INTRODUCTION:

Two major inter-related issues become relevant and important when examining privatisation in developing countries. First, an economic perspective firmly locates the key objective of privatization as that of efficiency improvement, in the theory of ownership transfer, which provides a coherent framework for analyzing the design and implementation of privatization to become an integral part of structural adjustment or part of a programme which aims at an economic restructuring in order to improve the efficiency of resource allocation. As one of the fundamental goals, efficiency improvement must be the yardstick against which privatization initiatives are judged.

Second, when theoretical arguments for privatisation are grounded primarily in the economic conditions of developed countries, and are applied to the developing countries, the situation becomes much more complex. Competitive goods, capital markets, high and efficient savings mobilization and effective regulation are exception to developing countries. Their absence requires an adjustment of the way in which the theoretical arguments for privatisation are applied in developing countries.

limitations to competition, correspondingly more extensive role for monopoly regulation and competition policy and on constraints to privatization imposed by narrowly based capital markets. In other words, market structure, savings mobilization and regulatory capacity in developing countries, lead us to conclude that an adjustment is required in the role of privatisation in developing countries.

**DEFINING PRIVATIZATION:**

The term Privatization has been used to describe an array of functions designed to broaden the scope of private sector activity, or the assimilation of efficiency enhancing techniques generally employed by the private sector. Essentially privatization is only a process, and therefore the privatization implies the transfer from the public to the private sector of ownership and / or control of productive assets, their allocation and pricing, and the entitlement to the residual profit flows generated by them. Another form of privatisation is by clarifying the nature and extent of the relationship between privatization and the wider issue of economic deregulation. Many aspects of deregulation, such as price-liberalization, abolition of import controls and the deregulation of factor markets, will affect the performance of public enterprises, either indirectly through the effect of deregulation on the competitive environment in which the firm operates. In principle, the distinction between the nature

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and effects of the two concepts is clear, and indeed en-ante, there is no logical reason why they should be connected. In practice, however, the identification of the separate effects of privatisation and deregulation on performance is often very difficult.

No identification of privatisation is ever likely to be water tight, and in many cases the extent to which 'Privatization' has occurred is a matter of degree and interpretation.

**POLICY OBJECTIVES OF PRIVATIZATION**

Privatization and liberalization emerged as policy issues amidst the debt crisis and worsening fiscal performances of the early 1980s. Many Governments have embraced privatization and it has quickly found a position at the heart of programmes of economic reform of development. It has been viewed as an instrument geared towards both short-term stabilization through expenditure reduction and also medium-term supply side improvements by promoting more-efficient resource allocation:

1) The first foremost objective is that of 'Public Finance Rationalization'. In the face of significant resource flows privatization is seen as away of reducing net-budgetary transfers and of eliminating confinement external debt-liabilities. Moreover, with Govts. under pressure to meet short-term budget deficit targets, privatization proceeds can generate valuable capital revenue, easing the pressure for expenditure cuts in other areas, and also reducing the adverse effects, which deficit
financing can have on domestic investment. ³

2) The second set of objectives are the economic efficiency or supply side objectives. These, as noted, are closely related to the broader issues of liberalization, and are particularly relevant given the history of Government intervention in enterprise management. Attend to these two fundamental objectives are a host of other, somewhat broader, aims associated with a programme of privatization, and which themselves are also central to current thinking on structural adjustment debate. Amongst this is the use of public sector divestiture to 'crowd-in' a private sector. The direct relationship between privatisation and the pursuit of each objective is often clouded by the nature of the overall policy environment into which privatization fits.⁴

This chapter deals with these inter-related policy objectives of privatisation initiatives in the following sequence of subsection heads.

1.0 PRIVATIZATION AND PUBLIC FINANCE :

In terms of financial impact, the proceeds from privatisation represent the capitalization of future net resource flows achieved by the sale of the asset. Privatisation is a simple liquidity


⁴Pine - op.cit.
transformation of the Government's net worth.\textsuperscript{5} Sale of state assets to the Private sector in an economy characterized by fully efficient capital and money markets full and cost less information and neutral tax structures. The price at which the asset is sold will be the sum of the discounted future profits generated by the asset. Thus the sale will result in the public and private sectors adjusting their relative liquidity positions, but leaving their respective networth unaltered. In particular whilst the immediate effect of an asset sale is indeed a reduction in the current budget deficit, this must be offset against compensatingly higher defects in the future caused by the loss of future earnings stream from the asset sold. However if government were to invest the proceeds in income earning assets, and in capital markets are efficient, then the net earnings from investing the proceeds from the asset sale is say bonds will generate a profit stream of equal net present value.

The Private sector thus reduces its holdings of money (or other financial assets) and acquires equity in privatized enterprises, while the government reduces its equity and increases its holding of money. Here the physical impact is neutral.\textsuperscript{6}


\textsuperscript{6}The initial cash payment can be thought of in terms of subsidies - Debt write offs, etc., rather than cash payments.
CASH EFFECTS:

There are number of ways in which the public sector seller and the private sector buyer may have different valuations of the proceeds from a asset and hence bring about a real effect from privatization.

OTHER METHODS:

There are other methods in which the sale of assets can be non-neutral many of which are more likely to be pertinent in developing economies. An obvious example occurs when the government is credit constrained either domestically through controls being imposed on domestic credit expansion, or in international capital markets because of a loss of credit worthiness. Such constraints increase the government's discount rate (reflecting its preference for current revenue) relative to the purchasers. The purchaser can consequently pay less than the value of the future profit stream – discounted at its (the purchaser's) rate of discount.

a) TAX DISTORTIONS AND VALUE OF PUBLIC FUNDS:

One recent contribution argues that real fiscal effects from privatization are determined by the value of public funds in the hands of government (Jones et al, 1990) The Jones, Tandon & Vogelsang (JTV) model starts from a similar basis to that of neutrality result. They argue that if, because of tax distribution and incentive effects the value of cash from the...
asset sale is greater in public rather than private hands, then there is a net fiscal gain to privatization. They also assume that this reduction in the dead weight cost of taxation will generally occur and hence that there is fiscal, if ultimately neo-liberal rationale for privatization.

Vernon (1988) in commenting on JTV model raises a number of questions about its assumptions referring in particular to the positive crowding-out effects that such large scale transfers may have. Needless to say the argument acquires a greater degree of complexity when the purchaser comes from the foreign private sector, where the transfer of funds will affect the fiscus not only directly but also indirectly through the stabilisation requirements of changes in the balance of payments.

The same arguments applies, perhaps more strongly. Where the purchaser is foreign and the government faces significant foreign exchange constraints. Here, because of consequent constraints on import levels the Governments valuation of current foreign exchange will be higher than that of Private Sector.

Similar non-neutralities will occur in the presence of a narrow tax-base or in any situation where an increase in the marginal rate of taxation would decrease Govt. revenue, as a


result of 'Laffer-curve' effects. If there are differing degrees of risk aversion between the public and private sectors we may expect the same non-neutralities. Normally it would be assumed that, because of its size the Government is able to spread risk and will have a lower degree of risk-aversion. In such circumstances the value of the asset would be higher in the hands of Government and centers paribus, there would be no sale. Since the transfer of assets will in general alter the distribution of wealth in the private sector, this will generate second-order effects throughout the economy brought about by changes in the propensities to consume, to invest, to import and so on.\(^\text{10}\)

**GOVERNMENT CREDIBILITY EFFECTS:**

The credibility of the Government in the eyes of private sector also plays a major role in determining the public finance effect of privatization. In this case, the problem facing the Government is how to convince the purchaser that it (the Government) will uphold the conditions of the sale and thereby maintain the future value of the asset. This problem arises typically because in a privatization programme, the seller, i.e., the Government, has superior knowledge of the quality of the asset, and more importantly, has the capacity to alter its post-sale value in the hands of the buyer through policy and other interventions conditional on its sovereign authority.

This problem is of particular relevance in those developing countries which have a history of extensive state intervention in the economy, a record which has not been conducive to the maintenance of asset values in the hands of the private sector. If the private sector fears future re-nationalisation or other types of default, this will depress the price it is prepared to offer, and therefore generate a structural non-neutrality in the model. Creating a positive reputation thus enables the Government to signal a change in regime and commit itself against future nationalisation or other forms of punitive intervention.

This form of policy credibility creation also carries over to external relationship with the donor and foreign investor community. Both private and official foreign capital flows will be determined not only by perceptions of the viability of specific projects but also Government for not interfering with the terms and conditions of foreign investment. An important aspect of this is the credibility of Governments in meeting the conditions of adjustment lending. Official funds often tied explicitly to market oriented reforms with private capital flows being similarly but implicitly tied to the same reforms. In this respect the credibility of Government will determine the inflow of capital, but correspondingly it is a Government's commitment to privatisation that is viewed as a bench-mark signal in the development of a less interventionist, more market friendly policy stance.
Enhanced official aid flows and improved access to international capital markets thus represent important positive externalities flowing from the successful implementation of a privatisation programme.

2.1 ECONOMIC EFFICIENCY EFFECTS:

Privatisation is aimed at improving economic efficiency and is undertaken on the assumption that the production of goods and services is achieved more efficiently under the direction of private rather than public owners.

Privatisation, it is argued, will enhance productive efficiency (i.e. it leads to lower-cost production) and allocative efficiency (i.e. it forces down consumer prices so that they are closer to the marginal cost of production).

a) INCENTIVES AND OWNERSHIP: THEIR EFFECT ON PRODUCTIVE EFFICIENCY:

Supervising management and monitoring its productivity is a costly task facing enterprise owners, costly in terms of time and human resources, especially when the objectives of an enterprise are diverse. Moreover, the information on performance is hard to acquire and the link between inputs and effort on the one hand and outputs on the other are complex, the more diverse the objective of the enterprise the less effective the monitoring of performance will be, and the lower will be the level of managerial efficiency. Under public-ownership, enterprises are often used by the Governments to pursue non-commercial objectives which are inconsistent with efficiency and financially viable performance,
for example, employment maximization objectives, non-commercial price setting aimed at keeping input prices low for other sectors, uneconomic investments and limited product innovation often dominate decision making at the expense of a more commercial orientation. Concomitant to the pursuit of these non-economic objectives by the owners of the enterprise is the inefficient monitoring and control of management.

On the other hand, private ownership, it is argued, is equated with a higher level of managerial supervision resulting in more commercial and more timely financial decisions (in terms of pricing, investment, R & D levels, innovation, product marketing etc). This results directly from the more single-minded profit maximization objective of private ownership which leads to a higher level of monitoring management performance, and the institution of more effective forms of incentives thus it will have more efficiency.

This is the crucial assumption of the privatisation debate, that the switch from public to private ownership should result in more precise and more measurable objectives on the part of the owners, which in-turn should create the environment and incentives to monitor and control management more efficiently. This improvement derives from the concentration of property rights over the asset.

Under public ownership, property rights are by definition, dispersed and no individual owner (i.e, the elector as shareholder) has an incentive to bear the costs of gathering costly
information and thus to exercise control over the management of the enterprise, principally because the benefits accruing to this effort can not be captured by the individual alone. The dissipation of property rights under public-ownership thus serves the link between asset ownership and its ultimate control and management.\textsuperscript{11}

In that context, the re-concentration of ownership in private hands allows the benefits of control to be internalized by the owners of the asset and there by creates incentives to bear the costs of information gathering and management monitoring. While the tradability of these property rights (i.e. equity) allows the forces of competition to drive this level of performance monitoring to an optimal level. This albeit powerful argument over simplifies the relationship between forms of ownership and nature of control of management in a number of respects.

First, while the creation of property rights is a necessary condition for control to be exerted over management, it is not a sufficient condition.

Second, notions of the public sector as a homogeneous social welfare maximizer and the private sector as a pure profit maximizer are some what naive. In reality, neither sector conforms to these types. While these assumptions are often convenient simplifications, maintaining then in the context of privatization serves to obscure rather than clarify the links

\textsuperscript{11}W.R.Thirsk 'Recent Experience with reform in Developing countries. Richerche Economiche, Vol.44, No.2-3.
between ownership and efficiency.

There are two elements to the ownership argument. First, those who argue that differences between public and private ownership are necessarily 'intrinsic'. Rather the argument is such differences are grounded in the disparity between the objective functions of public and private sector owners and different forms of agency relationships of the ownership structures.

The differences between public and private owners are intrinsic claims that public sector owners will always pursue non-commercial goals for political ends. While there is plenty of evidence that this often occurs, there is no intrinsic reason why it is always the case. The fact that there are many examples of SOES (such as those operated in Singapore) which are not used in pursuit of non-commercial is an adequate reputation. The presence of non-commercial objectives is more indicative of poor-management rather than an intrinsic future of all public ownership. The removal of such objectives may be necessary condition for altering the objective function of public owners, but it is not sufficient one.

The second element of the argument is that to compare the 'general equilibrium' objective function of public ownership with the partial equilibrium' of private ownership is generally an inappropriate comparison. To explain, the attraction of the shift from public to private ownership is that it replaces a complex,

\(^{12}\)Glade - Op.Cit
'general equilibrium' objective function of the Government which includes not only static and dynamic considerations but also second-order effects in the economy (for example, the impact the actions will have on employment, trade and fiscal balances) with a tighter 'partial equilibrium' objective function of the private sector as principal. Because of these differences it is argued that the information requirement of the public objective function is much heavier than for the private sector, and that it is simplicity and lower informational demands of the private maximum and that foster the efficiency gains. Here this question arises what becomes of the additional general equilibrium elements of the public sector objective function? In answering this, we encounter here the link between public and private ownership and the issue of regulation. In an ideal world where the social costs and benefits coincide with private costs and benefits then, concomitantly, the objective functions will be equivalent and their information requirements congruent in this case of transfer of ownership will not result in simplification of the objective function. In cases where social and private sectors and benefits diverge then further policy in the form of regulatory practice may be necessary to achieve social welfare objectives, consequently, the simple case of the general versus partial equilibrium comparison is inappropriate. Rather, the relevant comparison is between public ownership and private ownership with regulation, and with of the two can most efficiently acquire the necessary information and put in place the incentives necessary to extract
efficient performance by managers (the agents).

Once we introduce the regulation, then, and acknowledge the necessary informational demands that it begets, the comparison becomes more complex.

PEOPLE AND SOEs:

The public sector characteristically the extended relationship linking the electorate, legislature, executive and bureaucracy in the public sector provides for complex agency chains. The first link is that between the electorate as principal agents and the legislature and executive agents.

While political success (i.e. continuation in office) may depend inter alia on meeting the concerns of the electorate about SOE performance, pursuit of economic efficiency in public enterprises is actually more likely to be subordinated to meeting the concerns of specific interest groups. This is the strongest when the benefits of efficiency gains to the electorate are dissipated widely, and the adjustment costs fall principally on an active political group. For example in a situation of chronic over staffing, the costs of adjustment will fall primarily on organized labour, the political power of such interest groups will determine how far the electorates concerns are transmitted into political action to reform the SOEs. It is straight forward, and historically accurate, to imagine situations in which the electorate is dissatisfied with the performance of the sector, but the power of those to whom the rents from inefficient SOEs are accruing will ensure that the general concern is not addressed.
However, as popular support for privatization has increased, so the electorate costs of ignoring the pressure for reform from the electorate, consumers has grown so as to ensure that reform and privatization emerge at least as covert objectives of government. The problems are similar to standard agency problems in industrial economics namely those of a Semitic information on the effort level of the enterprise management, and of the consequent ability of the management to extract rent from their control of information.

Public sector organizations face three particular problems. The first is that traditionally there are many links in the agency chain, and agents are often responsible to more than one principal. Second, the links between inputs (i.e. effort and efficiency) and output (profitability) are frequently weak. This arises both from the complexity of the 'general equilibrium' objective function and also from the fact that price setting is frequently controlled. Finally, prescriptions on the use of performance-related pay often deprive public sector organizations of one of the most important instruments available to private sector principles to influence the actions of the agent.\textsuperscript{13}

3. a) PEOPLE AND PRIVATE SECTOR:

How, then will a change in the objective function of the principal, brought about by the transfer of asset ownership to the private sector, alter the performance of management?

\textsuperscript{13}Rees, R. - The Theory of Principal and Agent - Bulletin of Economic Research, Vol.37
The direct effect of curtailing some of the interventions is that Government's can make in an enterprise by strengthening the barriers between politicians and managers.\textsuperscript{14, 15} The arguments for private ownership are based on simplification and streamlining of the agency chain, the greater flexibility in the design of incentive efficient contracts. At the extreme, if the owners are also the managers of the enterprise, or if the owners have complete information on the effects of manager's actions on enterprise performance, then it would be possible for share holder to monitor management and sanction its actions accordingly. However, as with incomplete information and / or multiple share holders (as with public share issue). The situation is less simple. Specifically there is a free rider problem, leading to sub-optionally low monitoring of management.

No individual has the incentive to incur the cost of monitoring except by the Board of Directors, who act for the shareholders as a whole to enforce behaviour from management consistent with profit maximization. The creation of executive management structures produces further principal agent relationships, hence the continual process of innovation in management structures in the private sector can be seen as an attempt to find the most efficient inventive contracts in the face of monitoring.


\textsuperscript{15} Galal - Op. cit.
of inherent principal agent problems.

A second method by which shareholders can, in theory, ensure that management performs in a manner consistent with profit maximization is through the threat of takeovers. In an efficient capital market, share prices automatically reflect performance so that management inefficiency results in share values lower than profit maximizing level. A hostile-bidder could then but the shares at this level and earn a profit on the takeover by enforcing appropriate management behaviour.

Failure to perform renders the company liable to a hostile bid hence the threat of takeover creates a self regulating incentive scheme.\textsuperscript{16} Thus, the effectiveness of the capital market in imposing managerial discipline requires first, that the share prices accurately reflect current asset values and, second that the number of players in the market is sufficient for takeover threat to be credible. The larger are privatization sales relative to average market size, the weaker the takeover threat will be in automatically regulating post-privatization performance.\textsuperscript{17}

4. MARKETS. COMPETITION AND PERFORMANCE:

Though market liberalization and the promotion of competition are neither necessary nor sufficient conditions for privatization,

\textsuperscript{16}Glade, op.cit.

\textsuperscript{17}W.R.Thirsk.
they are often closely linked. The link occurs because a chief
determinant of information costs is the degree of competitiveness
in the market, competition generates information and lowers its
cost for the owners of firms in the market (regardless of
ownership), and it is the lower information costs which enhance
efficiency as monitoring of management improves. Thus, changes
enterprise performance have more to do with the nature of
competition on performance.

First, the extent to which the existence of a competitive
market environment facilitates greater control of management
through the reduction in information costs and, second they way in
which competition drives prices towards their welfare-maximizing
level by eliminating monopoly profits.

Competition between firms in the same market means that
prices and profits reveal information about the cost of an
enterprise, and in particular about the efficiency of input use.
Competition can have direct effects on the interval efficiency of
the firm. Its main effect is the elimination of monopoly profits.
A useful starting point for an analysis of this aspect of
competition is the theory of contestable market's which identifies
the conditions required to ensure that firms operate efficiently
both intervals of managerial or cost-reducing efficiency, and also
interms of welfare-improving pricing and investment (see Baumol
et. al 1982). In essence of contestable market is one in which
any firm is continuously exposed to actual or threatened
competition from efficiency producers who can enter the market at
low-cost, under-cut the incumbents price and acquire market share. The threat of this profit reducing competition is thus the spur to efficient operations by all firms in the market.

Though contestability is evidently not a realistic description of markets in developed countries, it serves as a useful benchmark, against which to assess barriers to competition existing in most markets, and provides a guideline to assess the likely outcome of programme of privatization.

5. BARRIERS TO ENTRY AND MAINTENANCE OF MONOPOLY POWERS:

Contestability relies on the threat of market entry being the catalyst for competition. Its anti-thesis, entry-deterrence, is thus clearly central to the maintenance of monopoly or oligopolistic profits, and to the efficiency arguments for privatization. Traditionally many areas of SOE operation have been regarded as natural monopolies, we can estimate in particular of the utilities, transport and communications networks and some highly capital intensive production activities such as steel making and cement. The important point is that given the economics of the industry, competition will be absent regardless of the type of ownership thus privatization per se may not alter performance instantaneously, such a possibility leads to the issue of regulation. Barriers to entry and the maintenance of monopolistic profits can occur even when at the industry is not a natural monopoly. This form of entry deterrence - known 18

Glade - op.cit
generally as strategic entry - deterrence - allows an incumbent firm (or firms) in a market (regardless of the nature of the ownership) to maintain its (their) dominant market position in a number of ways. Patenting, advertising, brand proliferation, technology choice, capital intensity, product dumping, loss-leading and predatory pricing are all used as means of determining entry to the market. The scope for entry deterrence depends on four key factors, the elasticity of demand for the product, the scope for technological substitution and cost reduction, the access to credit to allow the firm to survive through periods of intense (but unsustainable) price competition, and the enforceability of collusive behaviour. In general, the more elastic the demand for the product, and the greater the choice of production technologies the less vulnerable is a market to strategy entry-deterrence and thus the more open it is to competition. Similarly the larger the incumbent and the greater its access to financial resources, the more able it is to indulge in 'Painful' strategic behaviour to maintain its monopoly position, while the broader the range of instruments available, the more sustainable is entry deterring collusion.

In the light of those theoretical results a number of features concerning the likely effects of competition emerge as salient to an analysis of privatization in developing countries. First, there are a significant number of sectors where SOEs dominate. Many of these are natural monopolies and they are
therefore unlikely to feel the effects of competition. 19

Second, those which are not natural monopolies dominate by virtue of their size, and often their access to technology and credit. Thus while there are a number of sectors, where the scope for effective competition is high (for eg. in the industrial), manufacturing and service sectors), significant barriers to entry either natural or strategic, are likely to prevail.

Third, the number of sectors within the economy where the extent of competition is sufficient to generate efficient outcomes is small, especially in lower income developing economies, finally, one of the common features of small economies is the prevalence of inter logging directors . Often senior official, financiers and eminent business people sit on the boards of many different public and private enterprises and are thus in a position to promote collusive behaviour.

6. REGULATION :

Markets are competitive and if there are no externalities then there will be no difference in the information costs to public and private principals and internal efficiency will be unaffected by the form of ownership, assuming, of course that the public owners are not pursuing commercial objectives. The question of regulation is concerned with the problem of ensuring that a firm (whether public or private) acts in a manner consistent with social welfare.

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Regulation of public firms is traditionally (and often suboptionally) undertaken by fiat, through public (non-market) determination of pricing and output decisions. The regulation of private companies, in contrast, generally operates through public fiscal or legislative interventions operating within broad market determined parameters. The essential feature of the regulatory problem is that in general the regulator (i.e. the Govt.) does not have the same degree of information about the market as the firm itself has.  

6 A) REGULATION VERSUS PUBLIC OWNERSHIP OF MONOPOLISTIC ENTERPRISE

This model shows how the regulation decision is based on an estimation of the relative magnitude of two principal-agent effects namely the extent to which Govt. can control public sector managers versus the extent to which the private sector manager can capture rents from the regulatory process.

Here the three groups are called information sets viz:- the Govt., public sector officials and private owners. There are three types of private information. 21

1) The externalities and political objectives attached to the enterprises activities (eg. consumer surplus, environmental consideration, national security etc.)


21 Marshall Gold Man - op.cit.
2) The efficiency reducing private agenda of the public officials and
3) The firms cost demand and other market conditions.

The model is based on the following diagram:

The profitability of the firm is a function of actions, X, and the nature of the cost and demand, conditions, thoughtout we assure the profits, II are increasing in X and X, IIo, IIx >0

We can assess the two forms of ownership being considered by the Govt, in the decision to privatage.

6 a) (i) THE ENTERPRISE DIRECTLY MANAGED BY PUBLIC OFFICIALS:

By didn't of their role as managers of the firm, public officials have information on demand conditions, and under ownership the total profits accrue directly to the treasury (X, 0). As employees of the state owned enterprise, the managers pursue the public objectives $\Psi$ the benefits accruing from which are $S(X, \Psi)$ over all $(\bar{w}^g)$ govt. welfare is thus $W^G = S(X, \Psi) + \Pi_1(X, 0)$ However the public officials also pursue their own private goals defined as $J(X, E)$, where $J_X < 0$.

Total welfare under public ownership determined by the
outcome of the principal agent game between govt. and the public sector managers.

Total welfare under public ownership determined by the outcome of the principal agent game between govt. and the public sector managers. Thus \( V = W - \lambda J (X, E) \)

Where \( \lambda \) is measure of the extent to which public officials can pursue their own agenda.

\( W - VG = \lambda J (X, E) \) is simply the measure of enterprise efficiency arising from the rent that public officials can extract because Govt. can not observe.

ii) REGULATED PRIVATE ENTERPRISE :

In view of the loss Govt. may consider the alternative option, namely the privatization of the enterprise and the introduction of a regulatory procedure to ensure that the social objectives, are met. Here, for simplicity, we assume that the Govt. directly fulfills the role of regulator. Now the Govt. is no longer directly run by the public officials only the private owners observe.

The regulator must therefore establish a policy which meets the welfare objectives. But still allows the firm to cover its costs in the worst case demand environment (so that the output actually produced.) This necessarily yields the firm more profit than is optional (i.e. if Govt. had access to ) in all cases.

In general, this will not be the case and the regulatory function will be carried out by the public officials who will reain their own private agenda.
where demand is higher or costs lower than in the worst case. In this institution the firm choices its optional response to the regulatory rule and as a result the privatized enterprise will earn informational rents \((R_X, P)\) which are always greater than or equal to zero.

As a result of regulated private ownership, the welfare function is

\[
W^P = s(x, y) + \pi^P(x, y) - R(x, P)
\]

If we assume, cateris paribus, that the neutrality result holds so that the divided yield from the asset under public ownership \(T'(X, E)\) is equal to \(T(X, E)\) the capitalized value of the sale proceeds, then the difference between the two ownership regimes can be expressed simply as

\[
W^P - W^G = \Delta J(X, E) - R(X, P)
\]

Thus the privatization decision is between two competing second best options, namely the welfare loss of public sector managerial inefficiency on the one side, and the welfare loss of monopoly profits accruing through information rents on the other. The simple result underlines the central point that, in assessing the benefits of privatization when enterprises are capable of earning monopoly or oligopoly profits, the factors determining the decision will be

a) The extent to which the public sector officials actions deviate from the objectives of the Govt.

b) The capacity of the public sector to design cost
effective and efficient regulatory schemes, and
c) The extent to which private managers can extract and
   maintain informational rents.

It may instances governments have been faced with this
problem but more often than not emphasis has been placed on the
first of these factors, occasionally to the complete exclusion of
the other two. One of the less benign outcomes of this narrow
focus has been the transfer of ownership (and monopoly control) to
foreign private companies, who, because of their size, have
dominated the regulation game and effectively captured the
regulatory process.

6 B) REGULATION IN PRACTICE:

In general regulation has focussed on the rate of return as a
strategic variable with which to celebrate the monopoly of profits
of an enterprise and to trigger the extent of regulation.

In this scheme firms are allowed to make a maximum rate of
return on capital (i.e. profit) over a certain period which will
be some mark up over the market rate. The well-established Arerch
- Johnson (1962) model demonstrates how under these conditions
firms will make decisions affecting their capital base with a view
to altering the price they are allowed to change. In particular,
rate of return regulation leads to over capitalization, through
which the firm obtains higher absolute profit but lower internal
efficiency. The regulatory challenge is to design an incentive
scheme to exploit this superior information available to the
managers. There are two types of result in these models of
regulation. The first arises where the regulation can not observe the cost structure of the firm and generally sets an allowable price which exceeds he socially optional price. In this case the firm is earning monopoly profits on its restricted information set.  

The second result arises where the regulator is able to use competitive forces to push firms into revealing their information. Thus one role of competition is a world of incomplete information is to generate comparative cost and efficiency information for the regulator which can be used to improve the efficiency of the regulatory process.

7. PRIVATE SECTOR DEVELOPMENT:

While the shrinking of the public sector and containment of fiscal deficits frequently dominate thinking on privatization is seen as an instrument to 'crowd-in' a nascent private sector, and thus reverse the downward trend in aggregate private sector investment which has been such a characteristic of the 1980s. It is viewed therefore as a means not only of enhancing the marginal efficiency of existing investment (by switching its source of supply), but also as a means of increasing the total volume of investment. This 'crowding-in' argument is of course, intrinsically linked to the broader issues of deregulation, state shrinkage, and financial liberalization policies, all of which are aimed at promoting higher domestic savings and improving their


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intermediation to productive investment. Part of this impetus for privatization derives from the feeling that 'getting the prices right' in terms of deregulation and financial liberalization may be necessary condition for growth in private sector investment, but alone if may not be sufficient. Thus the creation of an enabling environment may need to be primed, in Keynesian framework, through the privatization of state-owned enterprises. This view is lucidly expressed in the Government of Malaysia's guidelines on privatization which link the two efficiency elements of privatization thus (Government of Malaysia, 1985):

....Privatization is expected to promote competition, improve efficiency and increase the productivity of the services, (in addition) privatization, by stimulating private enterpreneurship and investment, is expected to accelerate the rate of growth of the economy.

The arguments surround the impact of privatization on efficiency of investment and service delivery discussed in earlier sections are those for 'crowding-in'. Three general arguments can be advanced. First, as a result of extensive cross-subsidization, soft budget constraints, and administrative restrictions conferring preferential market access, state-owned enterprises frequently enjoy high degree of protection. The removal of such barriers as a result of programme of privatization and deregulation will be accompanied by an inflow of private investment seeking to exploit these previously protected opportunities for monopoly profit. the analysis of this process
has been dealt with above in relating privatization to market structures. Second, and related, of the expected rate of return to private investment is a negative function of market uncertainly, then a reduction in this uncertainty will boost investment. Frequently, public investment decisions are made by fiat. As a result, price and output levels will diverge from real resource costs, and will be unresponsive to demand conditions. Even if allocation decisions are market-based, product prices may be distorted by the web of cross-subsidization in the goods and factor markets. These non-market decisions distort price signals and consequently increase the degree of uncertainty facing private investors contemplating market entry. A reversion to market price signals through privatization will thus be accompanied by a reduction of uncertainty, thereby raising the expected rate of return to domestic fixed capital investment. The third way in which 'crowding-in' is expected to occur is less precise and relies on the extent to which privatization may alter the degree of risk aversion in the economy. Often subsumed in notions 'corporate culture' on 'market orientation, the idea here is simply that re-establishing the link between economic risk and reward, the private sector will be induced to switch from asset accumulation in the form of precautionary assets (e.g. fixed income deposits) to more risky domestic capital assets. This asset-switching effect is important when governments seek to reverse private capital flight which has occurred under earlier

\textsuperscript{24} Glade - op.cit
economic control regimes, and a number of countries have, in fact, designed their privatization programmes around attempts to promote the direct repartition of domestic capital which had been previously exported.

8. CAPITAL MARKET DEVELOPMENT:

Closely related to the previous point is the view that privatization, especially in a number of smaller countries, will serve as a means whereby local capital markets may be either developed or revitalized and domestic savings mobilization enhanced. A commonly perceived problem of many of the smaller emerging capital markets is the shortage of tradable stock, and augmentation of the supply of stock through the sale of government equity has been seen as one way through which the capital market may be effectively 'kick-started' into action. That privatization and capital market development have become fused in the minds of policy-makers is understandable, and, indeed there can be little argument that privatization, especially if it is to occur on a large scale, will be facilitated by the presented of properly functioning capital markets. But privatization can, and often does, occur both in the absence of adequate formal capital markets and / or without the intermediation of capital markets even where such markets exist and function well. Similarly, capital markets can be (and in many countries have been) developed in

Impact data suggests that in terms of number and scale of enterprises sold, non-market sales predominate even when capital markets exist.
quite a healthy fashion without privatization programmes. Nevertheless, privatization is often viewed as offering opportunities for linkages with capital market development. However, it can have potentially main effects on capital market development, and can, if mishandles, weaken the capacity of nascent capital markets to intermediate and manage the risks resulting from public to private asset transfers.

9. **INCOME DISTRIBUTION**:

Privatization will rarely have a neutral effect on the distribution of income. Consequently, the perceived implications of the sale of assets for income and wealth will be a major determinant of the privatization prices. In some instances the issue is made explicit as in the case of Malaysia where one of the main stated objectives of privatization is to promote the attainment of the New Economic Programme income distribution targets. More frequently such discrimination, determining, for example, the relative access of domestic and foreign participants, is implicitly achieved through the design of the programme. For example, if divestiture is affected through private sales there will generally be a concentration of equity wealth. On the other hand, the distribution of shares freely to all electors will initially have a positive effect on wealth distribution. Indeed, one of the most common phenomena is privatization share issues in both developed and developing countries is the 'underpricing' of shares so as to achieve a favourable wealth distribution.

There are other, more complex income-distribution effects at
work. One of the dominant forces leading to the creation of large SOE sectors originally was the desire to address concerns over income distribution and to redress the balance of economic power towards the government's political constituency. This was achieved through a number mechanisms, i.e. the expansion of employment, fringe benefits, price subsidies, etc. State-owned enterprises became key instruments for the allocation of rents to favoured groups. The thrust of pro-privatization arguments lies, however, in the efficiency-enhancing removal of such rents, and thus in many cases privatization is seen as antithetical to these earlier forms of government behaviour. The key point here, as the case studies show, is that the evolution of privatization programmes has been determined by the attempts of governments reconcile the twin objectives of maintaining control over the allocation of such rents while achieving the desired efficiency gains. This can in some cases result in the paralysis of the entire programme, or in other cases can manifest itself in the complex nature of sale process.

10. MEETING ADJUSTMENT CONDITIONALITIES:

The emergence of policy-based lending in the 1980s has been privatization being drawn into the intricate relationships between developing countries and their external creditor who rapidly embraced the policy. For example, the decade of 1980's saw the World Bank involved in 143 adjustment loans directed towards SOE

Bienen and Waterbury, "The political economy of privatization in Developing countries - World Development, 17 (5).
reform worldwide, of which half included privatization components, put simply, in such cases governments pursue privatization in order to have access to such do non assistance, and to ensure that aid disbursements are not jeopardized. However, the relationship is rarely straightforward, and in practice, though progress in implementing privatization policies has rarely matched the expectations of creditor, aid disbursements have not been compromised. More often, the credibility of the donors (for example, the World Bank and IMF.

Table 1: World Bank lending for SOE reform and privatization (no. of loans by type of land and region).

<table>
<thead>
<tr>
<th></th>
<th>SALs</th>
<th>SECALS</th>
<th>TALs</th>
<th>PELS</th>
<th>PETALS</th>
<th>TOTAL</th>
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<tr>
<td>AFRICA</td>
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<td>21</td>
<td>9</td>
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<td>79</td>
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<tr>
<td>LATIN AMERICA</td>
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<td>4</td>
<td>10</td>
<td>5</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>ASIA &amp; PACIFIC</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td>9</td>
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<tr>
<td>MIDDLE EAST &amp;</td>
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<tr>
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<td>3</td>
<td>2</td>
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<td>1.687.1</td>
</tr>
<tr>
<td>LATIN AMERICA</td>
<td>18&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1.965.1</td>
</tr>
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<td>830.0</td>
</tr>
<tr>
<td>NORTH AMERICA</td>
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<td>5,353.2</td>
</tr>
</tbody>
</table>

Source: Country Studies (1990)
a) Includes $85m (2SALs) to Malawi
b) Includes $191m (3SALs), 1 PEL, 1 TALO to Jamaica
c) Total value of lending with privatization component.

SAL (Structural Adjustment Loan)
SECAL (Sector Adjustment Loan)
TQL (Technical Assistance Loan)
PEL (Public Enterprise Loan)
PETAL (Public Enterprise Technical Assistance Loan)

vis-à-vis OECD governments and other developing country governments requires that slippage, non-compliance and amendment of privatization conditions are tolerated (see Mosedy, Harrigan and Toye, 1991). The pursuit of privatization within this framework can, and does, create distortions and problems for its implementation.

11. THE IMPACT OF PRIVATIZATION:

Despite the wealth of discussion and theoretical argument relating to the merits of public versus private ownership, actual evidence to date is less the conclusive. In this section we aim briefly to marshal the existing evidence in order to provide a background for the country studies. Moreover, the evidence focuses exclusively on the link between privatization and efficiency. No comprehensive body of evidence exists to assess either the direct and indirect public finance effects of privatization or any of the subsidiary objectives. While country-study analyses provide the detail of individual programmes, they often lack readily generalizable conclusions.
Numerous attempts have been made to draw more rigorous and
generalized quantitative conclusions on the issue of public versus
private ownership but they have faced a number of difficulties.

The first problem facing any research into privatization is
that of data availability and measurement. Primarily the poor
financial and technological data of SOEs prior to privatization
make evaluating changes consequent on the transfer of ownership
difficulty. Furthermore, even if the data are available, it may
not be possible to draw any firm conclusions because of the time
lags involved in the assessment of changes in performance. The
effects of a transfer in ownership may not be felt for a period of
months or years, and the translation of these effects into
measurable quanta may take loner (especially given the publication
lags on company accounts). While this represents a general
problem, it is particularly the case in assessing the
privatization experience of the 1980s, to a significant extent, we
are not yet in a position to evaluate fully the effect of
privatization.

Notwithstanding the issues of measurement and data
availability, we are confronted by a more fundamental problem,
namely that, as discussed above, standard economic theory in
general has nothing to say on ownership per se. It offers no
clearly defined and testable hypotheses, but rather establishes
the link is between ownership and performance through a series of
related theories and hypotheses concerning the nature of
incentives, agency problems, financial constraints and
profit-maximizing behaviour. Inference is therefore necessarily complicated, and as Killick and Commander,\textsuperscript{27} stress:

\ldots While mainstream economic theory does point to the preferability of competition, it is actually silent on the ownership issue... there is, of course no necessary connection between the two.

This problem is underscored by the technical complexity of distinguishing within the data the effects of privatization per se from the host of liberalization and SOE reform measures that have frequently accompanied privatization. One of the most complex relationships to disentangle is the relative effects of the pre-privatization 'clean-up' of the enterprise and privatization itself. For example, Vickers and Yarrow\textsuperscript{28} show the extent to which in the UK major improvements in commercial performance occurred prior to privatization as the public sector prepared the enterprise for sale.

A third measurement problem arises with the construction of counterfactuals - what would have happened in the absence of privatization. In some cases this is a relatively easy issue. In the situation in which, say, the government chooses to sell on textile firm out of a number of similar firms, then the performance of the remaining public sector textile firms will


\textsuperscript{27}Vickers and Yarrow - op.cit.
provide the basis for a counter factual. Matters are more complex in the case of monopolies, and in particular the natural monopolies where there is by definition no counter factual comparator. Further, matters are again complicated by the effect of associated reforms, especially in terms of price deregulation and where the monopoly is a price setter in domestic markets, and thus profit can not easily be used as an indicator of 'welfare'.

Fourth, in any form of comparative analysis, there is a problem of selection bias. For example, if, as is the case, governments embark on their privatization programme by selling the most viable enterprises, the resulting performance effects may be overstated vis-a-vis the impact of privatization on the SOE sector in total.

To get at the effect of ownership on performance two main methods have been employed. The first is to tract an individual enterprise through time in order to assess the impact of its sale on performance. As noted, however, given that many privatization programmes are in their early stages, there are very limited data available to do justice to this method. The second approach is to abstract from the specific question of the effects of privatization as process in order to focus more simply on the relationship between performance and ownership, since ultimately it is this that is of concern to policy-makers. In this type of empirical work researchers generally regress performance variables (financial, technical, etc.) against a measure of ownership, while controlling for a host of characteristics of the firm or
industry, or country. The standard model is for the form,
\[ p = \alpha_0 + \alpha_1 P + \alpha_2 + \varepsilon \]

Where \( F \) is the measure of performance; \( P \) the ownership variable; and \( X \) a vector of relevant characteristics, both the nature of the firm and the macro economic and policy environment in which it operates. The focus of the work, is essentially, to estimate the size and the sign of the coefficient. Of the two main approaches, the first uses direct comparisons of identified comparisons of identified companies operating in similar markets (and thus for whom the vector of variables \( X \) is similar.) A number of studies further distinguish the ownership variable between fully private companies, SOEs and joint-venture operations.

12. RESULTS:

The number of empirical studies following this latter method is so vast that we can attempt comprehensive surveys, such as Vickers and Yarrow (1988) for developed economies, and Bouin and Michalet (1991) and Millward (1988) for developing countries but a brief summary of the main results, and focus on the problems of drawing inferences from these results for developing countries is presented.

A number of important results come from head-to-head studies in industrialized economies, most notably with Caves and Christensen's (1980) study of the two Canadian railroad companies operating in a relatively deregulated environment, and a number of studies of the (more regulated) air transport sector in
Australia (Davis, 1971, 1977; Forsyth and Hocking, 1980; Kirby and Alabon 1985). While the Canadian study suggested that in the presence of a competitive market ownership was not an important determinant of performance, the studies for Australia are less conclusive. Their efficiency seemed higher in the private sector as opposed to the public but, even so the extent of the regulation so greatly reduced the overall efficiency of operations relative to similar efficiency levels overseas that the relative performance differences seemed less significant.

Similar results emerge in studies of monopolies, where the evidence suggests that, regulatory frameworks notwithstanding, there is no clear difference in performance between publicly and privately owned utilities (see Vickers and Yarrow, 1991). One of the biggest international studies (focusing only on large companies) is less ambiguous, however (see Boardman and Vinning, 1989). In their study of 500 firms in 1983 (of which 419 were private, 58 public and 23 jointly owned), they found that, in general, state-owned enterprise performance (measured only in terms of financial performance) was worse than that of private companies across a range of financial and productivity measures.

conclusions: public ownership has a small, negative, but statistically insignificant effect on technical efficiency, with overall performance being principally determined by size. Strong diminishing returns to scale are frequently observed which, since public enterprises have tended to be larger than their private counterparts, becomes a key explanation of the apparently worse performance of SOEs. However, it must be noted that such results may be distorted by a sample selection bias since often enterprises have fallen under public ownership as a result of public rescue following financial crisis under private sector operation.

One relevant result which emerges from the above studies, and in particular from the analysis in Tanzania, concerns the relative efficiency of foreign-owner enterprises. Foreign capital, management and choice of technology tend to be more efficient and more profitable than domestic capital, either public or private. A qualification on this result is provided by Grosh's (1990) study of manufacturing in Kenya. Here the evidence suggests that, while there is very little difference between the performance of private manufacturing enterprises and those in which government has majority control, neither group is as efficient as joint-venture operations in which the government takes a minority equity position with the majority equity and management in the hands of (often foreign) private investors. This latter group (referred to as quasi-public firms) has a much lower rate of effective protection and a lower domestic resource cost than both public and
private companies, whilst still retaining a higher rate of return. One of the valuable aspects of this study is the way in which it explores many of the problems noted above. For example, in the case of Kenya many of the public companies under examination have become so simply as a result of 'rescue operation' on the part of the state in order to protect employment, etc. As a result the SOE sector is dominated by old-vintage enterprises, operating in economically sub-optimal locations. This will inevitably depress their aggregate performance. In this respect we can note the ongoing work of Bhaskar (1991) in assessing the effects of ownership in the Bangladesh manufacturing sector. Here the sample selection problem is avoided since, following wholesale nationalization in 1972, the choice of which enterprises to privatize has (apparently) been made on relatively random basis thereby providing the researcher with a relatively unbiased sample consisting of both public and private firms. Initial indications, however, fail to alter radically the conclusion from other studies.

Thus, the empirical evidence on the effect of ownership is less than categorical. However a number of conclusions emerge which reinforce the central argument of this book. The first is that, ceteris paribus, in relatively competitive markets the evidence suggests that private enterprise is rarely (if ever) less efficient or less profitable than public enterprise, and more frequently is significantly more efficient or profitable than comparable public enterprise. Beyond this conclusion the results
are less clear, although this ambiguity serves to underline the central argument that ownership by itself is rarely the dominant determinant of performance. In particular, the influence of the regulatory and competitive environment (particularly in the utility sectors) greatly overrides the impact of ownership on enterprise performance.

13. **CONCLUSION**:

This chapter has served to provide the theoretical economic context within which privatization can be assessed. It has outlined the major objectives assigned to privatization as a policy instrument, and has reviewed the key economic relationships which are expected to provide the transmission mechanism from privatization to enhanced performance and efficiency. In some cases this transmission is theoretically clear and precise; in other, the mechanisms are less quantifiable and turn on the broader issues of policy credibility, government reputation, investor expectations, the management of economic coalitions and the allocation of rents. We have also attempted to reflect some of the empirical evidence which has emerged in an attempt to quantify the overall efficiency impact of private ownership. The evidence is plagued by often intractable measurement problems but does suggest that there is some discernible positive effect of private ownership on the financial performance of companies. Little evidence has yet been adduced on the broader effects of privatization on macro economic performance. The question which remains unanswered therefore is: why, in the face of such neutral
evidence, has the developing world (and its creditors) embraced privatization as such as an article of faith in economic adjustment? Part of the answer lies in a search for credible alternatives in response to the evidently parlour state of the SOE sector in so many developing countries.

However, we believe that a fuller and more interesting explanation lies in the persistent failure to extract from the evidence of, and theoretical argument for, privatization an understanding of how the key transmission mechanisms relating privatization and enterprise performance are altered when privatization is implemented within the generally thin market structures prevalent in developing countries.

NOTES:
01. The definitions used inter-alias by Pirie (1986), Glade (1986), and Berg and Shirley (1987)
02. Conditional, of course, on the constraints imposed by the economic and regulatory environment faced by the enterprise.
03. It is interesting that in Malaysia even this has been compromised by the existence of comprehensive government underwriting for the largest BOT schemes (Build Operate Transfer).
04. Pirie (1986) identifies some 22 different forms of privatization, many of which have only a limited relationship with the definition suggested here.
05. World Development Report (1988) notes that for a sample of developing countries the median contribution of the SOE sector to the total public sector deficit was 48%.
06. The initial cash payment can be thought of in terms of 'Sweetners'—subsidies, debt write-offs, etc. rather a cash payment.
07. Al thought, as will be discussed later, they do allow for the pure effects of the 'dynamic efficiency' of private ownership.

08. Vernon (1988) suggests that it was this form of crowding out caused by wholesale privatization in Chile which led to the bankruptcy of many of the very enterprises that had been sold to the private sector under the programme.

09. The discounted value of the profit stream in the hand of the government would be higher than in the hands of the private sector, and thus the maximum price the private sector would be prepared to pay would be lower than the minimum the government would sell for.

10. Consider again, for example, how the collapse of much of the commercial sector in Chile in 1982-83 was accentuated by the excessive leverage of many privatized assets.

11. This form of argument derives from the work of Alchian and Demesetz (1972).

12. See, for example, Glade's (1991) discussion of the efficient operation of SOEs in Latin America.

13. For a comprehensive review of the issues of principal agent relationships and incentive design see Rees (1985).

14. Frequent confusion arises between privatization and liberalization. There are many interventions a government can make which effect the running of the firm after privatization, including output price controls, penal taxation, interest - and exchange-rate policies, etc. It is often assumed that these will be removed during the privatization process, but there is no necessary reason why they have to be. Thus, the removal of government interference as a goal of privatization must restrict itself to the removal of more direct, firm-specific interventions.

15. It is sometimes the case that technocratic arms of government have used, or intend to use, privatization as a method of removing SOEs from parts of government (especially line ministries) they consider to be more prone to interference.
There is, however, a free-rider problem here also since a (small) shareholder receiving a bid by a raider has an immediate incentive to hold on to the shares and free-ride the capital gain brought about by the hostile bid (assuming that the share price will rise as a result of the new management is to 'discipline'. However, strategic behaviour, compulsory acquisition orders and limited legal protection of minority shareholder interests can combine, and have combined, to dilute the effect of the free-rider problem, thereby re-establishing in part the link between internal efficiency and takeover threat.

This phenomenon has probably been diluted somewhat in recent years by the growth in the leveraged buy-outs and junk-bond dealings.

Although technological innovation has shrunk the realm of natural monopolies, especially in the telecommunications sector.

See for example Waterson (1984) and the references therein.

Clearly, if the regulator had full information and sufficient power's/ he could compel the firm to act in a first-best manner all the time.

For simplicity we ignore the possibility of agency problems which may exist between the objectives of the electorate and the actions of the government. This does not alter the essential elements of the result.

In general, this will not be the case and the regulatory function will be carried out by the public officials who will retain their own private agenda. As with note 21, this is done to keep the model simple, but as a result side steps the important problem of 'quis custodiet ipsos custodes ? (who guards the guardians ?).

There are a hot of more complex models which extend the simple case - see Vickers and Yarrow (1988) for a summary.

This phenomenon is, of course, exacerbated to the extent the government is able to alter market conditions by fiat. One
of the major elements of uncertainty facing private capital during the 1970s was the risk of government appropriation of assets and their profit stream. Combined with the effects of poor macro economic management and financial liberalization, this contributed to high levels of capital flight.

25. In fact, our evidence would suggest that, in terms of number and scale of enterprise sold, non-market sales predominate, even when capital markets exists and are quite well developed.

26. One of the major elements of many SOE reform/Privatization programmes is an attempt to create a consistent database for the SOE sector. Under public ownership audit requirements are frequently ignored and the compilation of accurate and timely financial data is rarely a priority.

27. It may be noted that only late in 1989 did the World Bank embark on its first major post-privatization performance evaluation exercise. The final results of this study are not expected to emerge until 1992 at the earliest.

28. Note that in these studies there is no systematic attempt to take into consideration the second-order economic effects attendant on the pursuit of employment or other objectives carried by SOEs.