
Appendix 4

Progress in Privatization

Introduction

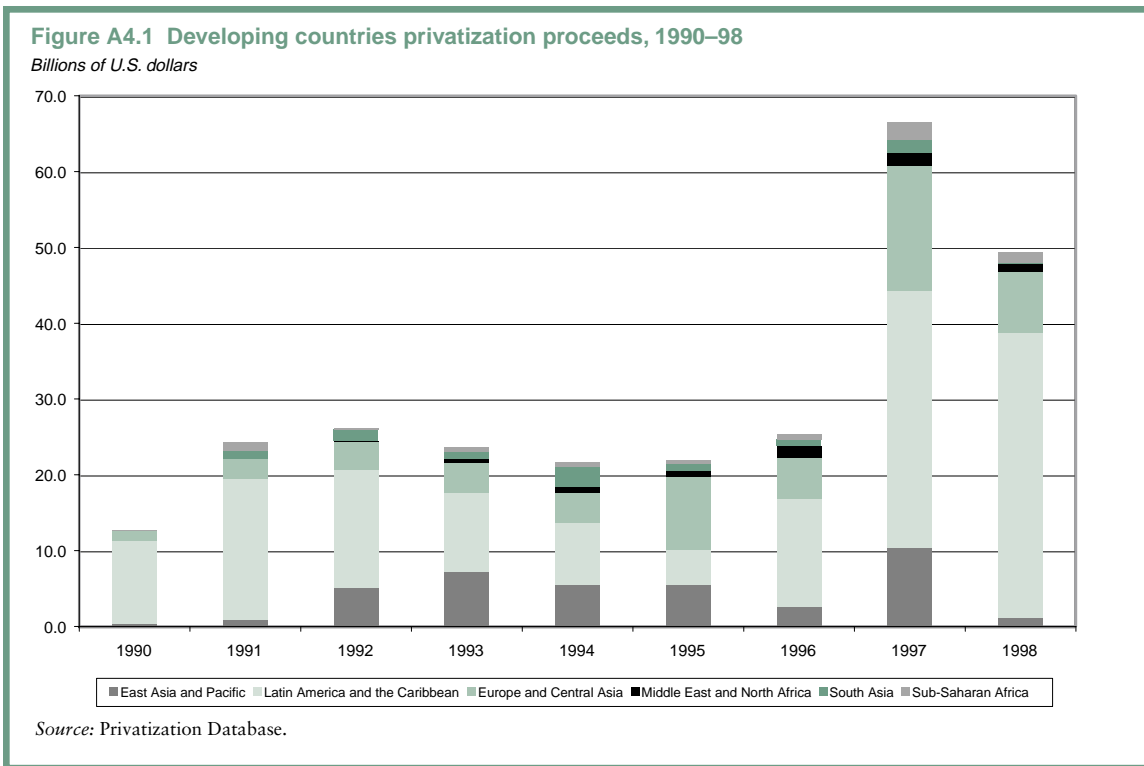
PRIVATIZATION IS THE TRANSFER OF productive assets from the state to private investors through such methods as auctions, stock offers, stock distributions, negotiated sales, management-employee buyouts, and voucher or coupon exchanges. Other methods include leasing, joint ventures, management contracts, and concessions, including build-own-operate (BOO), build-operate-transfer (BOT), and build-own-operate-transfer (BOOT) arrangements. Sales methods have varied across regions for various reasons, including privatization strategy and market conditions. In 1998, direct sales accounted for almost 75 percent of privatization revenues and public offers contributed to most of the remaining sales.¹ Equity-linked privatization significantly declined in 1998 compared with 1997 (in particular in the East Asia and Pacific region). However, it started picking up again in 1999 with the East Asia and Pacific region accounting for the largest share.

Privatization proceeds surged significantly in most developing regions in 1997, reaping record revenues of \$66.6 billion, mainly as a result of divestitures in the large-scale infrastructure sector (in particular, power and telecommunications) and in the primary sector (in particular, oil and gas, and mining) (figure A4.1). In 1997, Latin America and the Caribbean, Europe and Central Asia, and East Asia and Pacific contributed to the largest share of privatization proceeds, accounting for 50 percent, 25 percent, and 16 percent of total privatization revenues, respectively (figure A4.2).

However, privatization transactions subsequently declined in all developing regions (with the exception of Latin America and the Caribbean), raising an estimated \$49.3 billion in

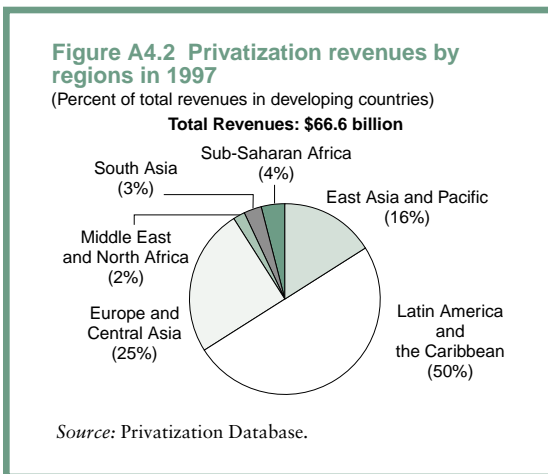
1998. This broadly reflected the impact of the East Asian crisis in 1997 and the Russian crisis in 1998. In 1998, Latin America and the Caribbean and Europe and Central Asia contributed the largest share of privatization proceeds, accounting for 77 percent and 16 percent of total privatization revenues, respectively (figure A4.3). Depressed economies and reduced investor confidence in emerging markets contributed to an overall decline in demand, which slowed privatization activity in many developing countries and many sectors. In particular, as aggregate demand collapsed in the East Asian countries and in Russia, many deals were postponed. While privatization revenues from the telecommunications sector more than doubled in 1998 (raising 54 percent of total revenues), proceeds declined significantly in the manufacturing, power, and mining sectors.²

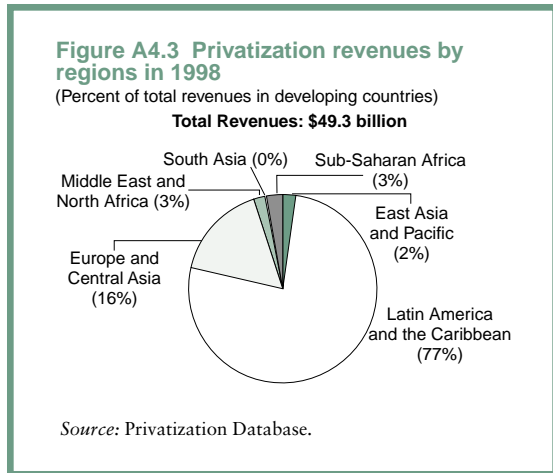
Initial estimates for privatization revenues in 1999 are close to the 1998 level, with the largest share of revenues stemming from divestitures in telecommunications and power, oil and gas, and banking and financial services. The data also reveals that privatization picked up in the East Asia and Pacific region and slowed down in the Latin America and the Caribbean region.³ Privatization programs should regain momentum in developing countries in 2000–01 as a result of recovering economies and demand, but with some countries and some sectors accounting for the largest shares of deals. More aggressive privatization programs will be launched in several countries that are encouraging economic reform—in particular in the Middle East and North Africa (countries that will enter the Free Trade Agreement with the European Union), Eastern and Central Europe (countries acceding to the European Union), and South Asia (India).



Large-scale infrastructure, especially in the telecommunications and power sectors, will continue to capture a large share of total privatization revenues as governments seek to increase efficiency and ease fiscal constraints (especially in countries that still hold a large share of these sectors in state hands). Furthermore, private investors have been attracted to these two sectors because technological changes have reduced sunk costs and facilitated competition.⁴ The telecommunications sector, in

particular, has witnessed sweeping changes in technology requiring massive investments that cannot be met by governments alone. Consumers are demanding increased access to telecommunication services and improved quality and affordability. Governments will continue to encourage private sector participation—whether through divestitures, greenfield investments, or both—as liberalization of telecommunications is an important aspect of globalization.⁵ The transport sector will also witness an increase in divestitures as many countries—in Sub-Saharan Africa, East Asia, and Latin America and the Caribbean—are starting or continuing to privatize their airlines and airports. Primary sector divestitures will rebound as commodity prices pick up, and should remain strong through 2001. Several countries are still trying to sell their mining and oil and gas industries (for example, Zambia is expected to sell further mining interests, and China has listed many oil and gas enterprises). Finally, privatization of banking and financial services should burgeon as East Asian and Pacific countries are starting to sell the assets nationalized after the financial crisis. Also, many countries are starting to liberalize their financial sector (for example, in the South Asia, and Middle East and North Africa re-





gions) or are continuing to sell their assets (for example, in the Latin America and the Caribbean and Eastern and Central Europe regions).

Progress in privatization by region: Results for 1998

East Asia and Pacific

With the exception of Thailand, privatization proceeds in East Asia and Pacific declined considerably in 1998, amounting to about \$1.1 billion compared with \$10.4 billion in 1997 (table A4.1). Many deals in the region were postponed because of the adverse economic and market conditions.⁶ China's public offering of shares on the Hong Kong Stock Exchange was reduced by more than half in 1998 compared with 1997. China experienced a slight rebound in 1999 but revenues remained low, partly due to a lack of investor confidence in the market. Key divestitures in 1998 included the H-share listing of a 33 percent stake in Yanzhou Coal

Mining, raising \$256 million, and sale of a 10 percent stake in Jianglin Motors for \$55 million.⁷ In 1998, *Indonesia's* privatization program raised \$122 million (despite the economic, political, and social turmoil of that year) with the sale of a 14 percent stake of PT Semen Gresik (a cement maker) to Cemex of Mexico. *Thailand's* private sale of Electricity Generating Company raised \$241 million, and the public offer of the Petroleum Authority of Thailand—Exploration and Production, or PTTEP, (oil and gas) raised about \$112 million. *Malaysia*, which raised over \$10 billion from privatization activity between 1990 and 1997, postponed the deals planned for 1998.

Initial estimates for 1999 show that privatization activity has picked up in the region. Economic recovery and stronger demand will encourage governments to privatize assets whose sales were delayed in 1998–99. Privatization programs will accelerate in the East Asian crisis countries (in particular, Indonesia, Thailand, Malaysia, and the Republic of Korea)⁸ as governments reprivatize financial assets that were nationalized in the aftermath of the crisis. Therefore, divestiture of the financial sector will account for an important share of future privatization proceeds for the region. Governments will also continue to encourage private sector activity in the telecommunications and power sector, mainly through greenfield investments to compete with government assets rather than by divestiture. In addition, recently announced policies in China, Indonesia, Thailand, the Philippines, and the Republic of Korea hint at a more comprehensive power sector reform that may also include restructuring and privatization. Other sectors that may witness significant divestitures in the region will include airlines and airport-related companies (in Thailand, Malaysia, and China) and the oil sector (in China and Indonesia).

Table A4.1 Privatization revenues in East Asia and Pacific, 1990–98

(millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
China	—	11	1,262	2,849	2,226	649	919	9,120	611	17,647
Indonesia	—	190	14	31	1,748	2,031	1,008	141	122	5,285
Malaysia	375	387	2,883	2,148	798	2,519	214	704	—	10,028
Philippines	—	244	754	1,638	494	207	22	371	—	3,730
Thailand	—	—	238	471	242	—	291	48	353	1,643
Other	1	2	10	18	—	4	226	—	5	266
Total	376	834	5,161	7,155	5,508	5,410	2,680	10,385	1,091	38,600

— Not available.

Source: World Bank Privatization Database.

Table A4.2 Privatization revenues in Latin America and the Caribbean, 1990–98*(millions of U.S. dollars)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Argentina	7,532	2,841	5,741	4,670	894	1,208	642	4,366	510	28,404
Bolivia	—	—	9	13	—	789	34	40	10	895
Brazil	44	1,633	2,401	2,621	2,104	992	5,770	18,737	32,427	66,729
Chile	98	364	8	106	128	13	187	—	181	1,085
Colombia	—	168	5	391	170	—	2,075	2,876	518	6,203
Mexico	3,160	11,289	6,924	2,131	766	167	1,526	4,496	999	31,458
Peru	—	3	212	127	2,840	1,276	1,751	1,268	480	7,957
Republica Bolivariana de Venezuela	10	2,278	140	36	8	39	2,017	1,387	112	6,028
Other	71	147	120	393	1,289	132	140	726	2,447	5,466
Total	10,915	18,723	15,560	10,488	8,199	4,616	14,142	33,897	37,685	154,225

— Not available

Source: World Bank Privatization Database.

Latin America and the Caribbean

Privatization revenues in Latin America and the Caribbean remained strong in 1998, raising \$38 billion compared with \$34 billion in 1997 (table A4.2). *Brazil* once again dominated privatization activity in the region (and in the developing world), raising over \$32 billion, as the privatization and concessions programs continued to boom in the power, banking, transport, and telecommunications sectors. The Telebras telecommunications network accounted for more than \$19 billion and was the largest private sale of all time. In addition, Brazil undertook important divestitures in the power and banking sector, raising \$6.6 billion and \$647 million, respectively.

The *Mexican* government pursued its comprehensive privatization program announced in 1995, raising almost \$1 billion in 1998. Significant revenues were generated with the privatization of railroads, gas distribution, airports, ports services and assets, and bonded warehouses (storage units). These included the private sales of Ferrocarril del Sureste (railroad) for \$317 million, Sistema de Gas Natural de Monterrey (gas distribution) for \$158 million, and Grupo Aeroportuario del Sureste, S.A. de C.V. (airport) for \$128 million.

Argentina's privatization revenues declined in 1998, amounting to an estimated \$510 million compared with more than \$4 billion in 1997. Key privatizations in 1998 included a 30-year concession for the management and operation of 33 airports to the private consortium Aeropuertos 2000, and the private sale of a 51 percent stake of Edemsa (power/electricity) to a foreign consortium.

Colombia raised \$518 million in 1998 with the private sale of Corelca (electricity distribution)

to foreign investors. *Venezuela's* \$90 million sale of Sistema Isla de Margarita Nueva Esparta (SENE) in the electricity sector accounted for 80 percent of its privatization earnings. *Peru's* privatization proceeds reached \$480 million, more than 60 percent of which was generated by divestiture in the electricity transmission sector.

The divestiture of the telecommunications and electricity sectors led privatization activity in Central America. *Guatemala* finally completed the privatization of its telecommunication utility Telgua for \$700 million—which represents the largest foreign investment in Guatemala—and of Guatemalan Electric Company for \$520 million in 1998. *El Salvador* raised \$902 million in 1998 from the private sale of companies—35 percent from the telecommunications sector and 65 percent from the electricity sector. *Panama* earned \$302 million with the private sale of companies in the electricity sector.

Privatization proceeds in the Latin American and the Caribbean region declined in 1999, mainly resulting from a slowdown in Brazil's privatization program.⁹ However, Argentina's privatization proceeds boomed in 1999 with sales such as Yacimientos Petroliferos Fiscales, which raised more than \$15 billion. While several countries in the region divested a great number of state-owned enterprises in the 1990s (with some, such as Chile, even privatizing in the 1970s and 1980s), privatization programs will continue to raise important revenues for the region as many countries try to narrow their fiscal deficits. Divestiture of the power, telecommunications, transport, and financial sectors have accounted for a large share of privatization proceeds in the region and will continue to at-

tract much interest and revenues in 2000–01. Countries that are planning to privatize assets in the power sector in 2000 include Argentina, Brazil, and the Republica Bolivariana de Venezuela; in the telecommunications sector, Colombia; in transport, Mexico (railways and airports); in the financial sector, Chile and Brazil; and in the utility sector, Argentina (hydro generators). In addition to these sectors, many state-owned enterprises remain in the oil sector, which may undergo more privatization in the future (in particular, in Brazil, Colombia, Mexico, and the Republica Bolivariana de Venezuela) especially because oil prices are rising again.

Europe and Central Asia

Divestiture activity in Europe and Central Asia slowed in 1998, with the exception of Poland and Turkey, as a result of the 1998 Russian crisis and a loss of momentum in economic reform in some countries.¹⁰ Privatization revenues in the region declined from a \$16.5 billion peak in 1997 to \$8.0 billion in 1998, mostly reflecting the sharp decline in Russian proceeds (table A4.3).

Russia, which raised \$4 billion and accounted for one-fourth of total privatization proceeds for the region in 1997, earned only an estimated \$909 million, partly because of the collapse of the Russian financial system in August 1998. Most of Russia's revenues came from the sale of a 2.5 percent share in Gazprom to Ruhrgas and a 25 percent share of cellular phone services VimpelCom to Telenor of Norway. However, the sales of Rosneft (oil and gas) and Svyazinvest (telecommunica-

tions), along with the 1998 planned sale of Rosgosstrakh (financial), were all delayed.

Since 1997, *Poland's* privatization program has been gaining steam, raising \$2.2 billion in 1997 and \$2.4 billion in 1998.¹¹ Poland's significant sales in 1998 included a 15 percent stake in TPSA (telecommunications company) that raised around \$925 million, a 37 percent stake in Bank Przemyslowo-Handlowy (BPH) for \$600 million, and the sale of a 15 percent stake in Pekao S.A. (banking) for \$262 million.

Hungary's privatization efforts are coming to an end. The country successfully privatized a large share of its economy at an early stage relative to other countries in the region, so little is left to be sold. From 1990 to 1998, privatization proceeds exceeded \$12 billion, with more than 60 percent sold to foreign investors. In 1998 the public offer of an 11 percent stake in MOL raised an estimated \$330 million.

Despite unmet high expectations, *Turkey's* privatization raised record revenues of \$1 billion in 1998, the highest amount since 1990. Some noteworthy sales included the sale of Etibank (banking) for \$155 million and the domestic and international public offering of IS Bank (banking) for \$633 million. Other sales included the remaining 40 percent in Havas (an airport service provider) and various parcels of real estate. *Romania's* sale of Romtelecom (telecommunications) for \$675 million was a record sale for the country and also one of the largest sales in the region. *Bulgaria's* privatization program, which started gaining momentum in 1996, slowed in 1998, generating \$139 million from sales in the hotel, banking, and chemical/pharmaceutical industries.

Table A4.3 Privatization revenues in Europe and Central Asia, 1990–98

(millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Bulgaria	—	—	—	45	147	111	48	525	569	1,445
Czech Republic	—	—	—	645	7	1,645	—	72	181	2,549
Hungary	483	798	779	1,685	1,507	3,988	945	2,139	342	12,666
Poland	62	338	240	733	641	980	605	2,246	2,436	8,281
Russian Federation	—	35	88	110	—	1,002	1,192	4,177	909	7,513
Turkey	437	212	780	483	354	572	297	465	1,016	4,617
Other	280	1,168	1,739	287	1,301	1,444	2,379	6,913	2,550	18,060
Total	1,262	2,551	3,626	3,988	3,957	9,742	5,466	16,537	8,002	55,131

— Not available.

Source: World Bank Privatization Database.

Privatization activity has remained strong in Poland and Turkey in 1999 and will continue garnering significant revenues in 2000–01. Initial estimates show that Poland's privatization proceeds will reach almost \$4 billion in 1999 (with sales such as Bank Pekao for \$1 billion). Privatization programs should accelerate in EU applicant countries that have not yet completed their reform programs.¹² Privatizations in the telecommunications and financial sectors have accounted for a significant share of revenues in 1999. Significant sales in telecommunications in 1999 include Hungary's Matav; in the financial sector they include Ceskoslovenska Obchodni Banka (COB) in the Czech Republic and Bank Pekao in Poland. In 2000–01, privatization of financial, telecommunications, and power enterprises should continue at a steady pace. These will include sales of banks in the Czech and Slovak Republics, telecommunications in Poland and Lithuania, and power plants in Poland.

Middle East and North Africa

Privatization revenues in the Middle East and North Africa declined from \$1.6 billion in 1997 to \$1.0 billion in 1998 (table A4.4), mainly because of the slowing of reform programs in several countries (rather than capital markets contagion). The *Arab Republic of Egypt's* privatization revenues declined to an estimated \$539 million in 1998 after two strong years in 1996–97. Noteworthy Egyptian divestitures in 1998 included Misr Petro-

leum Processing Company for \$105 million and San Stefano Hotel for \$79 million.

Morocco's privatization program slowed considerably, raising an estimated \$92 million in 1998 compared with \$716 million in 1997. Unlike previous years in which privatization promoted much activity on the Casablanca Stock Exchange, divestitures in 1998 relied mainly on private sales and worker purchases. In 1998, Morocco sold additional shares to a foreign investor and workers in two oil refineries—Société Anonyme de l'Industrie de Raffinage (SAMIR) and Société Chérienne de Pétroles (SCP)—generating approximately \$40 million.¹³ It also sold additional shares in steel producer SONASID to workers, raising \$3 million. Furthermore, it raised \$37 million with the sale of Wafa Insurance and more than \$12 million with the sale of hotels to local investors.

Tunisia's privatization program began in 1987 and accelerated in 1998, raising \$364 million compared with an estimated \$150 million from 1990 to 1997. Key divestitures included the private sale of two cement companies—Société les Ciments Jebel Oueit and Société les Ciments d'Enfidha—to foreign investors, raising \$361 million. It also raised over \$3 million by selling a stake in the telecommunications company Sotetel.

Privatization activity has regained momentum in 1999 (especially in Morocco, Tunisia, Egypt, Jordan, and Algeria). While manufacturing, the primary sector, and tourism have accounted for a large share of privatization in the past, future divestitures will also include telecommunications (Morocco and Oman), power generation (Egypt),

Table A4.4 Privatization revenues in Middle East and North Africa, 1990–98
(millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Egypt, Arab Rep. of	—	—	—	118	393	262	1,150	855	539	3,317
Morocco	—	—	—	273	347	240	271	716	92	1,940
Tunisia	2	17	60	—	—	32	36	3	364	514
Other	—	—	9	26	42	212	21	38	5	353
Total	2	17	69	417	782	746	1,478	1,612	1,000	6,124

— Not available.

Source: World Bank Privatization Database.

Table A4.5 Privatization revenues in South Asia, 1990–98*(millions of U.S. dollars)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Bangladesh	—	—	—	43	12	5	—	—	—	60
India	—	931	1,098	861	1,505	810	495	1,373	52	7,125
Pakistan	11	63	343	17	1,106	36	317	58	41	1,992
Sri Lanka	18	2	105	52	42	65	77	361	81	802
Other	—	—	11	1	1	—	—	2	—	15
Total	29	996	1,557	974	2,666	916	889	1,794	174	9,995

— Not available.

Source: World Bank Privatization Database.

and transport (airlines in Jordan and Morocco and an airport in Oman).

South Asia

Total privatization revenues in South Asia declined significantly from \$1.8 billion in 1997 to \$174 million in 1998 (table A4.5). *India's* privatization program stalled in 1998, raising only \$52 million with the public offer of Concor (Container Corporation of India) compared with \$1.4 billion in 1997. However, important progress was made in reforming and restructuring the power sector in a number of states.¹⁴ *Sri Lanka's* privatization program raised \$81 million in 1998 compared with \$361 million in 1997. Key divestitures included the private sales to foreign investors of a 26 percent stake of Air Lanka Limited and of a 37 percent stake in Orient Lanka Limited (trading), raising \$43 million and \$12 million, respectively. The

remaining revenues were generated from the sale of plantations. *Pakistan's* privatization activity has remained slow in 1998, raising \$41 million. Sales in the hotel/tourism sector accounted for the largest share of total revenues.

Divestitures have started to accelerate in India since the election in 1999 of a new government favoring economic reform. The insurance and steel industries have been partially privatized in 1999, and stakes in the telecommunications company (Mahanagar Telephone Nigam) should be placed on the market in 2000. Sri Lanka will also witness increased divestitures and has listed the telecommunications sector on the market in 2000.

Sub-Saharan Africa

After raising peak revenues of \$2.3 billion in 1997, privatization in Sub-Saharan Africa declined to \$1.4 billion in 1998 (table A4.6). A combina-

Table A4.6 Privatization revenues in Sub-Saharan Africa, 1990–98*(millions of U.S. dollars)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Côte d'Ivoire	—	2	10	5	19	74	103	263	94	570
Ghana	10	3	15	28	476	87	186	68	21	893
Kenya	12	1	12	10	19	13	137	24	30	258
Mozambique	3	5	9	6	2	26	38	21	29	139
Nigeria	16	35	114	541	24	—	—	—	—	730
South Africa	—	1,073	—	—	—	—	122	1,287	247	2,729
Tanzania	—	—	3	27	5	77	13	16	111	252
Uganda	—	—	12	19	24	47	30	20	15	167
Zambia	—	—	—	3	14	69	30	302	409	827
Zimbabwe	—	—	—	—	13	75	—	110	—	198
Other	33	2	32	2	9	5	86	238	402	809
Total	74	1,121	207	641	605	473	745	2,348	1,356	7,571

— Not available.

Source: World Bank Privatization Database.

tion of low commodity prices (which deterred investments in the sector) and weaker investor confidence in emerging markets (reflected by lower foreign participation in the region) contributed to a deceleration in privatization activity in Sub-Saharan Africa. Furthermore, the collapse of aggregate demand in East Asian directly impacted Sub-Saharan Africa, as East Asian countries have been important investors in a number of countries in the region. Privatization in the mining sector accounted for 40 percent of total privatization revenues for the region in 1998.

South Africa's privatization revenues totaled an estimated \$247 million in 1998 compared with \$1.3 billion in 1997. FDI-related privatization in South Africa declined considerably as a result of lower investment from East Asia and Pacific and other regions.¹⁵ South Africa raised \$245 million with the private sale of Airports Company of South Africa (ACSA) to foreign and local investors and \$2 million with the sale of Viamex (transportation sector) to local investors. *Zambia* raised an estimated \$409 million in 1998, mostly from sales of copper mines (units of Zambia Consolidated Copper Mines). However, the privatization process seems to have slowed, and the country has experienced several delays in the divestiture of its remaining copper mines. *Tanzania's* privatization program, launched in 1993, raised \$111 million in 1998 mainly from sales in the manufacturing and agriculture sectors. Key divestitures included the sales of Tanganyika Portland Cement and Kilo-bero Sugar Limited to foreign investors for \$48 million and \$22 million, respectively. Also, Tanzania started preparing for the future privatization of its major utilities and infrastructure industries. *Ethiopia's* privatization program, launched in 1994, was initially slow but is gaining momentum. In 1998 the private sale of Lega Dembi gold mine to an Ethiopian Saudi investor went for \$172 million. *Senegal's* divestitures have accelerated in recent years, raising an estimated \$150 million in 1998. Noteworthy transactions include the public offer of an 18 percent stake in Sonatel (telecommunications) on the regional stock market based in Côte d'Ivoire, which raised \$84 million,¹⁶ and the private sale of Senelec (electricity) to foreign investors for \$65 million.

Privatization programs in *Côte d'Ivoire* and *Ghana* slowed in 1998. *Côte d'Ivoire's* major divestiture was the sale of the state cotton monopoly

(CIDT) to foreign investors for \$91 million. *Ghana* raised more than 75 percent of its revenues with the sales of Barclays Bank Ghana and Twifo oil palm plantation. In 1998, *Kenya* raised most of its revenues with the public offer of Kenya Commercial Bank, and *Mozambique's* key private sales included Reunidas (brewery) and Marmonte (marble) to foreign investors for \$8 million and \$4 million, respectively.

Privatization programs should accelerate in Sub-Saharan Africa as the policy environment in many countries is shifting toward promoting foreign investment and privatization (for example, in Nigeria, Uganda, Tanzania, Mozambique, and Benin). With declining foreign aid, privatization and foreign investment will help heavily indebted countries that can no longer sustain loss-making state-owned enterprises and need revenues to fund their budgets and current account deficits. While privatization and foreign inflows in Sub-Saharan Africa have typically been focused on the primary sector (in particular, mining and oil), the trend has recently been broadened to the telecommunications, transport, utilities, financial, and manufacturing sectors. These have also attracted significant inward portfolio and direct investment and contributed to the development of the region's stock markets.¹⁷

Sectoral distribution

Infrastructure-related enterprises—which include telecommunications, power, and transport companies—have accounted for the largest share of privatization revenues since 1994 (table A4.7). In 1998, privatization proceeds from the infrastructure sector amounted to an estimated \$40 billion (81 percent of total privatization revenues in developing economies), largely raised through the sale of telecommunications companies. Telecommunications privatization proceeds surged in 1998, raising an estimated \$26.6 billion, as a result of important selloff programs in several regions. Telecommunications sales generated \$24.1 billion in Latin America, \$2.3 billion in Europe and Central Asia, \$84 million in Sub-Saharan Africa, \$56 million in the Middle East and North Africa, and \$3 million in East Asia and Pacific. Divestitures in the telecommunications sector will continue to contribute to an important share of

Table A4.7 Privatization by sector, 1990–98*(millions of U.S. dollars)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Infrastructure	9,704	6,863	9,715	5,360	9,399	9,240	15,063	37,370	39,964	142,677
Telecommunications	7,643	5,981	3,007	1,083	6,069	3,691	3,814	12,863	26,619	70,771
Power	59	359	4,892	1,741	2,180	4,523	6,156	17,979	9,994	47,882
Manufacturing	1,402	5,558	7,188	7,491	6,091	5,787	3,546	7,795	2,167	47,025
Steel	185	2,145	1,614	2,900	1,219	135	193	916	3	9,310
Chemicals	156	466	315	415	1,285	291	488	1,222	514	5,152
Construction	196	484	732	491	790	592	745	318	718	5,066
Other manufacturing	864	2,462	4,528	3,685	2,798	4,769	2,120	3,743	932	25,901
Primary sector	1,367	3,608	3,394	6,215	4,068	4,336	2,787	12,932	3,125	41,832
Petroleum	568	2,085	2,760	5,162	2,115	2,781	1,687	7,956	1,975	27,089
Mining	485	235	382	187	1,220	618	468	4,418	971	8,984
Financial services	47	7,793	5,263	3,411	1,065	1,933	2,895	3,445	3,149	29,001
Banking	47	7,505	5,099	2,464	779	1,853	2,646	3,055	2,471	25,919
Other services	138	420	621	1,184	1,088	606	1,108	5,031	905	11,100
Total	12,658	24,242	26,181	23,661	21,712	21,901	25,399	66,573	49,309	271,636

Source: World Bank Privatization Database.

privatization revenues in 1999 and in the foreseeable future. Power sector deals generated \$10 billion in 1998, with Latin American countries capturing almost all these revenues. In 1998, transport sector sales amounted to approximately \$3.4 billion, mainly stemming from Brazil's and Mexico's continued sales in railways and other transport-related industries.

The primary sector—which includes petroleum, mining, agriculture, and forestry—accounted for 6 percent of total privatization revenues in 1998 and raised an estimated \$3.1 billion. These revenues were generated almost entirely by petroleum and mining sales. The primary sector's privatization proceeds in 1998 resulted primarily from large divestiture transactions in oil- and gas-related firms in Russia, Kazakhstan, Hungary, Romania, and Latvia, and from mining sector sales in Zambia and Ethiopia.

The manufacturing sector—which includes steel, chemicals, construction, and other subsectors—raised \$2.2 billion in 1998, accounting for 4 percent of total privatization revenues. Divestiture in the manufacturing sector raised \$830 million in Europe and Central Asia (mostly from sales of pharmaceutical firms), \$314 million in East Asia and Pacific (mostly from sales of cement, motor vehicles, and electrical/electronic equipment manufacturers), and \$617 million in the Middle East and North Africa (mostly from the privatization of cement manufacturers in Tunisia and contracting

firms in Egypt as well as food companies and rice mills in Egypt).

The financial sector—which includes banks, insurance, real estate, and other financial services—accounted for 6 percent of total privatization revenues, raising \$3.1 billion. Europe and Central Asia accounted for 70 percent of the financial sector's privatization proceeds, largely resulting from sales of banks in Poland, Turkey, and Romania. Furthermore, Latin America contributed 27 percent of these revenues, largely resulting from bank sales in Argentina, Brazil, and Peru.

Foreign participation in privatization activity

Foreign investors (portfolio and direct investors) contributed 58 percent of total privatization proceeds in the developing world,¹⁸ generating an estimated \$28.6 billion in foreign exchange in 1998 (table A4.8). In 1998, foreign direct investment was the main source of foreign revenues raised through privatization activity, accounting for 93 percent of the total. Foreign portfolio investment accounted for only 7 percent of the total, reflecting the trend for these flows: that is, total portfolio equity flows to developing countries almost halved while total FDI flows remained about the same from 1997 to 1998 (table A4.9).

Table A4.8 Foreign exchange raised through privatization in developing regions, 1990–98*(millions of U.S. dollars)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
East Asia and the Pacific	1	102	1,556	4,156	4,036	2,026	1,990	3,775	1,082	18,724
Europe and Central Asia	586	1,892	3,069	2,932	1,588	4,778	1,880	8,874	5,190	30,789
Latin America and the Caribbean	6,358	7,384	4,037	3,765	5,058	2,206	6,448	12,486	21,535	69,277
Middle East and North Africa	0	3	19	183	246	16	126	623	43	1,260
South Asia	11	4	44	16	997	38	528	1,043	11	2,693
Sub-Saharan Africa	38	5	66	566	453	275	299	1,969	694	4,364
All developing countries	6,994	9,390	8,791	11,619	12,378	9,338	11,271	28,770	28,556	127,107

Sources: World Bank Privatization Database and staff estimates.

Table A4.9 Foreign portfolio investment and foreign direct investment in privatization in developing regions, 1990–98*(millions of U.S. dollars)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Foreign direct investment	6,888	5,517	6,039	6,429	6,414	6,380	5,644	21,094	26,505	90,910
Portfolio investment	106	3,873	2,752	5,190	5,964	2,958	5,627	7,677	2,051	36,198
Total	6,994	9,390	8,791	11,619	12,378	9,338	11,271	28,770	28,556	127,107

Sources: World Bank Privatization Database and staff estimates.

The extent of foreign participation in privatization has varied across regions. In 1998, Latin America and the Caribbean and Europe and Central Asia attracted the largest share of foreign investment as a result of sales in the telecommunications and banking sectors and in oil- and gas-related industries. Brazil was the main recipient (through privatization activity) of foreign investment, receiving 85 percent of Latin America and the Caribbean's and 37 percent of the developing world's foreign investment. Poland, Romania, Russia, and Kazakhstan received 30 percent, 18 percent, 16 percent, and 10 percent, respectively, of their region's foreign investment.

Source of data for the World Bank's Privatization database

The data contained in the World Bank's Privatization database are drawn from various sources, including reports from official privatization agencies and other internal World Bank Group databases, and are supplemented with data contained

in such publications as *Financial Times*, *Privatization International*, *Institutional Investor*, *International Financing Review*, *Latin Finance*, *Project Finance*, *Middle East Economic Digest*, and *Euro-money*. All data are in U.S. dollars as reported, or are converted from local currencies into U.S. dollars at the annual average exchange rate.

Notes

1. Sales through other privatization methods may be unreported because of lack of available data.
2. Privatization in the primary sector was also dampened by the slump in commodity prices in 1997–98.
3. Initial data shows that privatization picked up in China and Indonesia and declined in Brazil. Privatization also boomed in the Republic of Korea. However, we do not include that country in the East Asia and Pacific region table because Korea was classified as a high-income economy until 1997.
4. See Neil Roger, "Recent Trends in Private Participation in Infrastructure." *Private Sector Viewpoint*. World Bank, Washington, D.C., September 1999. Roger notes that, in contrast to telecommunications and power, trans-

port and water have experienced stronger political barriers to reform as technological change has been less marked.

5. See Ada Karina Izaguirre, "Private Participation in Telecommunications—Recent Trends." *Private Sector Viewpoint*. World Bank, Washington, D.C., December 1999.

6. That is, the prolonged adverse effects of the 1997 East Asia financial crisis.

7. Listed Chinese companies' share capital comprises two kinds of shares: local shares (A shares), restricted to Chinese nationals, and foreign shares (B and H shares), restricted to foreign investors. B shares are listed on the two official stock exchanges in China (the Shanghai Securities Exchange and the Shenzhen Stock Exchange); H shares are listed in Hong Kong (China), and traded and settled in foreign currencies, such as U.S. dollars.

8. The Republic of Korea is not included in our tables (or database) because the country was considered high-income until 1997.

9. Brazil's privatization program is regaining momentum and is expected to remain strong in the coming years.

10. The Russian crisis contributed to several delayed sales in Russia and affected investor confidence in some Eastern European and Central Asian countries.

11. Poland has been the most active country in the region, raising \$2.4 billion, which represented about 30 percent of the region's privatization proceeds in 1998.

12. EU applicant countries include the Czech Republic, Estonia, Hungary, Poland, Slovenia, Lithuania, Latvia, Slovakia, Romania, Bulgaria, and Turkey.

13. In 1997, the private sale of a strategic stake in SAMIR and SCP raised \$416 million, Morocco's largest privatization to date.

14. See Author 1999, p.171.

15. South Africa is one of the main recipients of FDI in Sub-Saharan Africa, accounting for about 30 percent of total FDI to the region in 1999.

16. In 1997, Senegal raised \$191 million with the private sale and public offer of Sonatel.

17. In 1998–99, new stock markets were set up, including the Abidjan Stock Market serving the West African region and the Dar es Salaam Stock Exchange in Tanzania.

18. For direct sales, if a buyer's identity is unknown, it is assumed that the buyer is domestic. For public offers, the foreign exchange component is not estimated if the number of shares purchased by foreign investors is unknown.