CHAPTER - I

PRIVATIZATION AND MARKET ECONOMY:
GLOBAL PERSPECTIVE ANALYSIS

This chapter presents a vivid analysis as regards the privatization movement the world over vis-a-vis the market economy and takes into account the gains and the losses of privatization programme in global perspective. The subject matter of this chapter has been framed up in the following manner:-

1.1 Introduction
1.2 State Owned Enterprises (SOEs) In Developed Countries.
1.3 State Owned Enterprises (SOEs) In Less Developed Countries (LDCs).
1.4 The Privatization Movement All Over The World.
1.5 Privatization Movement In Bangladesh:
   a) Background of Industrial Development,
   b) Movement of Privatization.

1.6 Gains And Losses Of Privatization : Global Perspective
   I. Privatization In Developed Countries.
   II. Privatization In Erstwhile Socialist Countries.
   III. Privatization In ASEAN Countries.
   IV. Privatization In SAARC Countries.
   V. Privatization In Sub-Shara African Countries.
   VI. Privatization In Latin American Countries.

1.7 Conclusion
References.
1.1 Introduction:

Since 1945, most of the countries of the world started creating State-Owned Enterprises (SOEs) with a view to achieving economic growth and social objectives. The State Owned Enterprises (SOEs) phenomenon gained momentum in the decade of 1960s and 1970s. In these decades, the wind of development of SOEs was blowing in both the developed and developing countries. SOEs were considered as a vital source of progress and development. "For the last half-a-century, nationalization has been the fad-from the Fabian socialist to the communist, from Great Britain to India to Israel to the communist block covering USSR, China, Cuba, Vietnam, North Korea and Eastern Europe". They sought to increase operational efficiency in the SOEs by command economy instead of market economy. However, with the advent of the decade of 1980's the concept of market economy began to muster favour the world over. It gained currency as a good model of economic development.

1.2 State Owned Enterprises(SOEs) In Developed Countries

Some evidences as regards the growth and development of SOEs in the developed countries may be cited here, such as, Australia's, state holding company consisted of 198 enterprises. In France, the whole of fertilizer and telecommunication, 75 per cent of steel, 50 per cent mining, motor vehicles, petrochemicals, Electronics and 25 per cent of Textiles were in Public Sector. Britain and the USA had also a significant number of state enterprises. By the end of the decade of 1970s, nearly half of the IMF member countries were seen spending over almost one third of their GDP in the public sector. So, these decades were ascribed to the hasty growth and evolution of public enterprises the world over.

But after 70's this phenomenon began to change chiefly because of disappointing performances of SOEs. They were proved to be inefficient. In many countries, SOEs became an unsustainable burden on the government budgets. However, reform programmes for improving the performance of SOEs were adopted in many countries but failed to attain the objectives.

Therefore, in the decade of '80s, the very move of privatization started. It was first started in Britain during Thatcher's regime. In France also it started at the same time. Italy and Japan started privatization in the mid '80s. The Privatization programme in Eastern Europe got impetus due to disintegration of USSR and unification of Germany in 1989. Thus the dominant role of public enterprises lessened, specially in the Eastern and Central Europe. Further, with creation of North American Free Trade Area (NAFTA) and signing of Uruguay Round Talk under GATT, all countries of the world became free to enter into world competition. Keeping this in view, almost all the countries of the world adopted vigorous reform programme of privatization.
1.3 State-Owned Enterprises (SOEs) In Less Developed Countries (LDCs)

Less Developed Countries (LDCs) in mision with the developed countries, laid considerable emphasis on the growth of large sector State-Owned Enterprises (SOEs). In fact there was a growing need for education, health care, roads and other infrastructure as well as for industrial diversification. This compelled the government to spend huge money on creation of SOEs to operate industrial and other activities in the developing countries.

Table-1 shows the growth of State-Owned Enterprises (SOEs) during 1960-80s. It is discernible from the table that the decades of '60s and '80s were the era of rapidly growing SOEs. As seen from the table that the number of SOEs in the

**TABLE - 1**

GROWTH OF PUBLIC ENTERPRISES DURING 1960s-80s.

<table>
<thead>
<tr>
<th>Countries</th>
<th>1960s</th>
<th>1980s</th>
<th>Growth in (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>150</td>
<td>400</td>
<td>166.67</td>
</tr>
<tr>
<td>Brazil</td>
<td>150</td>
<td>700</td>
<td>366.67</td>
</tr>
<tr>
<td>India</td>
<td>005</td>
<td>232</td>
<td>4540</td>
</tr>
<tr>
<td>Tanzania</td>
<td>n.a.</td>
<td>400</td>
<td>-</td>
</tr>
<tr>
<td>Chile</td>
<td>150</td>
<td>375</td>
<td>150</td>
</tr>
<tr>
<td>Turkey</td>
<td>n.a.</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>Malaysia</td>
<td>n.a.</td>
<td>736</td>
<td>-</td>
</tr>
<tr>
<td>Kenya</td>
<td>n.a.</td>
<td>325</td>
<td>-</td>
</tr>
<tr>
<td>Argentina</td>
<td>n.a.</td>
<td>350</td>
<td>-</td>
</tr>
</tbody>
</table>

n.a. Not available

**SOURCE:** Computed by the Research Scholar from:


countries under reference increased manifold. In Mexico, the number of SOEs was 150 in 1960s which increased to 400 in 1980s an increment of about 166.67 per cent, while in case of Brazil, the growth trend in the establishment of SOEs accounted for about 3.66.67 per cent. India was the champion in establishing the public sector enterprises. The growth of SOEs in India grew phenomenally to the tune of whopping 45400 per cent during the period review. The other countries under reference also followed the similar increasing trend.

In majority of the countries of the world the State-Owned Enterprises (SOEs) came into being on priority basis with a view "to replace weak private sectors, to produce higher investment ratios and extract a capital surplus for investment in the economy, to transfer technology to strategic sectors, to generate employment and to make goods available at lower costs". The trend towards establishing SOEs was so rapid and wide spread that Elliot Berg, termed it a "quiet revolution" that occurred in shifting of resources into the public sector.

After 70s, the wind of public enterprises phenomenon began to change because of disappointing and dismal performance of SOEs. A large number of SOEs proved economically unviable and inefficient continuously incurring heavy losses and as a result created hard pressure on national budget instead of being able to generate new resources. Hence they miserably failed to achieve their objectives. Many countries were even unable to continue with existing financial losses of SOEs. In Britain, "the borrowings and losses of State Owned Enterprises (SOEs) were running about $ 3 billion a year". As shown in table -2, the SOEs losses as a percentage of GDP reached about 9 per cent in 1989 in Argentina and Poland. Yugoslavia and Sub-Shahara African countries accounted for losses to the tune of 7 per cent and 5 per cent of GDP respectively in 1991.

"Through 1980s about half of Tanzania's 350 SOEs persistently ran into losses that had to be covered from public funds. In Ghana from 1985 to 1989, the annual outflow from government to fourteen major SOEs averaged 2 per cent of GDP. SOEs Losses in Korea reached to the tune of 26570 million in 1990 and in the same year in China about 30 per cent of all SOEs incurred losses that absorbed a sixth of government budgetary expenditure".

Many countries suffered adversely from external debt problems also that led to negative growth. For example, in Malaysia, there was a marked increase in the external debt from RM 7.3 billion (14.2% of GNP) in 1980 to RM 16.9
Table - 2

LOSSES OF SOEs DURING 1989-91

<table>
<thead>
<tr>
<th>Countries</th>
<th>Losses (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>9</td>
</tr>
<tr>
<td>Poland</td>
<td>9</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>8</td>
</tr>
<tr>
<td>Sub-Sahara</td>
<td></td>
</tr>
<tr>
<td>African countries</td>
<td>5</td>
</tr>
</tbody>
</table>


billion (28% of GNP) in 1982 and it peaked at RM 50.5 billion or 76% of GNP in 1986. Again, outstanding government’s loans to SOEs increased from 500 million to 1.9 billion in Ghana in 1985. The debt crisis was toxic in both the regions (Eastern and Latin America). These countries were running out of Budgetary resources to continue feeding these enterprises in the interim, until they turned around.

Table - 3 gives accounts as regards the provision for subsidies towards SOEs of some of the countries during 1982-90. It is seen in the table that the government subsidies to SOEs accounted for more than 3 per cent of GDP in Mexico, 4 per cent of GNP in Turkey and 9 per cent of GDP in Poland between 1982 and 1990. In some of the west African countries like Benin, Ghana, Senegal etc., subsidies to SOEs ranged from 8 per cent to 14 per cent. Six per cent increment in the subsidy provision during the period under review was attributed to very poor performance of SOEs in these countries. In case of Bangladesh the trend in subsidy provision was almost the same as the subsidy ranged from 0.8 per cent to 3.2 per cent of GDP during the period under reference.

The reasons behind the nagging performance of the SOEs the world over are various such as, lack of skilled management, lack of clear sense of direction, lack of commercial autonomy, problem of overmanning in some cases, sacrifice of commercial and money making objectives to social obligation, lack of advanced technology, and political commitment etc.
TABLE - 3

SUBSIDIES PROVIDED TO SOEs DURING 1982-90
(Per cent of GDP)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>above 3</td>
</tr>
<tr>
<td>Turkey*</td>
<td>4</td>
</tr>
<tr>
<td>Poland</td>
<td>9</td>
</tr>
<tr>
<td>West African Countries</td>
<td>8 to 14</td>
</tr>
<tr>
<td>(Benin, Ghana,</td>
<td></td>
</tr>
<tr>
<td>Nigeria, Senegal)</td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.8 to 3.2</td>
</tr>
</tbody>
</table>

*GNP = Gross National Product.
GDP = Gross Domestic Product.


Since in most of the countries, SOEs had become crucial in both industrial and service sectors, so they always enjoyed monopoly. And therefore, their monopoly status in turn created inefficiency and lack of competitiveness that made enterprises unfit to sustain in the competitive world.

The decade of 1980s was referred to as an era of advanced technology i.e. information based technology. It was also termed as the fourth industrial revolution. Technological revolution affected the competitiveness in a wide range of industrial sectors of LDCs.

1.4 The privatization Movement All Over The World:

It was in the decade of 1980s, the reform programme of privatization started and reached its highest peak of popularity in 1990s. In the current decade, more than 2000 SOEs have been privatized in developing countries and 6,800 the world over.16

Table - 4 gives an analytical picture as regards the privatization of SOEs world wide during 1980-91. It is indicative from the table that out of
the total countries under reference, German Democratic Republic, (GDR) privatized 4500 SOEs representing about 66 per cent of the total units of the world wide Privatization. Latin American and Caribbean countries privatized 804 SOEs registering 12 per cent of the total followed by Eastern European countries, Sub-Saharan African countries, OECD countries, Asia and Middle East and North Africa.

It is quite prominent to note that the German Democratic Republic (GDR) has championed the cause of privatization. Latin American countries and Eastern European Countries have also been pursuing the privatization programme vigorously.

| TABLE - 4 |
| SOEs PRIVATIZED WORLD WIDE BY REGION, 1980-91 |

<table>
<thead>
<tr>
<th>Region</th>
<th>SOEs</th>
<th>Per cent of the total units the world over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former GDR</td>
<td>4500</td>
<td>65.87</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>58</td>
<td>0.85</td>
</tr>
<tr>
<td>Asia</td>
<td>122</td>
<td>1.79</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>373</td>
<td>5.46</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>804</td>
<td>11.77</td>
</tr>
<tr>
<td>Eastern Europe (Other than GDR)</td>
<td>805</td>
<td>11.78</td>
</tr>
<tr>
<td>OECD Countries</td>
<td>170</td>
<td>2.49</td>
</tr>
<tr>
<td>Total</td>
<td>6832</td>
<td>100</td>
</tr>
</tbody>
</table>


With the decline of communism in Eastern and Central Europe in 1989, the SOEs dominant role drastically changed in the economy in favour of privatization process for economic reform process to create the basis for a market economy in almost all the LDCs under the banner that "reduce the role of government and expand the scope of private sector-led growth." The developed industrial countries such as the United States of America and the United Kingdom also made forceful ideological expression for privatization. The intellectual debate on privatization and restructuring increased interest
in this regard. Other well-known cases such as "the reprivatization of the Rumasa group in Spain and the partial divestiture of holdings in the IRI Group in Italy served as demonstration cases for certain developing countries, particularly those in Latin America". The international agencies were also influenced by the opinions in favour of privatization and accordingly contributed towards it. "The IMF and the World Bank's restructural adjustment loans inevitably, came with conditionality clauses promoting the sale of public enterprises." 

The above facts and figures are substantiated in Table 5 which presents the number of annual loans and credits provided by the World Bank for privatization operations in developing countries during 1981-91. It is discernible from the table that the number of annual loans and credits increased every year except in the years 1983 and 1988. In these years, loans and credits remained stagnant. In 1989 and 1991, the number of loans and credits did not increase rather decreased as compared with the previous year.

**TABLE - 5**

**NUMBER OF ANNUAL LOANS AND CREDITS PROVIDED BY THE WORLD BANK IN THE DEVELOPING COUNTRIES DURING 1981-'91.**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Annual Loans and Credit</th>
<th>% Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>1982</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>1983</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>1984</td>
<td>7</td>
<td>250</td>
</tr>
<tr>
<td>1985</td>
<td>10</td>
<td>42.86</td>
</tr>
<tr>
<td>1986</td>
<td>11</td>
<td>10.00</td>
</tr>
<tr>
<td>1987</td>
<td>23</td>
<td>109.09</td>
</tr>
<tr>
<td>1988</td>
<td>23</td>
<td>-</td>
</tr>
<tr>
<td>1989</td>
<td>21</td>
<td>(8.7)</td>
</tr>
<tr>
<td>1990</td>
<td>37</td>
<td>76.19</td>
</tr>
<tr>
<td>1991</td>
<td>29</td>
<td>(21.62)</td>
</tr>
</tbody>
</table>


Another influencing appeal of privatization is enhanced revenues of the government "In Mexico transfers and subsidies from government to SOEs declined by 50 per cent between 1982 and 1988." This potential gains worked as a motivating factor for policy makers in many countries to pursue a privatization policy. Table-6 displays revenue earning by selling SOEs in
different countries under reference during 1980-91. It is clear from the table that Mexico was on the top position of selling SOEs which earned $8350 million i.e. 43.83 per cent of total sales proceeds among the countries under review. Then Chile occupied the second position with its earning to the tune of $3400 million, Brazil $3071 million representing 17.85 per cent and 16.12 per cent respectively followed by Malaysia, Argentina, Philippines and Jamaica.

TABLE - 6
GROSS PROCEEDS FROM PRIVATIZATION 1980-91
(US $ million)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Proceeds</th>
<th>% of the total proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>8350</td>
<td>43.83</td>
</tr>
<tr>
<td>Chile</td>
<td>3400</td>
<td>17.85</td>
</tr>
<tr>
<td>Brazil</td>
<td>3071</td>
<td>16.12</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2000</td>
<td>10.50</td>
</tr>
<tr>
<td>Argentina</td>
<td>1500</td>
<td>07.87</td>
</tr>
<tr>
<td>Philippines</td>
<td>0310</td>
<td>01.63</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0230</td>
<td>01.21</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0188</td>
<td>00.99</td>
</tr>
</tbody>
</table>

Total proceeds 19049 100


Table - 7 shows the sales proceeds of the countries under reference for the period of the first half of 1994. It has been noticed from the table that Peru has earned substantial amount of revenue to the tune of $2226 million that accounts for almost 32.22 per cent of the total proceeds. India has registered sales proceeds amounting to $1181 million representing 17.10 per cent, followed by Colombia, Cuba, Argentina with sales proceeds of $700 million and 605 million respectively. Ghana and Mexico have recorded the sales proceeds to the order of $400 and $476 million representing 5.79 and 7.96 per cent of the total proceeds respectively. China (Public enterprises dominated country) has also earned from privatization to the tune of $476 million which represents 6.89 per cent of the total proceeds among the countries under review.
### Table - 7
SALES PROCEEDS FROM PRIVATIZATION IN THE FIRST HALF OF 1994

(US $ million)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Sales proceeds</th>
<th>% of total proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>2226</td>
<td>32.22</td>
</tr>
<tr>
<td>India</td>
<td>1181</td>
<td>17.10</td>
</tr>
<tr>
<td>Colombia</td>
<td>770</td>
<td>1.15</td>
</tr>
<tr>
<td>Cuba</td>
<td>700</td>
<td>10.13</td>
</tr>
<tr>
<td>Argentina</td>
<td>605</td>
<td>8.76</td>
</tr>
<tr>
<td>Mexico</td>
<td>550</td>
<td>7.96</td>
</tr>
<tr>
<td>China</td>
<td>476</td>
<td>6.89</td>
</tr>
<tr>
<td>Ghana</td>
<td>400</td>
<td>5.79</td>
</tr>
<tr>
<td><strong>Total proceeds</strong></td>
<td><strong>6908</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


The sum up, it may be inferred that most of the countries of the world have adopted vigorous reform programme of privatization with a view to obviating the causes of sluggish performance of SOEs and to make the economy fit for facing the hard and cut throat competition in the global market.

1.5. Privatization Movement Bangladesh:

a) **Background of Industrial Development:**

The industrial base of Bangladesh is small. "Its contribution to GDP stagnated around only 10 per cent during the last 18 years." The Industrial development of this country took the pattern of public sector since British rule. During partition of British India, the then East Pakistan (Now Bangladesh) inherited a little number (only 2 per cent of the total units) of enterprises. Among these, most of the enterprises were owned and run by Pakistanies. In 1971, there was a brutal civil war between East Pakistan (now Bangladesh) and West Pakistan. Bangladesh, however, won independence in 1971.
There was a magnificent growth of public enterprises after the post liberation period (1971-1975). At that time, industrial and commercial management faced a major problem because mass exodus of Pakistani owners, managers, and entrepreneurs created a great vacuum. In order to fill this vacuum, "all abandoned properties including 725 industrial units were brought under the government control and management by declaring P.O. No.1, dated January 3, 1972." Again, the government promulgated on March 26, 1972 the ordinance that "the government nationalised all abandoned enterprises with assets valued at Tk. 1.5 million and above alongwith the entire Jute, Textile and Sugar industries". The eleven sector corporations were established. "These measures led to increase in public ownership of industrial fixed assets from 34 per cent to 92 per cent." In 1976, under the amendment of presidential Order 27, some of the public corporations in the industrial sector were merged and constituted three corporations. These three public corporations along with BJMC, BTMC and BFIDC now constitute six manufacturing public corporations with 386 enterprises under them.

(b) Movement Of Privatization:

In the beginning of the decade of '80s, it was realised that majority of the SOEs miserably failed to generate expected revenue rather they were incurring heavy losses so much so that they became a burden on the national exchequer. The following table - 8 provides an analysis of the SOEs losses during 1990-91 - 1994-95. It is discernible from the table that in 1990-91, SOEs incurred losses amounting to Tk. 800 crore which jumped at Tk. 1600 crore in 1991-92 which is almost 100 per cent when compared with the previous year. The amount of losses incurred by the SOEs were the same in the year 1992-93 and 1993-94 i.e. Tk. 2000 crore each. In 1994-95 the losses were enormous to the tune of Tk. 2500 crore which recorded 25 per cent increase from the previous year i.e. 1993-94. The causes of whopping losses by the SOEs over the period under review have been said to be created owing to mismanagement, corruption, lower productivity, labour unrest, strike and lockouts etc.

The government of Bangladesh adopted reform programme with the declaration of New Industrial Policy (NIP) in 1982. The door of privatization opened gaining momentum in the Industrial policy of 1986. Under this policy, various restrictive regulations were unleashed facilitating the process of privatization to go smoothly. The promulgation of Industrial Policy of 1991 further assured the continuance of the privatization policy making the provision of spreading out the ownership among the general public. The international agencies like the International Monetary Fund (IMF), the World Bank, the Asian Development Bank (ADB) have also been helping in various ways for making reform programme a successful.
### TABLE - 8

**LOSSES OF SOEs DURING 1990-91 - 1994-95**

(Tk in crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Losses</th>
<th>% of increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>1600</td>
<td>100</td>
</tr>
<tr>
<td>1992-93</td>
<td>2000</td>
<td>25</td>
</tr>
<tr>
<td>1993-94</td>
<td>2000</td>
<td>-</td>
</tr>
<tr>
<td>1994-95</td>
<td>2500</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8900</strong></td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE**: Compiled and Computed from 'The Daily Inqilab' (Bangla), 22 June, 1995, Dhaka, Bangladesh, p. 4.

### 1.6 Gains and Losses of Privatization: Global Perspective:

Privatization is now a global phenomenon. There is now almost concensus among the various sections of the academia that no economy whether developed or developing can afford to compete with global economies without resorting to the process of privatization. In the succeeding paragraph, an analytical study is made with regard to the gains and losses of the privatization in important countries of the world.

I. Privatization In Developed Countries:

a) **United Kingdom**:

After the 2nd world war, the then government of the labour party nationalised almost all industries like-Coal, Steel, Electricity Generation, Gas Supplies, Railways, Docks, Cannals and Trucking and the British Telecommunication, Air Craft and Ship Building, North Sea oil and Silicon-chip production were State Owned Enterprises. But total performance of these enterprises were sluggish and they were running with 'negative return on capital, Low productivity, high cost, high prices, bad labour relations, inefficient use of resources and unsatisfactory customer services.'

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In 1979, Thatcher government of the conservative party, decided to transfer these loss oriented enterprises to the private sector and at that time the seedlings of privatization in U.K. was grown up and continued till 1991.

**Objectives Of Privatization**

Privatization programme in U.K. has been adopted with a view to attaining the following main objectives:

1. To reduce involvement of the state or public sector in economic activity.
2. To improve productivity and efficiency through competition.
3. To augment government income through sale of stock in nationalised corporations and thus helps lowering taxation which had reached very high levels.
4. To reduce borrowings.
5. To encourage employees to own shares in the company in which they work.
6. To boost the level of share ownership in the general economy.
7. To strengthen the capital market, and
8. To gain domestic and international prestige.

**Forms or Methods of Privatization:**

Various methods of privatization have been followed in regard to privatization in U.K. depending upon the company concern - its structure, size and the competitive environment in which it operated. However some of the methods are as follows:

1. Denationalization: It means transferring of ownership of a public enterprise to the private sector or the return of a state owned corporation or industry to free enterprise. Some other terms have also been used in denationalization, such as:
   i. Allotment of share for small applicant.
   ii. Rationing - Allotments were characterised by some kind of rationing (e.g. in case of BAA P/C, those who applied for up to
1,000 shares were allotted 100 shares and those who applied for more were to receive nothing.\textsuperscript{36}

iii. Limits were placed on individual share holdings (e.g. not more than 15 per cent of the voting shares).\textsuperscript{37}

iv. Management buy-out technique was followed in a few cases, such as National Freight Corporation.\textsuperscript{38}

v. Free share: Shares are offered to the employees or pensioners of the enterprises at government expenses.

vi. Matching shares: It is similar to free share usually placed in a trusteeship scheme.

vii. Special share: Here government retains some shares by which it preserves veto power in case of sudden disposal of any property of the enterprises or disclosure of the enterprises. But it does not have right to interfere to the management affairs. Government holds a special share of some enterprises, such as Amersham International P/C, BAA P/C, British Aerospace P/C, British telecommunication P/C etc.\textsuperscript{39}

2. Deregulation: It means the flexibility of government controlling over the enterprise. This has been pursued in certain sectors which bring the competition. The government deregulated long distance coach services, increase competition on air routes within the U.K. and between certain European countries.\textsuperscript{40}

However, different techniques of public sale may be inferred from the privatization measures in Britain, such as:

i. Offer a sale at fixed price, as Associated British Ports holding P/C's first issues in 1983, British Telecommunications P/C in 1984 and British Gas P/C in 1986.\textsuperscript{41}

ii. Sale by tender, with the minimum price fixed as Associated British Ports holdings P/C's second issue in 1984, British petroleum company P/C and Enterprise oil P/C in 1984.\textsuperscript{42}

iii. Public Sales have been underwritten.\textsuperscript{43}

iv. In certain cases, the sale of a part or a whole of the firm was offered to a single bidder. In the case of National Freight Company and Red Head Ship repair yard, the entire firms were sold to its workers. In the case of cross channel Hovercraft
service, the enterprise was handed over (rather than sold) to its employees.  

v. There was a ceiling on foreign participation in equity holdings like 15 percent.

Finally the U.K. government had taken a widespread information campaign and sale of shares for getting support of general public in favour of privatization programme.

**Outcome of Privatization:**

The outcome of the British Privatization programme is fruitful and it has become a milestone in the history of privatization in the world. 'About two-third of the State Owned Enterprises (SOEs) have been transferred to the private sector and the proportion of individual citizens holding shares directly has risen from 1 in 14 to 1 in 4.' In 1979, the small group of individual share holders were 7 per cent of the British population which became more than 25 per cent in 1991.

It has been observed from the foregoing discussion that the employees of the State Owned Enterprises (SOEs) responded earnestly to the offer of shares, i.e. at British Aerospace, 89 per cent, at Associate British ports, 90 per cent, at British Telecommunication, 96 per cent and Both Amersham and Cable and Wireless 99 per cent.

Some of the plus points as regards the successfulness of privatization programme in U.K. are adumbrated as follows:

1. **Productivity And Efficiency:** Productivity and efficiency go hand in hand. Productivity will not raise without increasing efficiency in performing the works. So, efficiency ensures more productivity and productivity ensures more profits. 'At British Airways and British Gas, Productivity of per employee rose by 20 per cent.' In British Telecommunication overall call failure has dropped from 1 in 25 to 1 in 20.

2. **Service To The Customer:** Private Enterprises take care of their customers. They try to retain customers goodwill because they have to survive with customers. So, they respond to the customer's need and thus 'customers get the best possible value of money.'

3. **Labour Relations:** When employees come to know that they are the owner of the enterprise, they try to work sincerely to gain more profits. So, there is no industrial disorder in privatization. 'At Associated British Ports, labour unrest was daily matter which disappeared after privatization of the enterprise.'
4. **Government Budgets:** Through Privatization Programme, a reduction in pressure on the public budget could be ensured. U.K. privatization is the glaring example of this.

To sum up, it may be said that British privatization is a successful one and an ideal symbol for other countries of the world. Since it has an established capital market, well learned citizens, well coordinated planning for privatization and at the same time sophisticated publicity campaign, which cumulatively contributed towards the successful implementation of the privatization programme.

**B) Privatization In United States of America (U.S.A.)**

America is an individual country where the concept of privatization has been adopted in different ways, forms and models. Indeed, the U.S.A. adopted the move of privatization on account of deregulation policy of the government in the following spheres of public activities:

1. Contracting out public services to the private sector.

2. Letting out on the basis of contracting the various significant services to the private sector. The services include urban services, collection of garbage, disposal of wastage, electricity and public transport.

3. Health and human services i.e. hospitals etc. largely belong to the private sectors.

However, in America, the privatization in other forms are not very significant, since its manufacturing sectors are already operating with optimum profitability and enhanced efficiency.

**C) Privatization In France:**

The wind of privatization touched France also. After election in 1986, Privatization was launched by the then Prime Minister Jacques Chirac and it continued for two years. Though it was a little attempt, however, 'a considerable amount of equity transfer had been accomplished in a short period of time.'

**Objectives of Privatizations:**

Privatization programme in France had been adopted in order to achieve the following objectives:

i. To improve the economic and financial performance of State Owned Enterprises.
ii. To develop financial markets to expand popular share holding.\textsuperscript{33}

iii. To relieve the state treasury from the burden of chronic deficits accumulated by certain State Owned Enterprises (SOEs)\textsuperscript{34}; and

iv. To reduce the involvement of the state or public sector in economic activity.\textsuperscript{35}

**Successfulness of the Programme:** The successfulness of the French privatization programme can be enumerated as under:

1. **Reduced Budget Deficit:**

   The programme helped the government to reduce indebtedness. As a result of privatization, 'the budget deficit fell from 3.3 per cent of GDP in 1985 to 2.3 per cent in 1987.'\textsuperscript{48}

2. **Increased Ownership:**

   Privatization programme has substantially increased the number of shareholders amongst the general public. 'There were over 8 million shareholders in 1987, which represented a multiple of four in just one decade and over one out of eight persons owning private stock'.\textsuperscript{59}

3. **Increased Importance Of Paris:**

   By dint of successful privatization programme, the importance of Paris increased in the international financial markets. "In France Privatization represented a 30 per cent increase in the capitalisation of the Paris stock market over only a two year period'.\textsuperscript{60} It has been gained through financial deregulation and removal of capital controls.

   In France, though privatization programme was held in a shorter period of time, it was a successful campaign because it was well accepted by the people as well as well-absorbed by the financial markets.

**D) Canada**

Crown Corporation of Canada is a central government corporation which includes railways, airlines, post office, cultural institutions and Agricultural Marketing Board. It used to receive 'a total of about $ 8 billion annually in government support and employed more than 250,000 Canadians'.\textsuperscript{61} In 1987, Canadian government owned 54 parent crown corporations with 114 subsidiaries and 183000 employees and assets were valued at about canadian $ 60 billion.\textsuperscript{62} The privatization effort in Canada began in 1984 and gained momentum in 1985 after issuing budget.
Objectives/Goals of Privatization:

There were three goals of privatization:

1. To manage crown owned assets more efficiently.
2. To make markets more competitive and fair, and
3. To offer new opportunities for Canadians to share in the growth of these companies.

Administrative And Institutional Arrangements For Privatization:

To gear up the privatization process, the following administrative and institutional arrangement have been followed.

1. In August 1986, A Cabinet Committee on Privatization, Regulatory Affairs and Operations (CCPRAO) was formed by the Prime Minister.
2. In December 1986, an Office of Privatization and Regulatory Affairs (OPRA) was set up to provide essential support for the privatization effort.
3. Privatization procedures were entertained also covering all aspects of privatization in the same year.

The government decided to create a separate Ministry of privatization to make this effort a more centralised approach.

Instruments And Mechanism of Privatization:

Two main mechanisms have been followed in Canadian privatization process such as:

i. Sale of shares/assets by the government to a single buyer;

ii. Sale of shares to the public and in some cases, partial sales to employees.

There were other instruments also like -

a. Bonus shares to residents,
b. Issues of shares in installments to increase marketability,
c. Schemes to allow particular groups the opportunity to gain control of specific corporations.

About 11 major federal government SOEs have been privatized since 1985. About nine have involved single buyers, while two have relied on sales of shares to the public and/or employees. Of the total sales value of about
of shares to the public and/or employees. Of the total sales value of about $2 billion for these 11 enterprises, single buyers have been involved in purchases worth about $1.5 billion, public share buyers about $0.5 billions.

Procedure Adopted for Privatization:

The procedures adopted for privatization in Canada consist mainly the following four stages:

i. Initial Review And Selection Of Targetted Corporations: The main function of this stage is to apply criteria for determining the privatization potential of crown corporations, i.e. role in support of national and regional policy objectives, potential for commercial viability, company readiness for privatization, appropriateness with other policies and effect on interested parties.

ii. In-depth Review: When a company is selected be privatized, an indepth review is undertaken in order to examine all the issues associated with the privatization of each enterprise. After completion of the analysis, recommendations are made and presented by the Minister to the cabinet for discussion and approval.

iii. Preparation For Sale: After taking approval of the cabinet, the essential legal, financial and legislative steps are taken. These include valuation of the company, announcement of a sale, tabling of a bill in Parliament and the selection of the winning bid or the issuance of public share.

iv. Post Sale Monitoring: After the sale, the government monitors the performance and success of the enterprises.

The procedure is shown in chart (1)

How Privatization Works

STAGE ONE

CROWN CORPORATION

INITIAL REVIEW

CABINET SELECTION OF CANDIDATE

STAGE TWO

IN-DEPTH REVIEW:
STUDY TEAMS AND ADVISORS SELECTED

Contd....
NATIONAL AND REGIONAL POLICY OBJECTIVES

COMMERCIAL VIABILITY

READINESS FOR PRIVATIZATION

PUBLIC INTEREST

POLICY COMPATIBILITY

RECOMMEND POLICIES AND METHODS OF SALE

CABINET DIVISION TO SELL

STAGE THREE

PREPARATION FOR SALE

PREPARE LEGISLATION

TABLE AND PASS LEGISLATION

PREPARE SALES AGREEMENT

ISSUE PROSPECTUS CALL FOR BIDS

FINAL APPROVAL BY CABINET

DIVESTITURE

STAGE FOUR

POST SALE MONITORING

Some Observations On Canadian Privatization:

The following observations emerged from the Canadian (federal Government) experience:

1. The setting up of CCPRAO was more structured process to moderate privatization approach.

2. It is clear from the experience that people are more conscious about the sale of state enterprises to foreigners, specially American owners.

3. Canada began its privatizations with the companies that were running with weak performance.

It may be observed from the above discussions that Canadian privatization process was systematic and well structured. The process was well documented also.

E. Italy

Italy has a largest number of public sectors. 'It accounted for 15 per cent of GDP and about 25 per cent of value added in the early 1980s, as well as 70 per cent of Banking and 60 per cent of steel production.' Commercial Banks used to invest in the industrial sector in Italy.

After the 2nd world war they took over a number of major companies, hence a large proportion of their capital was tied up in equity and they became sick. In 1933, IRI (Institute for Industrial Reconstruction) was set up to rescue the banks from sickness. In 1937, IRI was turned into a permanent body to take care of these enterprises. It is said that 'IRI took this opportunity to turn its business into a model of entrepreneurship as an example to the private sector'.

Untill the early 1960s, the performance of State Owned Enterprises (SOEs) was positive. SOEs capacity for self financing was 'quite high about 50.2 per cent in 1956 and 47.5 per cent in 1961.' Towards the latter half of the 1960s, the performance of the Public enterprises sector began to deteriorate due to many causes and it became a continuous trend of losses. In 1978, the losses reached a high of 1,407 billion lire (US $ 2.7 billion). In 1979, a Mediobanca survey showed that 'the debt/equity ratio for state controlled companies was 13.2 as compared to 3.5 for the private sector'. Between 1978-81, 'the public sector's aggregate losses amounted to about 6 per cent of GDP.' As a result of mounting losses of SOEs, the government has taken some steps for improving the financial condition of enterprises, such as i) Substantial recapitalization ii) Debt restructuring and (iii)
Divestiture.

F. Spain

Spain does not have a large public enterprise sector. Its public enterprises are organised under three major state holdings, i.e. the Institute National de Industrial or National Institute of Industry (INI), the Institute National de Hdrocarbures or National Institute of Hydrocarbons (INH), and A conglomerate with a state monopoly in the Tobacco and Telephone subsectors (Patrimonio). These three holdings account for 90 per cent of all public enterprises. INI and INH represent 55 per cent of the public enterprise sector, while Patrimonio has 34 per cent (not including Rumasa Group) and the other 11 per cent is represented by Public Radio and Television, national railways and minor state commercial services'.

The performance of the public sector has been disappointing. A study showed that 'by 1983, total accumulated losses for the public enterprise sector were US $ 30 billion, with those of INI alone equal to US $ 2.8 billion and in 1985, INI companies lost US $ 1.3 billion'.

The privatization effort in Spain was initiated on the expropriated Rumasa Group and on INI enterprises. The INH group has not yet developed a privatization programme, rather it has plans to sell equity in its companies in the stock market.

The Rumasa Group:

Rumasa Group was set up as a private company in 1961 with an initial investment of about US $ 5000. After 2 years it became a holding company with about 800 companies employing 45000 people. In February, 1983, it was expropriated by the government and placed under the management of Patrimonio, reprivatization took place from 1984-1986.

Institutional and Administrative Arrangements:

To reprivatize the Rumasa group, some steps had been taken by the government, such as, first, the number of entities belonging to or associated with the group had to be identified. Second, the Rumasa reprivatization unit was established with a view to take care of the divestiture effort as well as to make the procedure transparent. Third, an action programme was set up for the sale of the enterprises, such as, the financing of privatization, valuation of companies prior to sell, analysis of labour related issues and identification of potential investors.

G. New Zealand:

The poor performance of SOEs incurred a heavy losses and drained down state resources, as a result, the government of Newzealand was compelled to adopt
privatization programme in 1987. The government started 'corporatizing' its SOEs by adopting reforms that made these companies legal entities with clear objectives, operational autonomy and accountability.\(^\text{75}\)

This initiative of Corporatization brought out good result. Before Corporatizing, New Zealand postal service was not economically viable. But in the first year after corporatization, New Zealand post generated an after tax profit of $72.1 million, and it has been operating profitably ever since.\(^\text{76}\) Similarly, in just one year the Electricity Corporation cut the real cost of electricity production by 11 per cent and increased power generation per employee by 19 per cent.\(^\text{77}\)

H. Japan

The largest SOEs of Japan were incurring heavy financial deficits because of centralised decision making process, bad labour-management relations, the size of the enterprises i.e. as big as it was beyond the capability of managing well. Oil crisis occurred two times. However, the government attempted for reform of these enterprises, Consequently, the Adhoc Commission on Administration Reform was formed. Examining the condition of all the largest SOEs (JNR, NTT, TOBACCO), the Commission recommended some steps for taking reform programme.

Before Privatization, the JNR incurred an annual deficit of ¥2 trillion. After privatizing it shifted from JNR to JR which generated profits amounting to 148 billion during fiscal year 1990.\(^\text{78}\) The JNR was transformed into six JR firms for passengers and one JR firm for Cargo. The JR not only made profits, it solved many problems also.

The NTT, Tobacco have also been privatized in the same way. The Privatization programme of Japan has been successful because the business leaders, workers as well as management, government administration were in same line and were committed for achieving wellbeing of the entire nation.

II. Privatization In Erstwhile Socialist Countries:

A) Hungary

Hungarian State-Owned Enterprises were characterised by wasteful production, over employment and poor quality of marketing and management. They have been also suffering from high internal and external debts. So, the major objective of privatization in this country was to use the proceeds from sale of these enterprises to reduce the country's foreign and domestic debt.\(^\text{79}\)

Methods of Privatization:

Different ways have been adopted in privatizing SOEs in Hungary which are as follows:
1. **Small Privatization**: A special law of 1990 regulates privatization of shops, restaurants and other service sector activities. Sale of small units was carried out through public auction and more than 700 retail shops and small enterprises were sold by the end of 1991.\(^{10}\)

2. **Spontaneous Privatization**: In this system two forms have been used as—sale of the enterprises assets and sale of its shares. In case of sale of shares, the enterprise must first be transformed into a corporation. By the end of 1991, 104 enterprises had been transformed according to this method, 53 joint ventures with foreign partners and 54 joint ventures with domestic partners had been established and 128 companies had been sold through sale of shares.\(^{81}\)

3. **Active Privatization**: The SPA may initiate privatization of a company. This was an attempt to attract investors who were not linked with Hungarian Companies. In 1991 three extensive programmes and two sectoral programmes of active privatization were taken including about 124 large enterprises.

4. **The first Privatization Programmes**: About 20 large and well performing enterprises were slated for privatization programme through tenders.

5. **The second privatization Programmes**: The aim of this programme was to analyse, from organizational, financial and legal aspects, the performance of the holding company. Analyses were continued in 12 companies, some of them were liquidated and others were being prepared for privatization.

6. **Sectoral Privatization Programme**: With a view to accelerate the privatization programme as well as to reduce the consultancy costs this programme has been adopted, specially in agriculture and wine production which in all included 15 companies.

7. **Investor-led Privatization**: In this programme, the SPA introduced at the beginning of 1991 a special privatization method allowing investors to initiate the process.

8. **Self Privatization**: Under this method, the SPA has granted licenses to 80 consultancy organizations that will have the right to prepare and implement privatization programme for individual companies on behalf of the SPA.

9. **Employee Share Ownership**: Before turning into market economy, the employees and managers played an important role in the decision making process. So, in the privatization process, government passed the regulation for employee buy-out. In most cases, employees have the right to buy up to 10 per cent of the value of the company on favourable terms: guideline adopted by the Parliament concerning privatization to allow insiders to
purchase up to 50 per cent of all the shares on favourable terms.

(B) Poland:

Privatization in Poland was launched in as early as 1980s. The law was accordingly introduced regarding state enterprises that attempted to decentralise decision making and to increase autonomy. Two laws were introduced for regulating the privatization of companies, i.e. law on Managing State Enterprises and the Law on privatization of State Enterprises. The law particularly defines the managers and workers council's rights in the management of enterprises. There is now a separate Ministry of Privatization which formulates and implements the strategy of privatization.

By the end of 1991 around 8000 shops had been sold in small privatization. More than ten large enterprises were sold through public offerings. But Poland did not succeed in the area of selling enterprises to the foreign strategic investors. In 1991, there were around 670 cases of management buy-outs and 1000 similar transactions were planned for 1992.

With the aim of speeding up privatization process, the Polish government has decided to introduce mass privatization programme that would include free distribution of shares to the people. According to Polish government, mass privatization should be carried out in the following stages.

i. At the first stage, the government would establish up to 25 Mutual Funds which would be controlled by Polish Supervisory Boards and managed by International Banks and Private Management Companies.

ii. At the second stage, the government would distribute special certificates to each adult citizen, one for each newly created Mutual Fund.

3. At the third stage, the government would distribute shares in selected State Owned Enterprises (SOEs) among the Mutual Funds - 33 per cent to the leading Mutual Fund and 27 per cent among other funds, 10 per cent of the shares would be distributed to the workers and 30 per cent would remain in the hands of the government which would later either find a strategic investors or transfer these shares to pension funds.

In order to minimise the consultancy costs from foreign consultants, "Sectoral Programmes of Privatization" has also been chalked out and 35 sectors with around 500 enterprises are to be included under this programme.
Czech and Slovak Federation:

The main objective of the Czech and Slovak privatization programme is to increase efficiency of companies and reduce subsidies as well as to bring change in the socio-economic system. Various methods of privatization have been followed but special emphasis has been given on voucher privatization. About 90 per cent of companies have been decided to be sold through this method.

Several laws have been introduced for this programme of privatization viz the law on small denationalization, followed by the law on small privatization and the law on denationalization of large enterprises linked to the law on privatization of large enterprises. A large number of Committees were set up with full powers to carry out the process. Not only the Ministry of Finance was given responsibility of implementing the programme successfully but special Ministries for privatization have also been created for the implementation of the privatization programme.

Three basic methods of privatization adopted in this country are as follows:

1. Restitution of nationalised property.
2. Sale of companies to domestic and foreign investors through different privatization methods, and
3. Voucher privatization, where property is given for symbolic value to those citizens who have decided to take part in the programme.

D. Germany:

The main objective of the privatization programme adopted in Germany is to integrate a developed market economy rather than transformation of socialist economy into market economy.

There is no special privatization law in Germany. The institution has been established 'Treuhandanstalt' which manages and sells the property in accordance with the rules applicable to any owner. It is a unique institution and a state agency for privatization. It has more than 3000 experts. It is responsible for speeding up privatization and reorganization of its companies.

The 'Treuhandanstalt' is organised as a joint stock company. It has an executive board of directors and a steering committee composed of representatives of various Ministries, Trade unions and experienced businessmen. It has a several directorates covering individual industries and they are empowered to assume a sectoral programme of privatization.

Various methods of privatization which have been followed in this country are: commercialization, sale of companies, restoration etc.
i. Commercialization of Companies: Commercialization is the first step toward privatization in Germany. The main component of commercialization is to ensure sufficient capital structure in these companies which are to be restructured.

/ii. The Treuhandanstalt's privatization policy: The main policy of this institution regarding privatization is to try to sell the company as a whole, not a part of the company as well as to avoid privatization by allowing private equity into state-owned companies which leads to joint ventures between the public and the private sectors. In order to attract foreign investors, this institution participates in various trade fairs. Sometimes, it sells company at the least prices for the sake of negotiations that the owners must ensure the successful operation of the company in future. For this, new buyers must also be contractually bound to fulfill their promises of future investment and job creation. The institution also follows management buy-out technique in the area of small and medium enterprises. 800 companies under this programme were sold.

E. Laos:

Laos is a centrally planned economy. The major portion of the enterprises in this country are run by the government. Reform of SOEs was started in 1988 onward by increasing autonomy of the SOEs and privatizing selected enterprises with a view to increasing financial solvency and performance. As of the end of 1988, 400 SOEs had been granted such autonomy. In this regard, Decree No. 19, has greatly expanded the operational planning and budgeting, procurement, personnel and financial management.

Privatization programme in 1989 was adopted separately and for limited areas. This programme had applied only to industrial and commercial concerns. The main procedure was labelled "disengagement" which consisted of variety of forms, like the contracting out, leasing, allowing private investment in the public firms, partial or full sales; closures and liquidations, sub contracts of certain activities to foreign firms. A 1989 decree clarified the rights of foreign investors to enter the Laotian market.

F. Mozambique:

In Mozambique, the government introduced the 'Economic Rehabilitation Programme' in 1987 on account of disappointing performance of SOEs from the mid 1980s onward. The aim of this programme purported mainly to increase enterprise autonomy, accountability and simplified access to foreign exchange allocation and at the same time, to increase financial strength and reduce budgetary support. Recently the government has set up enterprise Restructuring Technical Unit in the Ministry of Finance which is accountable for reviewing rehabilitation
and restructuring plans submitted by the enterprises. The investment law has also been brought out to encourage competition from both foreign and domestic sources.

Different methods of privatization followed in this country include sales, partial sales, joint venture etc. Several liquidations were planned, but none took place at all. In the period of 1986-88, '25 full sales and 20 partial sales were reportedly transacted'. Privatization in this country has taken place on a case-by-case basis involving small and medium sized commercial and industrial firms. Foreign investors have also been encouraged to come in on a joint venture basis. It has been decided that "upto 75 per cent of SOEs can be sold to a foreigner and 100 per cent to a domestic purchaser."  

G. Croatia:

Croatia after having won independence from Yugoslavia, has made its own law on privatization and its privatization efforts have made the greatest progress. Two laws have been made in Croatia. The first law is not so specific for privatization but the second law is more specific for privatization. In accordance with the second law, two institutions have been made in all the republics on their territories for assisting the privatization process. The first institution is an 'agency' for restructuring and recapitalization, to oversee the privatization process. The second is a "fund for development which is meant to receive the funds generated through privatization."  

Four methods of privatization have been followed in Croatia, such as:

i. Sale of the whole enterprise or part of it.

ii. By making an additional investment in the enterprise and corresponding participation in the share capital of the enterprises.

iii. Transformation of assets already invested into share capital or existing claims into capital participation.

iv. Through transfer of ownership to the Croatian fund and to other funds without compensation.

Whatever the methods or types of privatization selected, the enterprises will be transformed either into joint stock companies or into companies with limited liability.  

Russia
Russia was the pioneer of creating public enterprises and state control system. They believed in command economy instead of market economy. Unfortunately, the public enterprises phenomenon began to change due to nagging performance of public enterprises and Russia embarked upon reform programme by disintegrating itself in 1989. The privatization effort began in 1991 which gained impetus in 1993. The privatization was the most popular reform of the Russian government. Most of the people i.e. more than 60 per cent of the Russian people supported privatization.

The Russian privatization programme may be divided into some steps, such as, firstly: small firms, shops were sold by cash and vouchers.

Secondly: the programme delineated large firms into those subject to mandatory privatization which included firms in light industries, including textiles, food processing and furniture.

Thirdly: all large and medium sized firms were to be corporatized i.e. they were transformed into joint stock companies. In corporatized firms, managers and workers had three options to pick:

The first option gave workers 25 per cent of the shares of the enterprise for free. An additional 5 per cent of shares could be obtained by managers and workers at low prices through the Employee Stock Ownership Plan (ESOP).

Second option gave managers and workers together 51 per cent of the equity at nominal price.

Third options allowed the managers to buy upto 40 per cent of the shares at very low prices.

By July 1, 1993, out of 1972 large enterprises slated for mandatory privatization, 2918 enterprises were decided to be privatized by GKI (State Committee on the Management of State Property).

III. Privatization in ASEAN Countries:

(A) Indonesia:

After independence in 1945, the government took over all the corporations through nationalization. But the State-Enterprises were claimed with inefficiency and mismanagement. The government attempted to liberalise the policy and to reduce the government's control over the public enterprise sometimes. But it was hindered on account of many reasons.

Institutional Arrangements:
There was no strong institutional arrangements, however, in 1987 a committee was set up by the president Suharto, which included the Economic Minister, the National Development planning Minister and the Finance Minister to study plans regarding selling the public enterprises. The committee instructed to chalkout the method of divestiture.

Methods of Privatization:

The committee suggested many ways of privatization, viz, Deregulation, sale of shares, Mergers, joint ventures with private sector, liquidation etc. It was decided to attract and encourage foreign investors also.

First Suharto government (1967), took the policy to encourage foreign investments and at the same time some nationalised industries were also returned to the previous owners. According to the recommendation of the Centre for Strategic and International Studies (CSIS), the government took active programme of privatization during the period of 1982-86 in expectation of generating funds needed for the country's development. As a part of the privatization programme, the government began to deregulate the financial sector and planned to privatize the Jakarta Stock Exchange in the early 1990.

However, Indonesia also faced some problems in implementing the privatization programme, such as

i. Obstacles from opposite political parties.

ii. Lack of an active viable capital market.

iii. A more important obstacle to find potential buyers, the lack of investor's confidence in the capital market as well as the lack of understanding of the operations and possible profits.

B. Philippines

There was a large number of State Enterprises in Philippines in the 1970s and the early 80s. They did not however perform well incurring heavy losses. According to one significant study it was disclosed that by profitability and productivity measures the public enterprise sector is generally inefficient. So, president Acquino has adopted a 5-year campaign to sell some enterprises of US $32.5 billion.

The Institutional Arrangements:
In 1986, President Acquino formed a cabinet level policy making committee on privatization (COP) and policy implementing arm "The Asset Privatization Trust" (APT), headed by the Finance Minister to oversee the divestment of state assets. The methods of privatization adopted were sale of assets, and divestiture.

**Problems Of Privatization:**

There were many problems in implementing the privatization schemes, such as-

i. There was no interested investors to whom assets could be sold.

ii. There was a technical problem regarding valuation and audit, the legal preparation of the assets for sale etc.

iii. If the government stepped into to evaluate the properties or to veto any particular sale, it would inevitably be drawn into conflicts among potential buyers, raising other political objections and risking the programmes credibility among investors.  

iv. There was a conflict of which private sector groups would be allowed to gain access to the companies and on what terms. The most contentious questions surrounded competing domestic claims, particularly from previous owners. There was a strong sentiment that Marcos cronies and their fronts should not be allowed to purchase companies being privatized.

v. Another problem was relating to finance. The domestic capital market was not able to provide sufficient funds for purchase of assets.

**C. Thailand:**

In Thailand, Public enterprises have played a dominant role in the economic development. The objective of public enterprises is to achieve commercial as well as social benefits. But as ill luck would have it, achieving this objective is often hindered owing to inefficiency, mismanagement etc. Before the oil crisis of 1973, the public enterprises were not draining down the government exchequer rather they were contributing revenues in favour of the government treasury. As a result of oil crisis, operating costs increased, specially in the fuel consisting industries. So, they had to depend on debt financing. In 1986, the government reviewed the performance of all the loss making public enterprises in order to attempt the privatization programme.

For privatization programme in Thailand, no specific institutional
arrangement was made, however, the government set up a National Public Enterprises Committee with a view to improving the efficiency of the public enterprise. The government also declared that inefficient public enterprises would be liquidated and it was recommended that to increase efficiency, existing enterprises should be undertaken under privatization schemes like management contracting, leasing or liquidating loss making units. 

(D) Singapore

Since independence, (1965), Singapore has gained all-around success as a result of efficient public enterprise system. But in the mid 1980s, the performance of the Singapore economy slowed down. For this, a special high level Economic Committee was formed to examine the long term problems and to define new strategy for promoting growth, so, 'it was decided that Singapore has always been a free enterprises economy, the private sector should continue to play the leading role.'

On the basis of the recommendation of the Economic Committee, a 'Special Public sector Divestment Committee' was formed to identify opportunities for strengthening the local stock market, to identify government linked companies, to chalkout a programme with appropriate timing etc.

Malaysia:

In 1983, the Prime Minister Mahathir announced the government's privatization policy. In accordance with those guide lines the objectives of privatization in Malaysia are summarised as follows:

1. To relieve the financial and administrative burden of the government with respect to public enterprises.

2. To promote competition, improve efficiency and increase the productivity of these enterprises.

3. To stimulate private entrepreneurship and investment in order to accelerate the rate of growth of the economy.

4. To assist in the reduction of the size of the public sector and its monopolistic and bureaucratic tendencies and

5. To contribute toward the objectives of the New Industrial policy (NIP), with particular attention on the role of Buniputera (indigenous, mostly Malay) entrepreneurship.

After issuing the guidelines on privatization, the government established an
institutional machinery for privatization, named "the Privatization Committee under the chairmanship of the Director General of the Economic Planning Unit (EPU). It has overall responsibility for planning, monitoring, coordinating and evaluating the privatization programme. In addition to the main committee, there is a privatization secretariat under the Director of the Privatization Task Force. The Secretariat basically works as the organizational hand of the main committee. The four additional technical committees were also set up to conduct privatization studies. After completing analysis of the background reports by the technical committees, interested private sector members are invited to present this case, recommendations are sent to the main committee for analysis and detailed negotiations. Finally, the Cabinet has to give its stamp of approval.

Techniques Of Privatization:

The techniques of privatization followed in Malaysia are as follows:

1. **Sale of Shares or partial privatization**: In this form, the government retains a portion of the ownership of the enterprise. Joint ownership covers cases where the ownership of the share capital is on a 50:50 (Per cent) basis.

2. **Selective Privatization**: An agency responsible for certain services or interest may sell or lease a part of its services while retaining the remaining services under public ownership, control and management.

3. **Management Privatization**: The management expertise and know-how of the private sector has been invited through a management agreement.

4. **Contract Privatization**: There is private-sector involvement in the provision of certain services or activities, but there is no change in the organisational set up of the government agency responsible for the services.

5. **Leasing Privatization**: For financial or other reasons, leasing should be considered by the parties involved but the responsible agency will have to evaluate the cost and benefits of leasing and to indicate whether it will be permanent feature or only a phase in its privatization plan.

IV. Privatization in SAARC Countries:

The South Asia Association of Regional Co-operation (SAARC) consisting of seven countries viz. Bangladesh, India, Sri Lanka, Nepal, Pakistan, Bhutan and Maldives, have also been driven towards privatization in order to adapt with the changing economic environment the world over. The privatization programmes of these countries have been discussed in the succeeding paragraphs.

In Pakistan, the government played a vital role to its industrial sector since
independence in 1947. The Pakistan Industrial Development Corporation was established in 1950 with a view to accelerating the private sector and at the same time, Pakistan Industrial Credit and Investment Corporation and Industrial Development Bank of Pakistan were also established. So, enormous wealth had been accumulated and got concentrated in a few hands, so much so that 22 families or industrial groups controlled 66 per cent of the national wealth and 80 per cent of the financial assets.\textsuperscript{106} This trend changed during Z.A. Bhutto regime, with the promulgation of the Economic Reforms Order of 1972, through which 33 indigenously owned industrial units, all local banks, 32 life insurance companies, shipping companies, 26 vegetable oil factories, petroleum making companies and over 2000 cotton ginning and rice husking mills were nationalised.\textsuperscript{101} But this trend of nationalization was stopped by General Zia-ul-Haq in 1977 and the very process of privatization was started by returning a few industries to their original owners, like, cotton ginning and rice husking mills, Ittefaq foundries, Nowshera Engineering etc. During this martial law regime, Privatization movement however did not get speed, 'only 4 industrial units were privatized'.\textsuperscript{102} From this period onward, the privatization process has been continuing till date by the successive governments.

At the end of Zia regime, Benazir Bhutto came into power in 1988 and introduced the privatization programme vigorously. To gear up this programme, a foreign consultant M/S Rothehild was hired to identify units for privatization. Benazir Bhutto announced that some key industries would be privatized though only 49 per cent of their shares would be sold.\textsuperscript{103} However her government had time only to sell 10 per cent of P.I.A. shares, but could not follow up its progarmme.\textsuperscript{104}

Nawaz Sharif came into power in December, 1990 and took the privatization policy vigorously to attract more foreign investment and stem flight of capital. This government thus declared to privatize 100 State Owned Enterprises (SOEs) within a year. This programme was partially successful.

In 1991 a privatization commission (PC) was formed consisting of four full-time and four part-time members assigned by a secretariate. A Cabinet Committee On Privatization (CCOP) was created to ensure governmental approval for proposals brought forth by the PC, and a high powered Inter-Ministerial Committee was also authorised to negotiate a settlement with labour to facilitate the process of privatization.

The methodology for implementation of privatization programme included the following:\textsuperscript{105}

i. Wide spread ownership, special treatment for management and employees.

ii. Total transparency in the process of sale and transfer.

iii. Public awareness and support.
iv. Thoroughness in preparation, utilising the services of outside consultants.

About 65 units were sold and transferred by PC in less than two years. Among them seven units were sold to the employees, five were bought out by foreign investors, ten were bought by well-established large groups and five by old owners and the remaining thirty-seven units were new investors.¹⁰⁶

Sri Lanka has a large number of State-Owned Enterprises (SOEs) that account for about 40 per cent of the gross output in manufacturing, 38 per cent of manufacturing value added and over 40 per cent of employment in manufacturing.¹⁰⁷ But the performance of this larger sector in terms of productivity and efficiency has been total disappointment. So, the government was forced to adopt the policy of privatization in 1977.

In 1980, a Committee on Public Enterprises (COPE) was appointed consisting of 10 members from Parliament and Finance Ministry.¹⁰⁸ Two bills were prepared in regard to conversion of public corporation in joint stock companies by the Public Enterprises Division of the treasury with the help from COPE which were enacted on May 15, 1987, and in the same year 'The Presidential Commission on Privatization' was also formed.

Three types of techniques were adopted for privatization.¹⁰⁹ viz (i) complete or partial transfer of ownership; (ii) Joint ventures and (iii) Management contracts.

Inspite of taking all possible measures for privatization, there were some problems also, such as the institutional framework was not clear and sufficient, eligibility of investors was not clear; there was no policy at all on Foreign Direct Investment; Under valuation of shares; Labour unrest; the programme was not speedy etc.

The Government of Nepal announced its privatization policy in 1991¹¹⁰ with a view to upgrading a dynamic economy by creating a healthy private sector. The primary objectives of privatization policy in Nepal are as follows:¹¹¹

i. To relieve the financial and administrative burden of the government and to release funds for better alternative uses.

ii. To improve efficiency and productivity.

iii. To facilitate economic growth, and

iv. To reduce the size and presence of the public sector in the economy.

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Following these objectives, the government of Nepal tried to go in for privatization phase wise. In the first phase, three public enterprises have been privatized, in the second phase out of 32 public enterprises identified for privatization, 14 enterprises were undertaken for privatization. In the third phase, 18 enterprises have been reported to be privatized started from February, 1994. 'The entire phase of the above privatization is expected to be completed by July, 1986.'

_Bhutan and Maldives_ have not yet advanced towards the massive programme of privatization like other member countries of the SAARC. However, the case of privatization in Road transport, Recreation facilities, Fish and Food processing are bright in these countries.'

_In India_, with the announcement of the New Economic Policy on July, 24, 1991 and the subsequent successive four budget proposals, the wind of privatization has started blowing vigorously. In _India_, the move of privatization was primarily mooted to raise resources to fill up the budgetary deficit, to encourage wider public participation and to promote greater accountability.

The technique adopted for privatizing public sector enterprises in _India_ is partial disinvestment of shares. It was therefore, in consonance with this policy, up to 20 per cent of the government equity in selected public enterprises was contemplated to be offered to Mutual Funds, Financial/Investment Institutions, Workers and general public.

In first phase, the government selected 31 public sector enterprises with good track record of performance and offered a part of their equity in the range of 5 per cent to 20 per cent for sale to public sector Mutual Funds and in Financial Institutions. The total number of shares disinvested during 1991-92 constituted only 8 per cent of the government holdings in 30 public enterprises, with the total value of Rs. 3038 crores.

The second phase of disinvestment took place during 1992-93. During this period the government was able to mop of an amount of Rs. 1912 crores by disinvesting the shares of public sector enterprises. This amount constituted approximately 5 per cent of the equity holding of the 16 selected public sector enterprises.

V. **Privatization In Sub-Saharan African Countries:**

The reason of growing public enterprises in Sub-Saharan African countries was the same as in other countries of the world. There were about 3000 public enterprises in a variety of sectors viz. agriculture, industry, finance, banking and public utilities in Sub-Saharan African countries. But they could not attain their objectives on account of deficiencies in the decision making process, incurring losses on investment, improper planning, mismanagement, miscontrol etc. So,
reform programme of privatization was adopted in these countries also.

Togo

In 1975, the government of Togo initiated expansion of State-Owned Enterprises (SOEs). But the performance of SOEs was not satisfactory. Most SOEs had incurred a heavy losses, as a result, they became a source of drain down of money from the government exchequer. Then the government undertook steps to rationalize the SOEs. A Ministry of State Enterprises (MSE) was established in the late 1984, for monitoring the performance of SOEs. After some days of its establishment, MSE made a broad based classification of SOEs, dividing them into three main groups.

1. Enterprise which are to be retained in the Public sector.
2. Those which are to be liquidated and
3. Those are to be privatized or restructured.

'Among 72 SOEs, 8 SOEs were slated to be liquidated and 24 were to be privatized and the 18 SOEs proposed for privatization in the initial phase. However, Togo was one of the first SSA State of turn to privatization for managing the inefficient public sector. Privatization has covered various industrial units also which were 100 per cent government ownership as well as joint venture with the private sector.

Ghana

In Ghana, the state enterprise sector includes more than 340 enterprises in the mining, energy, utilities, business and financial sectors of the economy. But the performance of a large number of SOEs was so poor that they had become a threat to the economic and financial stability of the country.

Subsidies and loans to SOEs averaged some 12 per cent of total government expenditures during 1980-82. In these circumstances, the reform programme was adopted with a view to achieving objectives viz: to improve the efficiency of the economy by encouraging private sector participation; to develop a domestic capital market; to motivate the Private sector; to reduce the fiscal deficit and to raise foreign exchange.

In the first phase, 32 SOEs were divested (Liquidation or privatization) and a second group of 42 public enterprises were identified for divestiture in 1988. Another 39 divestitures were completed through the first quarter of 1991. These included 22 liquidation, 12 out right sales, 2 joint venture and 3 lease arrangements.
Ghanaian Privatization could not show much success as expected. Among 28 privatized enterprises, only four firms continued to operate profitably; two others were operating close to the break-even point. Nine of the remaining enterprises never resumed operations after sale, and the remaining thirteen were in difficulty because of procurement problems, limited export markets, lack of working capital, and limited access to government subsidies and commercial credit.

VI. Privatization In Latin American Countries:

A. Chile

During 1970-73, the Allende government sought to convert Chile in to a fully socialist economy and as a result, the number of State-Owned Enterprises (SOEs) increased. By the end of 1973, there were 600 SOEs, among these, 350 had been nationalised during the preceding three years and others were created. By 1983, SOEs accounted for 40 per cent of GDP and more than 80 per cent of mining and financial services. In 1973, the military government came into power and initiated a policy of financial and trade liberalization. 'A policy of public sector retrenchment was undertaken as part of an effort to reduce the fiscal deficit, which amounted to about 25 per cent of GDP.'

In order to gear up the privatization programme, an administrative structure for privatization was set up within CORFO in the early 1970s. CORFO was considered the more effective institution to control the divestiture of all state enterprises.

(B) Mexico

In Mexico, 'government transfers and subsidies to SOEs amounted to more than 3 per cent of GDP in 1982.' As a result, SOEs became an unbearable burden on the budget. So, the government was compelled to chalkout privatization programme. In 1984, more than 400 SOEs have been sold or liquidated in a wide range of sectors, like, telecommunications, airlines, sugar, mining, manufacturing and services and an additional 400 SOEs have been merged or have been transferred to municipalities. '62 privatized petrochemicals and auto parts firms increased investments to as much as 75 per cent, adopt better financial management techniques, improve the technology, and reduce the numbers of managerial staffs.

1.7 Conclusion:

From the foregoing analysis, it may be observed that most of the countries of the world have started globalising their economy through liberalisation of their business and trades. Recently, with the signing of the Uruguay Round Trade Talks under GATT, all LDCs like Bangladesh and others have entered into a highly
competitive global market and will have to face stiff competition worldwide. So, this is the ripe time for thinking strongly about reforms through privatization and private sector development. Accordingly, the government of Bangladesh looking around the advent of market economies the world over, has taken bold steps to encourage the private sector to come forward with investment towards development of the economy and has taken a mass privatization programme in its numerous forms.

The developed economies have taken lead in privatization for economic growth and stability. Britain illustrates the point. The privatization programme has gained tremendous success in Britain in all respects like, productivity, efficiency, customer service, labour relations, reducing government budgets to the SOEs, spreading ownership among the people etc. Following Britain's achievement, other developed countries like, USA, France, Canada, Italy, Spain, Newzealand etc. also adopted a vigorous privatization programme and they succeeded too.

The socialist countries, the symbol of public enterprises in the world, also accepted the move of privatization in order to fall in line with changing phenomenon blowing throughout the world. Russia, Hungary, Poland, Czech and Slovak Federation, and other socialist countries introduced mass privatization programme. Among them Hungary, Poland and Germany were on the top embarking upon the privatization programme.

ASEAN countries have also been successful in privatizing their SOEs. They have followed different techniques of privatizing SOEs according to the nature of the project. Among the ASEAN countries, Malaysia is the mile stone for Asian Nations as the privatization in this country has been quite successful. SAARC countries are also not exception to the privatization phenomenon. However, they have not been able to achieve notable success on account of certain inherent stumbling blocks.

The privatization phenomenon did not spare the Sub-Sahara African countries too. Ghana, Togo, Nigeria, Malawi etc. have also embarked upon a mass privatization programme. Latin American Countries were the symbol of reform programme of privatization. They followed a vigorous privatization programme and were able to reduce subsidies to SOEs. Mexico and Chile were the top among the Latin American Countries to successfully adapt to the privatization movement.

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