounts shown are gross proceeds from direct privatisations. These do not necessarily correspond to the net amount available to the government. The figures are on a calendar year basis and they may not add up to published budget figures.
2. Statistics refer only to privatisations by the central government.
3. There were no federal privatisations in 1997 and 1999. Provincial data are currently not available.
4. The cumulative amount for the period 1991-93 is US$ 2 240 million.
5. Up to 1997, information on trade sales is not available.
6. Including convertible bond issues (INA) of US$ 2 055 in 1996 and indirect privatisations raising US $ 2 658 miillion in 1996 and US$ 2 620 million in 1997.
7. Debt sales for years 1990-97 (fiscal years) amounting to £ 5 347 million, £ 7 924 million, £ 8 189 million, £ 5 453 million, £ 6 429 million, £ 2 439 million, £ 4 500 million, respectively.
8. For 1990-1998 the source is World Bank; 1999 data are OECD estimates.

Source: OECD privatisation database (based on national statistics), unless otherwise indicated.

masks strong difference in activity among individual member countries. At one end of the spectrum is Hungary, with proceeds amounting to over a quarter of its GDP, while for countries such as the United States and Luxembourg the proceeds are negligible.[3] This figure may even somewhat understate the overall importance of privatisation, as many state-owned firms (or their assets) were effectively privatised through methods that do not generate any revenues (such as mass privatisation, liquidation or heavily subsidised employee/management buyouts).

Over the last five years, Italy, Australia, France, Japan and Spain have been the most active privatisers within the OECD area. Together, they have been responsible for close to 60% of all privatisation proceeds generated.

Privatisation in selected countries

Italy's privatisation programme, which dates back to 1992, accelerated in the years prior to the launch of Euro, and has raised close to USD 90 billion since 1993, mainly through public offerings. In 1999, the USD 18 billion IPO of 34.5% of ENEL (Italy's largest electricity company) became the world's largest ever initial public offering. The government had initially planned to sell around 20% of its stake in the company, but this was raised in response to the strength of demand for ENEL's shares. There were also other notable sales by both the Treasury and IRI (a holding company controlled by the Treasury) whose assets have generated over USD 37 billion, or approximately 40% of all Italian privatisation proceeds to date. These included Treasury's trade sale of Mediocredito Centrale, a wholly Treasury-owned investment bank, and IRI's trade sale of a 30% stake in Autostrade to a consortium. There were also a number of large sales by the sub-national and regional governments, such as the IPO of Banca Monte dei Paschi di Siena, and the public offering of Rome's gas, water and electricity company ACEA.[4]

Portugal's privatisation programme has to date been one of the most ambitious in the OECD area. The activities have included sales in sectors such as insurance, telecommunications, electricity, banking, manufacturing and transportation. This was facilitated by a change in legislation in 1990, which removed limitations on foreign participation, and ceilings on the sale of state-owned enterprises (over 100 companies have been sold raising proceeds of more than USD 23 billion).[5] Like in Italy and Spain, public offerings have been a central method of sale, and have included incentives for retail investor participation. However, in 1999, the privatisation programme slowed down compared to the previous couple of years. This was due in part to the performance of the stock market, and it also reflected delays in the planned restructuring of the energy and air transportation sectors. Portugal's major transactions in 1999 included sales in the pulp and paper industries, and the sale of a further 20% stake in BRISA (toll motorway), which reduced the government stake to 14%. Also, the year saw the public offering of the fourth

tranche of Portugal Telecom (the first tranche was in 1995), whereby the government stake was reduced to 10.5%.

Since 1996, the *Spanish* privatisation programme has gained a new momentum. Since its inception in the late 1980s, the programme has raised more than USD 35 billion. Spain's privatisation activities in 1999 were lower than the year before. Major sales included the sale of Indra (information technology) and Red Electrica de Espana (power transmission). The planned sale of the government's controlling stake in Iberia, the national airline, was postponed and is now planned for autumn 2000.

Since the 1997 elections, *France's* privatisation programme has averaged around USD 10 billion a year. Privatisations in 1999 have included sales in a wide range of sectors including defence (USD 1.4 billion sale of a 17% stake in Aerospatiale), manufacturing (Thomson Multimedia), airlines (USD 700 million sale of 20.7% of Air France), as well as banking (USD 3.7 billion IPO sale of Credit Lyonnais and the USD 700 million trade sale of the mortgage bank Credit Foncier de France). It is worth noting that, the French privatisation programme has generated more proceeds in the last three years than during all the other years since its inception in the 1980s.

Germany's most important transaction in 1999 was the USD 10 billion sale of shares in Deutsche Telekom through the first ever pan-European offering. This secondary offering of Deutsche Telekom shares was a capital-raising exercise for the company, which reduced government stakes from 72% to 66% (in 1998, the German government's sale of shares to the state-owned bank KfW, had reduced its direct share ownership in the company to 72%). Despite the fact that the company had not specified how the funds raised were to be used, and in light of its failed merger bid with Telekom Italia earlier in the year, the exercise was a success thanks to the retail demand for the offering (in particular outside the country). Also notable was the acquisition of Deutsche Postbank by Deutsche Post, and the latter's planned floatation later this year. This is a continuation of a process that began in the mid-1990s in response to the European Commission's pressure for liberalisation of telecom and postal services. The process has involved the gradual restructuring of the Postal Ministry, which used to comprise telecommunications, postal and banking arms. An interesting feature of privatisation activity in Germany was the extent of activity by sub-national and regional governments. Since 1997, the Berlin municipal authority has been selling off assets in an effort to control its budget deficits, whereby companies in electricity and gas have been wholly or partially privatised. In 1999, the authority completed the partial sale of BWB (the Berlin waters utility).

Of the three OECD members that were formerly transition economies, *Poland* had the most lively privatisation programme in 1999. It raised over USD 3 billion –

the largest proceeds to date. Poland's activities are guided by an ambitious privatisation timetable that was announced in 1998, seeking to dispose of stakes in all sectors that are still under state-ownership. During 1999, Poland's privatisation efforts focused on the banking sector. To date, most banks have been restructured, re-capitalised and privatised; deals completed included the USD 580 million sale of Bank Zachodni. The private sector now accounts for approximately 60-70% of the GDP. However, companies in mining, electricity, gas and water supply continue to be dominated by public investment and ownership. Currently, efforts are underway to speed up privatisation of the power sector and insurance. Since 1990, privatisation has raised close to USD 12 billion or equivalent to around 10% of its GDP over the same period.[6] At the same time, a large number of smaller enterprises (or their assets) were sold to managers and employees, without generating any proceeds for the Treasury.

In terms of privatisations, *Hungary* has been one of the most successful of the transition economies. State-ownership has dropped from about 85% to 15% of the GDP. The privatisation programme has succeeded in bringing about ownership by real private owners and strategic investors. It has involved substantial foreign participation, and only marginal reliance on mass privatisation, a feature that has set it apart from other transition economies. In 1999, Hungary's privatisation programme, which is now in an advanced stage, included the sale of government's residual stake in the telecommunications company Matav.

In *Nordic* countries, there were plans for a merger and subsequent privatisation of the telecommunications companies of Sweden, Telia, and Norway, Telenor. However at the end of 1999, this merger fell apart and each company embarked on its own privatisation plan. Telia's initial public offering took place during the first half of 2000, and became the largest ever in the Nordic region. This year also saw the successful USD 3.6 billion secondary offering of Finland's telecommunications company Sonera.

Outside Europe, a secondary USD 8 billion offering of a 16.6% stake in the telecommunications company Telstra became *Australia's* largest-ever offering. It lowered the government stake in the company to just over 50%. More than 3 million retail investors participated in this sale. There were also various sales in the energy sector, which raised over USD 3 billion in proceeds. Over the last 5 years, revenues from the sale of assets by the federal and state governments averaged USD 11 billion a year. Sales included sectors such as telecommunications, energy, banking, and transportation. However, the political opposition to privatisation has been mounting, which could slow down the pace of activity in the near future.

In 1999, *Japan's* secondary offering of a 6% stake in NTT, raised close to USD 15 billion, and became the largest secondary offering in the world. The offering met strong market enthusiasm, from both retail and institutional investors; the

retail component went 8 times subscribed. Other notable transactions in 1999 included the public offering of a 25% stake in the East Japan Railway Company, which reduced the Japanese government stake to about 12%.[7]

During 1999, *Korea's* privatisation programme raised close to USD 3 billion. Most important was the USD 2.5 billion secondary offering of shares (American Depository Receipts) in Korea Telecom, which reduced the government stake to 59%. Korea Telecom's successful offering did not rely on a retail domestic component; it was the largest international placement by an Asian issuer. The success of this sale appears to have been due to a combination of factors: recovery of the Korean economy, the company's strong prospects thanks to its effective restructuring and cost cutting efforts, and favourable market timing. Other transactions included the sale of 70% of Seoul Bank (a bank nationalised during the 1997-98 crisis), as well as a share offering (ADRs) for a 5% stake in Korea Electric Power Corporation (Kepco). An interesting characteristic of Korean privatisation is the country's emphasis on international placements rather than domestic retail development. This is probably related to the dominance of the domestic equity market by chaebol[8]-linked institutions. In the aftermath of the financial crisis, the Korean government acquired large equity stakes in a number of banks in an effort to rescue insolvent institutions and to re-capitalise of the weak ones. Privatisation of these entities and restructuring of the corporate sector is one of the major challenges facing the government. One of the banks was privatised in the first part of 2000.

b) Privatisation in non-OECD countries

During 1999, the privatisation prospects for non-OECD countries improved, as economic recovery gained hold in Asia and in other economies previously affected by financial crises. Privatisation was promoted as a way to address needs for structural reforms and, in some cases, needs to meet budgetary targets, but this did not fully translate into a major rebound in activity. Performance varied among regions.

Preliminary estimates for 1999 suggest that privatisation activity remained relatively unchanged from 1998. As in last year, it continued to be dominated by transactions in the telecommunications, and power sectors. However, a notable change from 1998 was the shift in the regional distribution of sales – away from Latin America and in favour of Asia. In 1998, the bulk of activity was focused in Latin America, and in particular the USD 19 billion trade sale of Telebras (the Brazilian telecommunications company). In 1999, however, Latin American activity declined. The most important sale in the region was the USD 2 billion sale of the Argentinean government's minority stake in YPF (energy sector) to Repsol (a formerly state-owned Spanish company, which subsequently proceeded to acquire the remaining stakes of YPF in the market). In other countries activity was slower

than planned. For example, Peru's ambitious programme for 1999 had envisaged USD 800 million in privatisation proceeds, but it succeeded in raising less than half of this amount.

Asian privatisations performed better than in 1998 thanks to improved market conditions, but also as a result of intensified efforts to sell assets in the context of post-crisis restructuring. According to initial estimates for 1999, privatisation activity picked up in East Asia and may continue to grow in 2000. In this region many banks came under government ownership as a result of the financial crisis, and are expected to be re-privatised. A large number of assets that were used as collateral for non-performing loans in failed financial institutions have also come under government ownership and are now being auctioned off. Furthermore, the need to attract foreign investment and conclude agreements with international financial organisations is likely to contribute to progress with privatisations in countries such as Thailand and Indonesia. However, initial expectations of proactive implementation of privatisation programmes have not been realised. Indonesia has not been able to proceed with a state-owned enterprise reform programme, while Thailand has been slow to adopt a proper institutional framework to carry out privatisations.

During 1999, sales in the banking sector got underway in Thailand and the public offering of Malaysia Airports Holding BHD became the first airport public offer in Asia. In Indonesia the USD 400 million minority sale of the PT Telecom in the telecommunications sector was the only notable transaction of the year. In India, the election of a new government put privatisation (or disinvestment) plans back on the table. Minority stakes in the insurance, steel and energy sectors were sold, while stakes in telecoms are likely to go to the market this year.

China's expectations for progress with privatisation suffered a setback as the planned initial public offering of China's National Offshore Oil Company (CNOOC) had to be scaled back substantially – and finally postponed altogether. This largely reflected a lack of investor interest and the timing of the sale. One of the main barriers to progress of Asian privatisations – and those of China in particular – is public concerns over the loss of employment and the adjustment issues associated with it. Another one is poor corporate governance by the state agencies that will remain controlling shareholders after partial sales.

Privatisation activity regained momentum in Africa and the Middle East in 1999, in particular in Morocco, Tunisia, Jordan and Algeria. In the past, manufacturing, the primary sector and tourism were the key areas of activity, but future sales could also include telecommunications (in Morocco and Oman), and transportation (airlines in Jordan, Morocco and South Africa). In Egypt the privatisation programme seems to have been stalled and, according to press reports, there are no plans to privatise ports, banks or the national airline anytime soon.[9]

Privatisation activity in transition economies remained somewhat slow, given the remaining considerable amount of state-owned assets. The most significant sale was the USD 222 million IPO of the Estonian telecom firm Eesti Telekom. In Bulgaria sales in the banking sector raised close to USD 70 million.

III. Privatisation activity in different sectors

In most countries' privatisation programme, the first firms to be sold are those that provide goods and services of a purely commercial nature and are operating in competitive sectors of the economy. Network infrastructure assets such as telecommunications, power, water and sewage pose more complex regulatory and competition issues, and are often sold in the later stages of a programme. This approach allows the government to build credibility for the programme, and to address the market and regulatory frameworks that support the success of the transaction. Within the infrastructure sectors, telecommunications companies are often first in the line of sale and act as flagship sales, especially in emerging market economies.

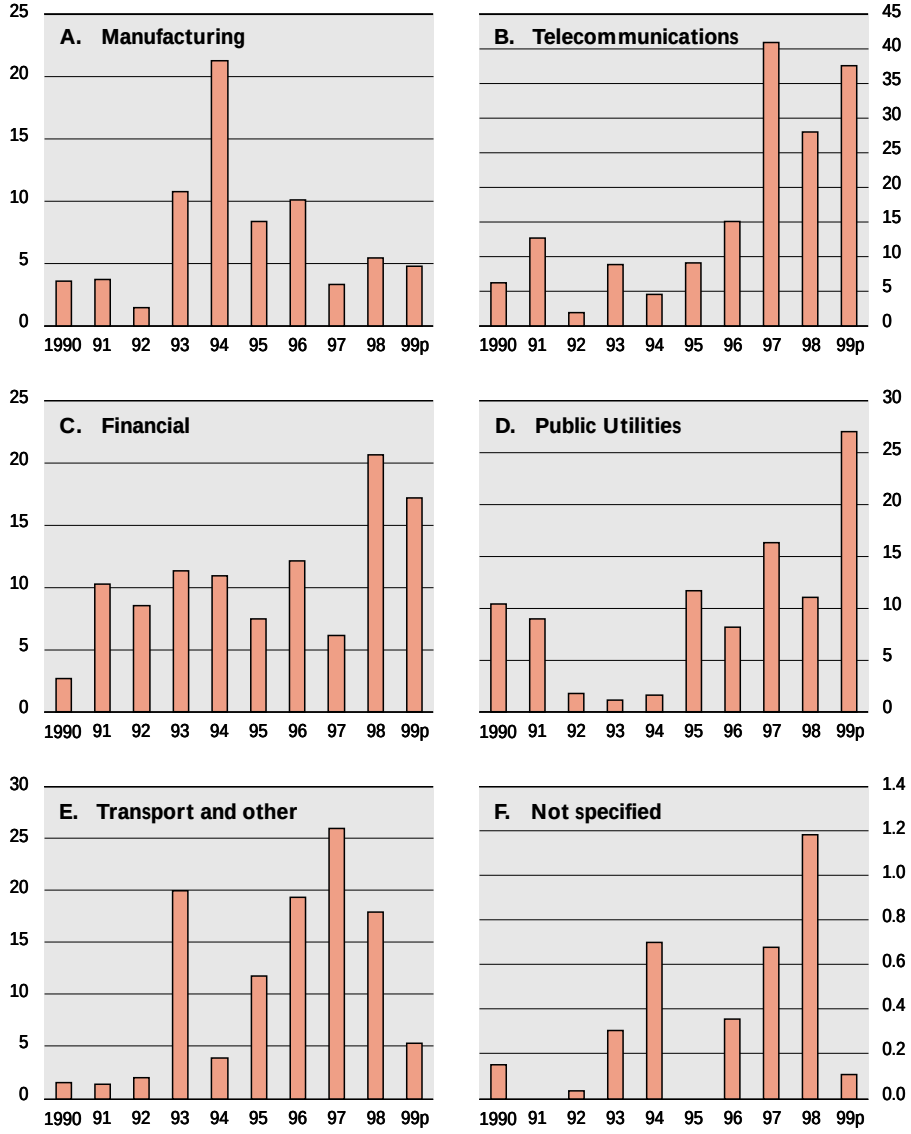
Over the last decade telecommunications and, in second place, energy sector assets have been the largest sources of privatisation activity, accounting for about 40% and 20% of all proceeds since 1990. In 1999, the dominance of telecommunications in OECD privatisations grew, as proceeds from this sector accounted for over 40% of the total – more than in 1998. Telecoms were followed by public utilities (mainly electricity) and banking (Figure 2). Transactions included secondary offerings of Telstra, NTT, Deutsche Telekom, Portugal Telecom, Greece's OTE, Finland's Sonera, Korea Telecom and the sale of Hungary's Matav's residual shares, as well as the USD 4.3 billion IPO of Ireland's Telecom Eireann, that disposed of 50.1% of the government's stake.

Outside the OECD area, telecommunications and energy sector sales dominated the activity in 1998 (Figure 3) and, according to preliminary estimates, in 1999.

In general, the predominance of telecommunications sales is related to the sheer size and value of telecom companies, thanks to their potential for high growth in a competitive, highly valued sector. The frequency of transactions in this sector is due, in part, to the governments' efforts to enable companies to meet the challenge of market liberalisation. Technological factors and the resulting need for investment in order to meet the growing demand for new and improved services have been other important reasons.

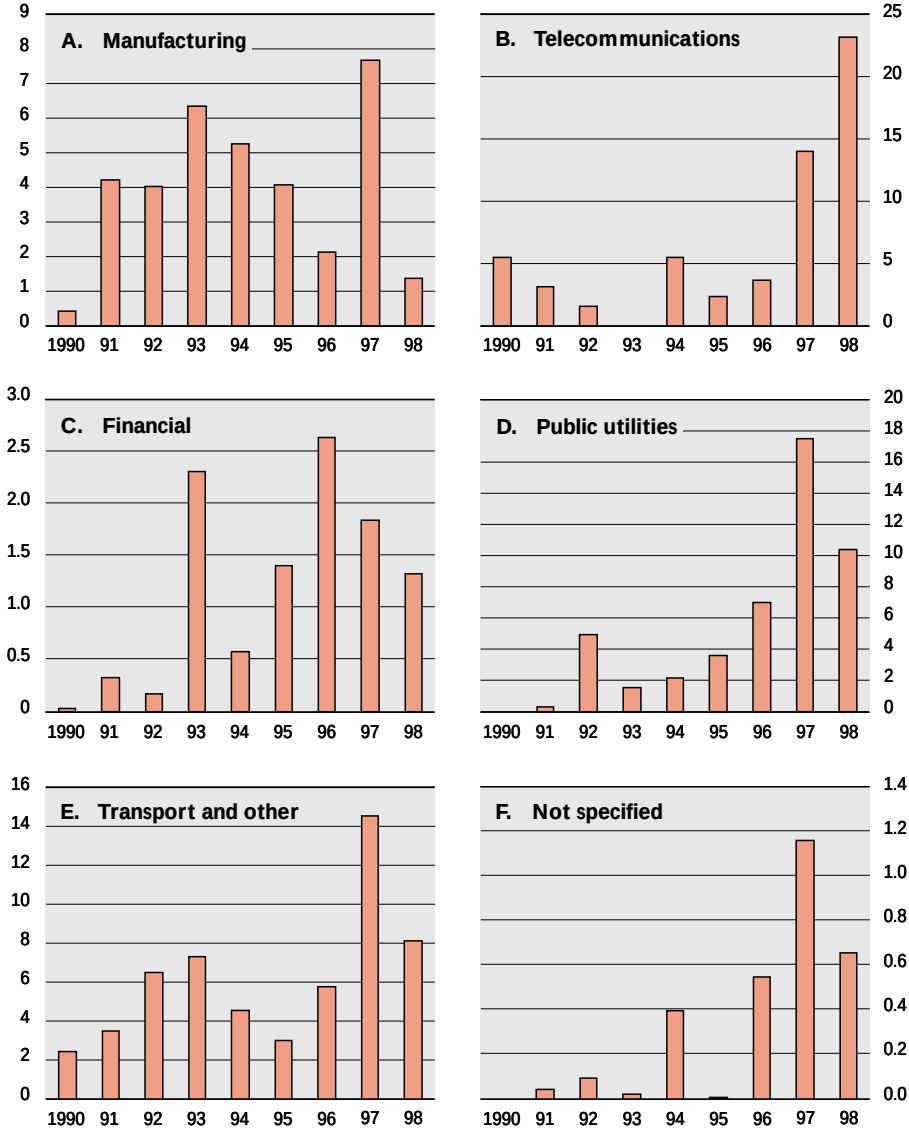
Particularly in emerging market economies the sale of state-owned telecommunications companies assumes a flagship role and helps attract significant foreign investment to the domestic market for the first time. Telecoms are often the

Figure 2. ***Privatisations in OECD countries by main sector***
US$ billion



p: Provisional.
Discrepancies between Table 1 and Figure 2 are due to incomplete data regarding the sectoral breakdown.
Source: OECD privatisation database.

Figure 3. ***Privatisations in non-OECD countries by main sector***
US$ billion



p: Provisional.
Source: World Bank

first public utility to go through the full privatisation process of incorporation, licensing and regulation. Transactions are usually structured as a combined sale consisting of a partial sale to a strategic investor and public floatation of equity on the domestic market. They help boost market capitalisation and increase liquidity while introducing foreign investment and creating an access to technological and managerial know-how. They thus prepare the stage for other privatisations.

Within the energy sector, progress with market liberalisation together with technological factors that have undermined the natural monopoly features of segments of the industry (*e.g.* power generation) are fuelling privatisation. The most important sale in 1999 was the USD 18 billion IPO of ENEL (Italy), which was also the world's largest IPO ever.

Banking and insurance also had an important showing in 1999. Since the early 1990s, many state-owned banks have been privatised. The restructuring and sale of banks has helped reduce cost structures as privatised banks have become more commercially-oriented and strategic in their operations. Privatisation has also fuelled an important consolidation drive in the context of the European Monetary Union.

In transition economies, bank privatisation has been a channel for foreign direct investment. In some countries, such as Hungary, more than 70% of total banking assets are foreign-controlled. Progress with privatisation in this sector will continue to play a central role in the successful transition to a market economy. Private ownership is crucial for the efficient operation of financial markets and, thus, a key factor of allocative efficiency in the economy.

IV. Trends and outlook

Planned privatisations for 2000 suggest that privatisation proceeds among OECD countries will likely remain strong, fuelled by a continuation of activity in Europe, Japan and, potentially, Korea. However, whether global privatisation activity in 2000 will actually grow critically depends on the performance of emerging market economies. Financial market volatility has increased in recent months and the prospects of higher US interest rates could undermine activity. A decline in investor interest in these markets, coupled with a worsening of economic conditions, could render current privatisation plans commercially and politically unattractive.

Within OECD countries, year 2000 has already begun with significant sales and announced plans, particularly in the telecommunications sector. The initial public offering of a 30 percent stake in Telia, the Swedish Telecom operator was completed in June, and met strong demand by both retail and institutional investors, and signalled some improvement in the market conditions for telecom stocks.

Secondary offerings of a third tranche of Deutsche Telekom are scheduled, and so is the sixth tranche of Japan's telecommunications company (NTT). With the revival of Turkey's privatisation plans (mentioned below) other likely telecom offerings could include stakes in Turkcell and Turk Telecom.

In Portugal, the year began with the sale of a 15% stake in GALP (the oil and gas company). Future sales may include stakes in manufacturing (the tobacco company Tabaqueira), airline industry and the third offering of EDP (power). In Spain the postponed public offer of the Iberia (airlines) will go ahead in the autumn. Italy's plans include a fifth tranche of ENI (oil and gas company, in which the Treasury has a 36% stake), possibly a second tranche of ENEL as well as the residual stakes in Telecom Italia (3.95%). Sales by IRI will likely include its 53% stake in Alitalia. IRI, the state holding established in the 30s, will be dismantled. Turkey's privatisation programme, which was stalled as a result of political instability and corruption scandals in 1998, is expected to resume in 2000 thanks to recent constitutional amendments that remove major impediments to investment and privatisation in infrastructure sectors and make the country more friendly to foreign investment. The process of selling a 51% stake in the country's largest chain of petrol stations is already underway. The value of Turkey's sales for next year are estimated at about USD 5 billion, and could include sales of Turkish airlines, petrochemicals and, as mentioned above, a couple of sales in the telecom sector.[10]

As for non-OECD countries, Asian activity is likely to be fuelled by reforms undertaken in the aftermath of the financial crisis, and also by the revival of China's privatisation plans. Thailand has plans for sales in sectors such as water utilities, banking, stakes in the Electricity Generating Authority of Thailand (EGAT) and some airport assets. China's offering of a 10% stake in Petro China (petroleum industry) took place during the early part of 2000, and has not been as promising as expected. Other possible sales in the transportation sector (airports and urban railways). In Egypt the government is expected to float USD 800 million of at least 10% of Egypt Telecom by the end of 2000.[11]

In OECD countries the following trends can be observed:

- The relative importance of secondary offerings and disposal of residual shares will increase as the stock of wholly state-owned enterprises declines.
- Global competition, the drive to merge and increase efficiency, aided by market liberalisation and removal of the constraints of state-ownership are fuelling the current wave of mergers and acquisitions by privatised companies domestically and internationally, and in sectors ranging from banking to telecommunications and power. Continued state-ownership through residual and golden shares will likely become an important source of contention, as was highlighted by Deutsche Telekom's failed

bid for Telecom Italia and underscored subsequently in a few cases such as the Italian Treasury's refusal to sell Aeroporti di Roma to another Italian state-owned enterprise. More recently, this was demonstrated in the problems with the merger plan of Spain's Telefonica with the partially state-owned Dutch Telecommunications Company KPN.

- The European Commission's proposals for further opening of postal services to competition will likely fuel privatisation activity in this sector.
- Public-private partnerships (PPPs) are likely to become an important vehicle for developing infrastructure sectors that have remained under state-ownership. Through PPPs, the design, planning, financing, construction and management (or a combination of these) of infrastructure projects or services are privatised, although the actual property rights of the assets may remain with the state. Through these arrangements, the risks and benefits are shared and governments are able to shift expenditure from capital spending now to future current spending. Currently the OECD experience with this approach[12] is largely limited to North America, Australia, and UK within Europe. However, PPPs have been widely used in many non-OECD countries. Increased experience with design, management and financing of PPPs, coupled with sustained pressures for controlling deficit and debt will likely lead to wider adoption of this approach.

Within OECD countries, an emerging trend is the growing importance of the privatisation activity at the sub-national level – *i.e.* by local or regional governments. In 1999, there was considerable activity at sub-national levels of governments. It included partial privatisation of BWB (Berlin), sales of the MPS bank (owned by a Siena local government foundation) in Italy, the UNA power generating company in the Netherlands (where municipal authorities are majority share holders), Highway 407 in Canada (the province of Ontario) and various sales in Australia.[13] The growing importance of sales by sub-national and regional governments is a trend that is likely to continue to grow in importance.

V. Privatisation methods and their impact on capital markets

a) Methods of sale

There are different approaches to selling state-owned enterprises. The choice of method usually reflects the government's policy priorities in terms of proceeds, transparency, broadening and deepening of the capital markets, better corporate governance, direct impact of technological or managerial know-how and access to markets.

Within OECD countries, public offering of shares in the stock market has been the dominant method of sale. Confirming a consistent trend, 1999 public offerings continued to account for a dominant part of privatisation proceeds (Figure 4). This is an indication of the type of assets that were brought to market – largely public utilities and telecoms rather than manufacturing companies and smaller firms. It also reflects improved market conditions in 1999.

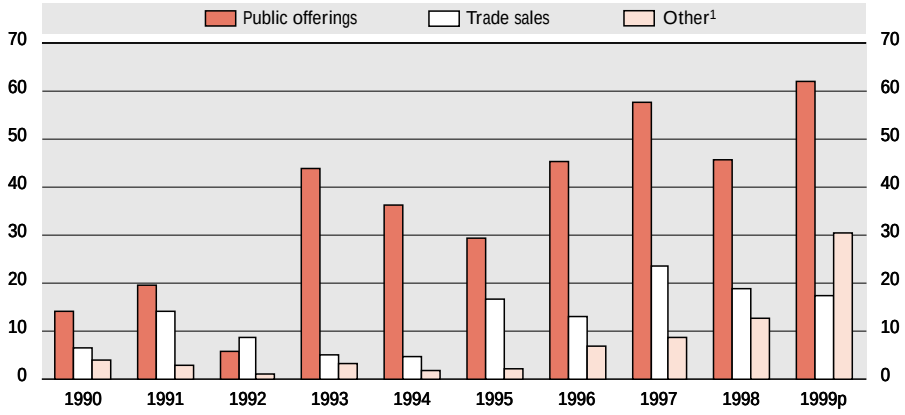
In marked contrast to OECD countries, public offerings have accounted for less than 10% of non-OECD privatisation proceeds (Figure 5) in 1998. In the immediate aftermath of the financial crisis in emerging markets, a loss of investor confidence caused the share of public offerings to drop significantly, while at the same time trade sales maintained their share. This is perhaps a reflection of the drop in portfolio equity investment as a result of the crisis compared to foreign direct investment. The latter remained fairly stable (and sometimes increased) in 1997-99. Preliminary estimates for 1999 suggest that trade sales continue to dominate non-OECD privatisation efforts.

Privatisation through public offering is the most transparent method of sale, but it is one that requires a certain degree of sophistication in financial markets and a well-developed legal infrastructure. It is most suitable when there are only a few very large firms in the privatisation pipeline, with little need for post-privatisation restructuring. But public offerings are also a tool to broaden and deepen capital markets and promote a share holding culture. Thus, in addition to a higher level of sophistication, the predominance of this method in OECD underscores the priority that policy makers have assigned to the development of capital markets and promotion of an equity culture.

Trade sales in OECD countries accounted for less than a fifth of the proceeds in 1999, which is less than the year before. In non-OECD countries, an overwhelming majority of sales have been through trade sales, reflecting the absence of well-developed capital markets, as well as the need for new capital, technology and access to markets.

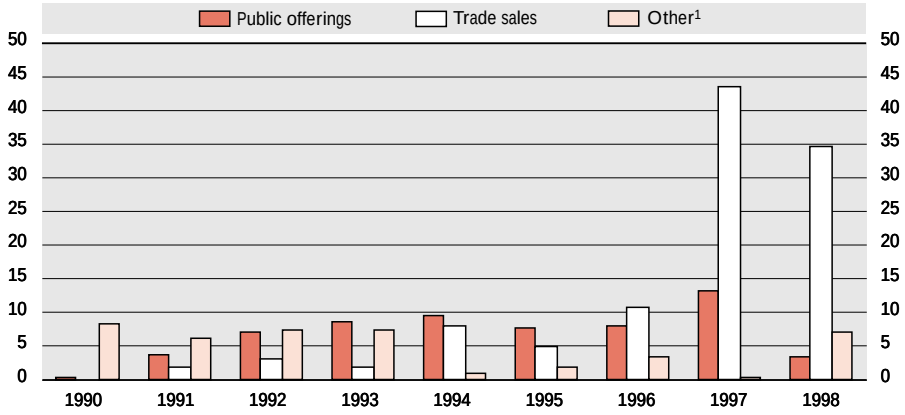
In many privatisations, sales to strategic buyers have been combined with sales through a public offering of shares. In 1999, this approach was used in the sale of Credit Lyonnais in France, Telecom Eireann of Ireland, and the MPS Bank in Italy. By combining the two approaches the governments have tried to realise the benefits of each method and to provide the privatised company with a stable management, and sometimes protection from hostile take-overs during the initial years after privatisation. Similarly in New Zealand, the sale of Contact Energy was conducted through a combined sale. In the latter case the simultaneous sale of a 40% stake to a strategic buyer, and the IPO of the remaining 60% stake in the company represented an innovation over the past practice of carrying out such sales in sequence. Overall, however, many larger OECD countries have shown a diminishing

Figure 4. ***Privatisations in OECD countries by type of transaction***
US$ billion



1. Including management or employee buy-out, asset sales and lease or management contracts.
p: Provisional.
Discrepancies between Table1 and Figure 4 are due to incomplete data breakdown by type of transaction.
Source: OECD privatisation database.

Figure 5. ***Privatisations in non-OECD countries by type of transaction***
US$ billion



1. Including management or employee buy-out, asset sales and lease or management contracts.
Source: World Bank.

interest in creating a stable core ownership in the privatised companies. This is probably the result of deepening equity markets and of the fact that financial institutions have grown in size and sophistication and are able to assume key corporate governance functions in privatised enterprises.

As privatisation programmes mature, the number of IPOs as opposed to secondary offerings declines and sales of remaining residual shares assumes greater importance. In the case of many large enterprises such as those in infrastructure, the remaining stakes may be quite small, but nonetheless they have a large market value. In these cases, the residual shares are usually placed with a third party who then sells them in the market. These deals are known as block trades or bought deals. The recent sale of Finnish government's residual stake in Sonera was through this method.

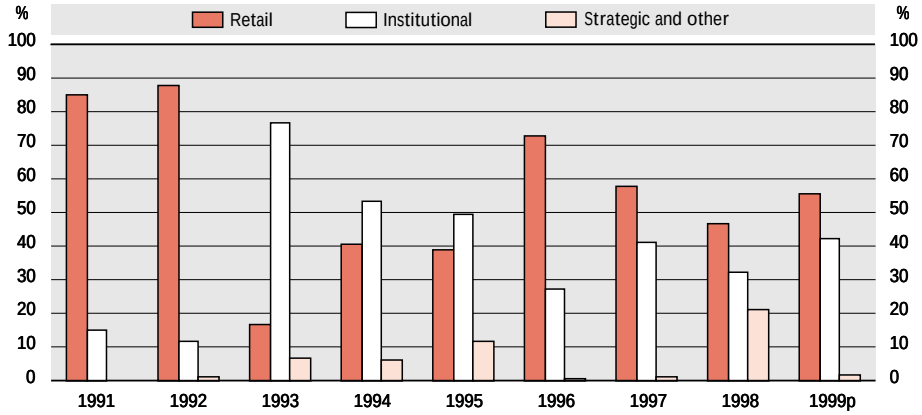
As more and more privatisation programmes mature, the disposition of large stakes by government holdings and the treatment of golden shares will become more important, in particular in Europe. This is related to the changing corporate landscape in Europe. It also reflects the EU's growing concern over the use of golden shares by the governments as a means of limiting competition for corporate control. The latter concern has been highlighted as more and more former state-owned companies reach out across borders to merge and acquire assets in other companies.

b) The profile of buyers

In 1999, retail investors continued to account for a significant share of privatisation proceeds (Figure 6). This reflects a strong bias towards retail in many OECD countries with large privatisation programmes. Most privatisation offerings in countries such as UK, France, Italy, Spain and Portugal have sought to attract retail demand. Various incentives in the form of discounts, bonus shares, bill vouchers and part payments have been used to increase retail demand and to promote share retention. For example, in French privatisations retail investors have been an important target of the large public offerings, and in general allocation of shares to retail and institutional investors has been on a 50-50 basis. Similarly in Spain, Italy and Portugal retail investors have seen up to 2/3 of issues reserved to them in initial allocations. Strong retail demand and the growth of domestic institutions are probably the main causes for the continuing trend of dominance of domestic over foreign buyers in public offerings (Figure 7).

The overall decline in the share of retail domestic buyers of public offerings since the earlier part of the decade – from around 3/4 of proceeds to a little more than half in 1998 – probably reflects the small number of OECD countries with sig-

Figure 6. ***Public offerings in OECD countries by type of buyer***



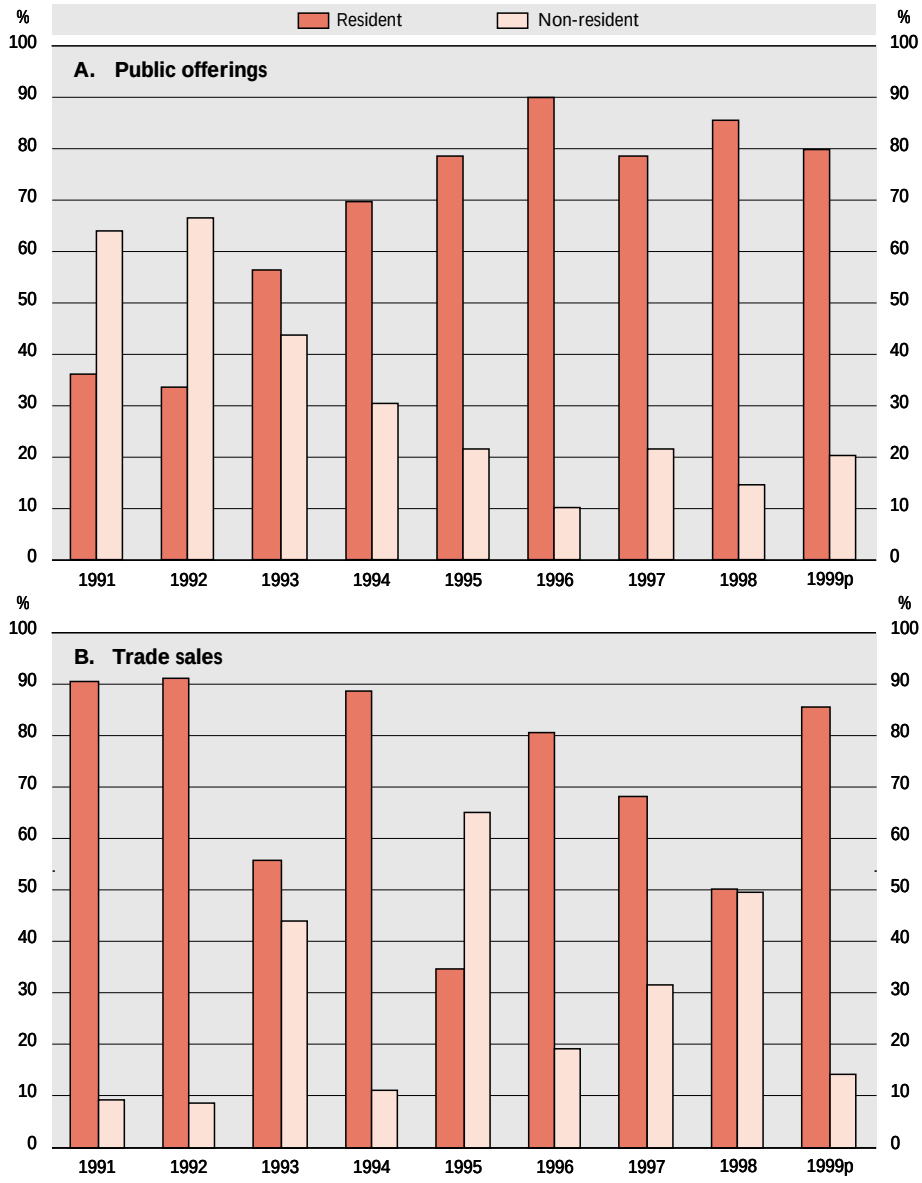
p: Provisional.
Source: OECD privatisation database.

nificant privatisation programmes at that time. It is also related to the fact that a disproportionate amount of revenues came out of one country with a strong equity culture and market (the UK, which in 1991 and 1992 represented approximately 51% and 59% of all OECD receipts respectively).

Retail investors have played an important role in pricing privatisation offerings. A strong retail demand for shares helps create tension and competition amongst institutional investors, who need to meet certain targets for their portfolios. As a result, it helps governments reach the top end of their price range and realise larger proceeds than they would otherwise have.

In 1999, public offerings of ENEL (Italy), NTT (Japan), and Eireann (Ireland) were all many times oversubscribed by domestic retail investors, and priced at the higher end of the range. For example the IPO of ENEL was over 5 times subscribed (by both retail and institutional investors), Portugal's secondary offering of the toll highway (BRISA), and Portugal Telecom met with an enthusiastic response from the retail tranche. Japan's secondary offering of the fifth tranche of the telecommunication company (NTT) was almost 8 times oversubscribed. Another example of the importance of retail investors to the success of offerings was the secondary offering of Deutsche Telekom (Germany), which owed its success to the strength of the retail, component. In this sale retail investors purchased close to 40% of the offering, with nearly a third going to foreign retail investors.

Figure 7. ***Privatisations in OECD countries by residence of buyer***



p: Provisional.
Source: OECD privatisation database.

c) *Capital market impact*

Over the last two decades financial markets have undergone massive changes. Deregulation and changes in technology have contributed to globalisation. Dis-intermediation has reduced the role of commercial banks in corporate finance while capital and in particular equity markets have become an important source of corporate finance.

As more countries address the issue of pension system reform by encouraging private provision and deregulating pension fund portfolio composition to allow more equity holdings, the importance of well developed capital markets increases. Furthermore, recent empirical literature has documented the link between financial market development and economic growth, thus adding support to the policy objective of developing capital markets.

Since 1990, market capitalisation in OECD countries as a whole has increased substantially. The change has been more drastic in countries other than the United States and the United Kingdom, which already had well-developed capital markets. The growth in the stock market capitalisation cannot be explained by the increase in profitability of companies alone. Recent research has demonstrated a huge impact of privatisation on the development of stock markets. Moreover, since privatised firms are often among the largest in their stock markets, their impact on the capital markets are far larger than what aggregate numbers suggest.

Privatised companies are often the most valuable firms in their markets and account for a sizeable portion of stock market capitalisation. In Japan, Britain, Germany, France, Italy, Spain and Portugal privatised companies are the most highly valued companies. For instance, over half of Lisbon' stock market capitalisation is made up of privatised or partially privatised companies.

Some observers have noted the importance of privatisations to the development of capital markets – and in particular those of Europe. Of the 135 largest common stock issues in history, 25 have been privatisation issues.[14] Privatisation issues often account for a significant proportion of all equity issuance. In 1999, the value of privatisations as a proportion of total equity issuance in Europe stood at around 1/3 of all issuance. Albeit important, this is lower than the contribution from privatisation in the previous years, and a sign of the growing importance of private corporate equity issuance.

In recent years, privatisation techniques have undergone significant changes – especially as privatisations have been getting larger on average. There has been an increase in the number of transactions in excess of USD 1 billion, and at the same time there has been an increased competition between banks. In terms of impact on banking practices, there has been a downward trend in the size of syndicates involved in privatisation transactions and they have become more interna-

tional. Also, thanks to increased competition, the fees have dropped significantly from around 3-4% to well under 2%.

Another important aspect of a well-developed capital market is market liquidity, which serves an indication of the low transaction costs and therefore the ease by which shares can be sold. Privatisation through public offering of shares on the stock markets has contributed to the development of capital markets outside the United States by increasing market liquidity. For example in countries such as Greece, Italy and Portugal share turnover (value of traded shares relative to market capitalisation) has increased substantially over the last decade.[15]

Notes

1. This is relative to the average GDP of the same period.
2. Averaged over the same period.
3. While privatisation intensity provides a measure of the relative size and speed of the programme in a given country, it does not convey any information about the initial degree of state ownership, and the change in government enterprises' contribution to the GDP.
4. These transactions are not included in the figures reported in Table 1.
5. *OECD Economic Survey of Portugal.*
6. Cumulative proceeds since 1990, as a proportion of the average GDP over the same period.
7. Ownership is through Japan Railway Public Construction Public Corporation (JRCC) – a company wholly owned by the Japanese government.
8. The chaebols are large Korean conglomerates that control a substantial part of the economy. Many observers have identified them with serious corporate governance and financial sector failures that have led to the crisis in 1999-98.
9. *Financial Times,* May 10, 2000.
10. Wall Street Journal, August1999.
11. *Financial Times,* May 10, 2000.
12. The information reported by the OECD database in its current form does not include proceeds from this method.
13. Many of these are included in country figures provided by the OECD Privatisation database, which are in most cases limited to transactions undertaken by the central government.
14. See Megginson, W.L. and M.K. Boutchkova (2000), "Impact of Privatisation on Capital Market Development and Individual Share Ownership", *mimeo*.
15. Estimated based on IFBV data on share turnover and market capitalisation.