

BEST PRACTICES IN PRIVATISATION

Issues and Challenges

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KEY ELEMENTS OF THE PRIVATISATION PROCESS

- Institutional framework
- Methods
- Pre-privatisation, restructuring
- Foreign participation
- Employee involvement and Social Policies
- Use of proceeds
- Accountability and governance



KEY FUNCTIONS OF THE PRIVATISATION PROCESS

To define:

- Responsibility/ Decision making
- Transparency/ Procedures
- Integrity/ Transactions
- Accountability/ Monitoring of results/ Building Public Confidence



INSTITUTIONAL FRAMEWORK

1. Privatisation Models
 - Centralised
 - Decentralised
 - Mixed
2. Privatisation/ Ministries/ Agencies
3. Regulatory Reform
4. The Role of Advisors
5. The Financial Sector



THE PRIVATISATION AGENCY

The institutional framework:

- a) Government
- b) Dedicated Agency
- c) State holding Company

Pre-privatisation Restructuring

- a) Legal transformation of SOE's
- b) Economic transformation
- c) Balance sheet, restructuring and evaluation



PRIVATISATION METHODS

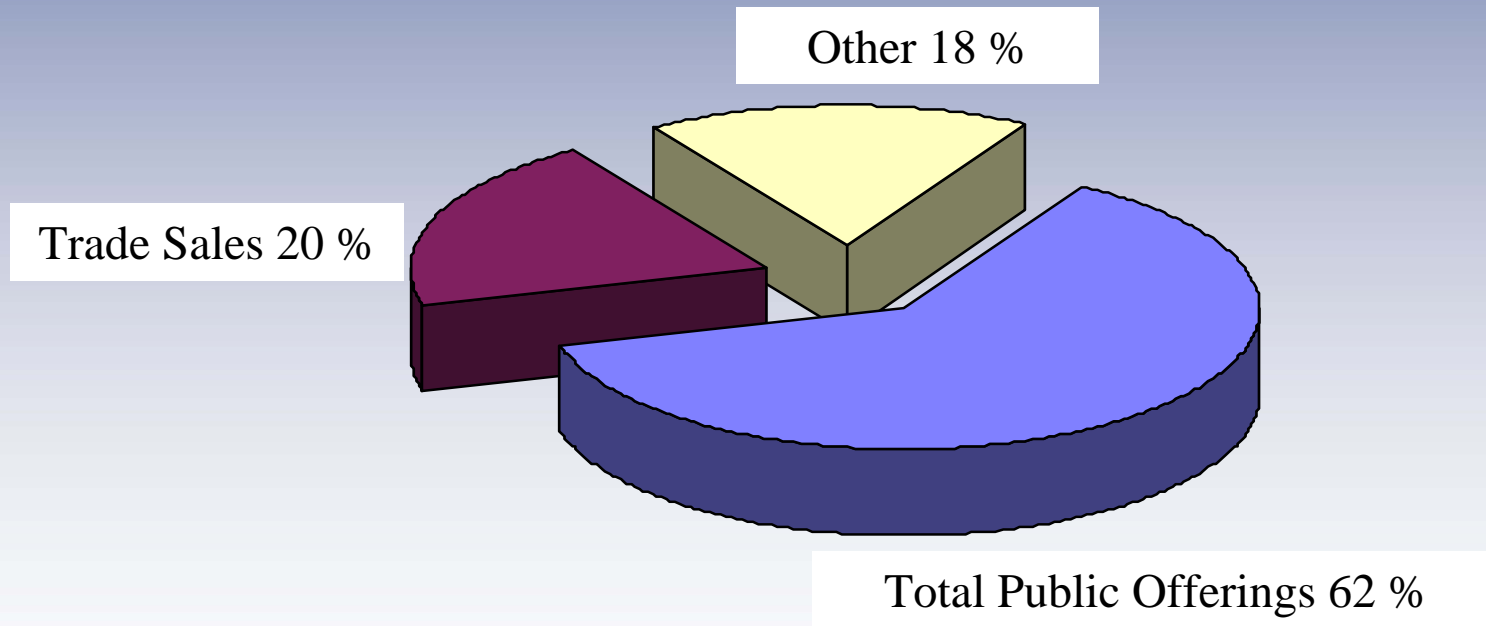
1. IPO
2. Sale to strategic investors
 - auctions
 - trade sales
3. Management/Employee buyouts
4. Bankruptcy/assets sales
5. Concession agreements for public utilities and infrastructure



OECD Privatisations

Scale and key features

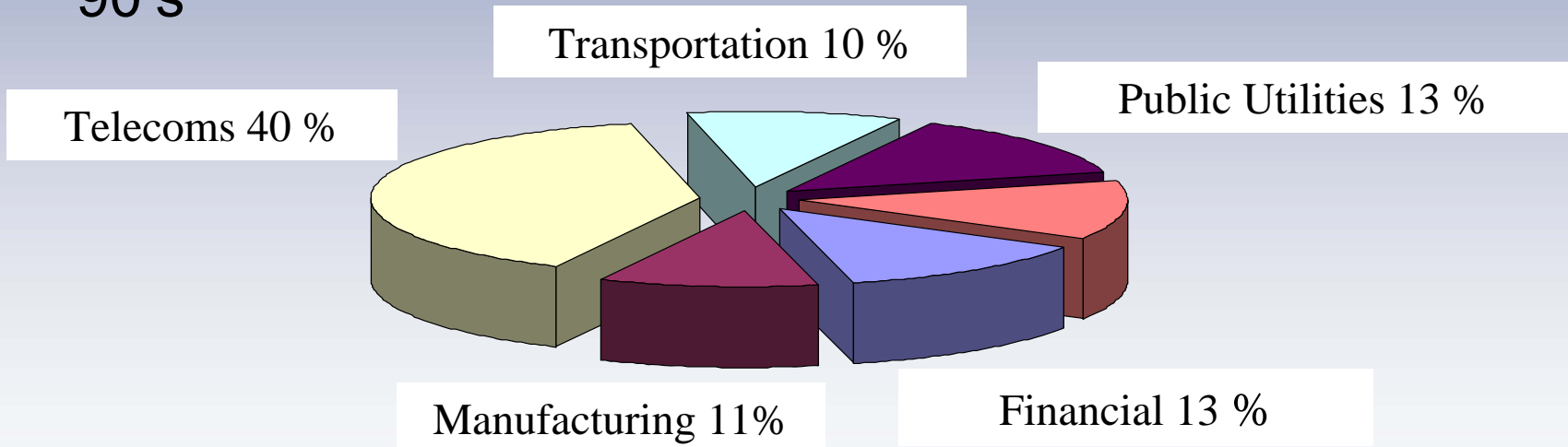
- Public share offerings have been the predominant method of sale in the 90's



OECD Privatisations

Scale and key features

- Privatisations begun with smaller assets in competitive sectors
- Telecoms have dominated OECD privatisations in the 90's



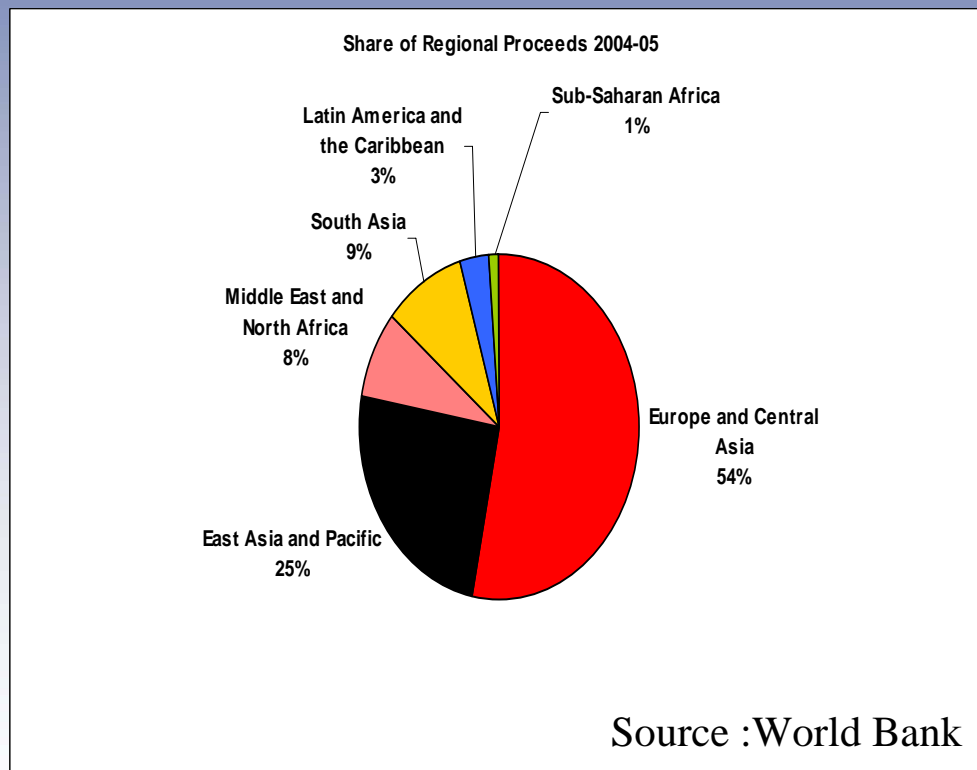
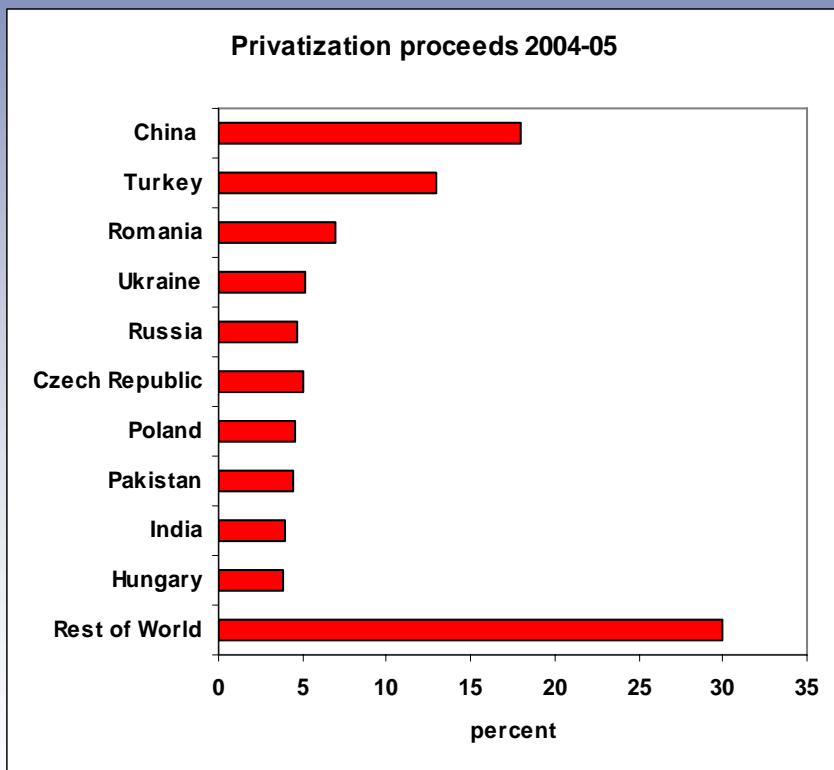
Recent developments

- **Increasing dominance of emerging economies** on the privatisation scene
- Transactions largely and **increasingly dominated by private equity placements.**
- **Growing protectionism** regarding cross-border mergers and acquisitions in strategic utility sectors
- Sharp **decrease in public offerings** earmarked to retail investors but a recent resumption in share issues
- Secondary offerings take increasingly the form of **accelerated transactions to institutional investors, particularly book-built offers**



Recent developments

- Ten countries dominate the privatisation scene
- ECA and East Asia account for 80%

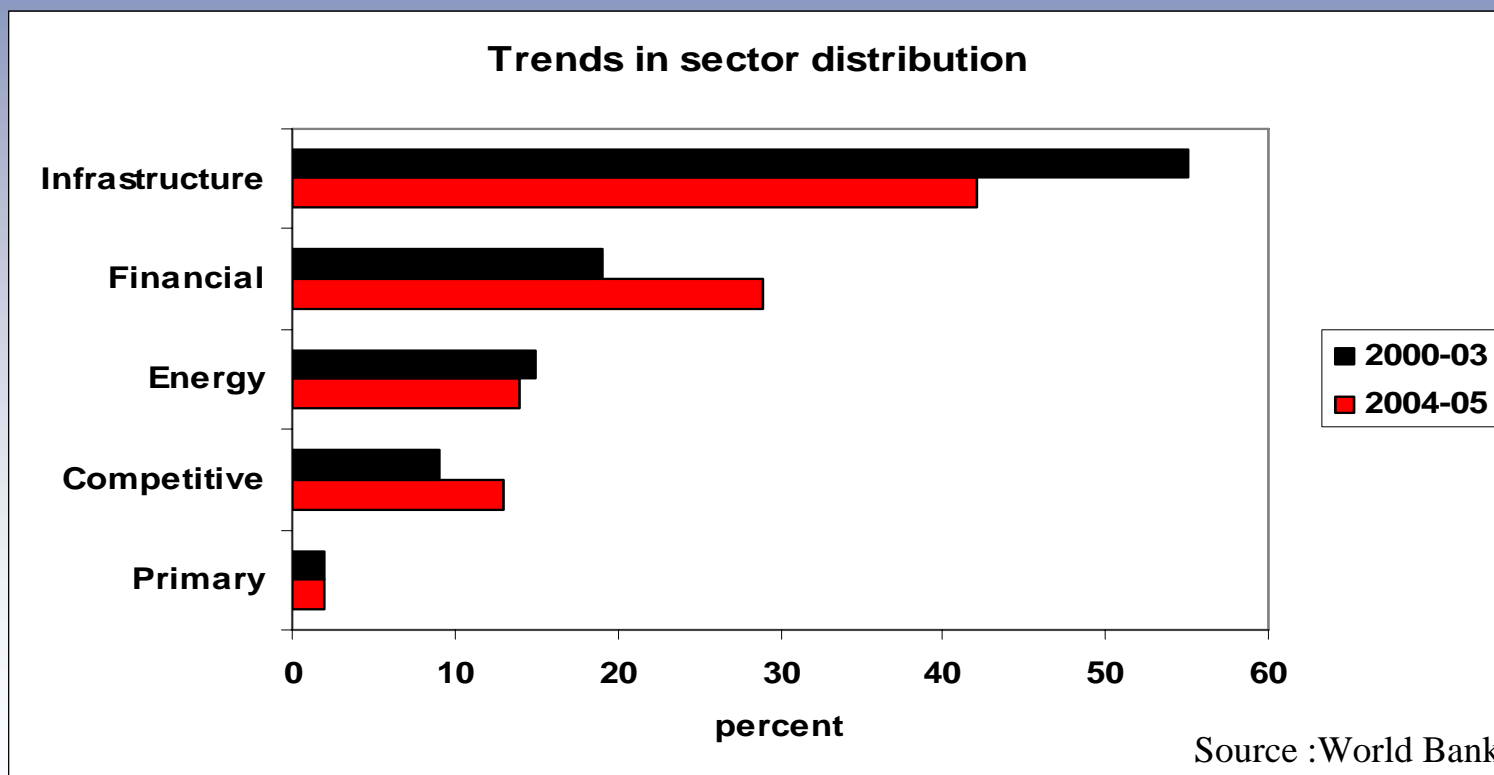


Source : World Bank



Recent developments

- Finance and competitive sectors increase, but infrastructure still dominates



Empirical evidence on the effects of privatisation

- Impact on corporate efficiency and performance
 - significant increase in profitability, real output and efficiency
 - results particularly robust when competitive market
- In infrastructure – positive effects when combined with proper policy and regulatory frameworks
 - Increase in access to services
 - Price impact depending on initial levels
 - Price effects generally outweighed by access effects
- Impact on capital market development
- Positive macro/fiscal effect
- Employment and distributional effects vary



Method of sale	Capital market development	Corporate Governance	Transparency	Revenues	Comments
Stock market share offering	High	May be low – unless share allocation to different market segments is managed to address CG instability arising from dispersed shareholding	High	May be relatively smaller proceeds than trade sale and has higher costs associated with it	Well designed staging of sales can obtain higher price per share
Trade sale	Low	High	Less transparent, requires establishment of clear rules and open competitive bidding	Higher proceeds / lower cost	Competitive open bidding processes increase transparency and ensure better proceeds
Mixed sales	High	Potentially high but needs to ensure protection of minority shareholders	Medium – depends on establishment of clear rules and use of competitive bidding	High	Meets multiple objectives
M & E Buyout	Low	Potential benefits from improved productivity, but potentially low impact on CG	Low	Low	Suited to smaller enterprises and where human capital/knowledge specific involved



Privatisation, competition and regulation

- Introduce competition at the same time
- Put an efficient regulatory framework in place before privatisation

“Private sector monopolists might be much more efficient than their state-owned counterparts in reducing productive inefficiencies, but they are also much better at extracting rents”



10 Lessons from OECD experience

- Political support at the highest level is an imperative
- Identify and articulate policy objectives up-front
- Ensure transparency and integrity of the process
- Draw upon external advice and dedicate resources
- Address competition and regulatory issues prior to sale
- Ensure that complementary institutions and policies are in place
- Limit restrictions on foreign ownership
- Sequencing of sales affect the programmes' success
- Staging of a sale should be driven by commercial considerations
- Post-privatisation devices should be used judiciously



Rationale for improving the Corporate Governance of SOEs

- Scale and scope of the state sector
- Impact of SOEs on economic performance
- Pressure for reform deriving from globalization and liberalization
- Specific governance challenges
- Expected benefits from improvements of SOE governance
- Strong demand from non-OECD economies
- Complementary to privatisation



The OECD Guidelines on Corporate Governance of SOEs

- Developed through extensive and inclusive consultations with relevant players from OECD members and non-member countries
- non-binding
- complementary to the *OECD Principles of Corporate Governance*
- do not preclude/alter privatization policies
- based on a comparative Survey



Priorities in the OECD Guidelines

- Ensure a level-playing field with the private sector
- Reinforce the ownership function within the state administration
- Improve transparency of SOEs' objectives and performance
- Strengthen and empower SOE boards
- Provide equitable treatment of minority shareholders



Current OECD work

- Develop best practices for privatisation
- Develop a Guide on Transparency and Accountability for SOEs

The *Guidelines* and the background *Survey* can be downloaded on our website at:

www.oecd.org/daf/corporate-affairs/soe

