COMPARATIVE ANALYSIS OF PRIVATIZATION AND GOVERNMENT DIVESTITURE: CHALLENGES AND OPPORTUNITIES

PRIVATIZATION COMMISSION

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Enhancing Kenya's Productive Capacity

SUBMITTED BY TRENDY CONSULTING INTERNATIONAL LIMITED

MARCH 2020

ACKNOWLEDGEMENT

The of Privatization Commission of Kenya wishes to acknowledge and thank Trendy Consulting International Limited, led by Dr. Kennedy Oluoch for undertaking the research and preparing this report on behalf of Privatization Commission. The Commission also take this opportunity to thank institutions, groups and individuals who took part in this work in one way or another.

ABSTRACT

The main aim of this study was to glean and borrow beneficial privatization practices from nine selected countries across the world with the intention of availing the gathered information for purses of Privatization Commission learning and improvement. The study explored various theoretical frameworks of privatization to broaden the understanding of the concept of privatization. Both cross sectional and longitudinal study design was used in this research. Cross section was used to study the practice of privatization across nine select countries as compared to Kenya. Longitudinal design was used to trace the history, practice and outcome of privatization in the focus countries of study from the end of World War II to date. The study focused on US, United Kingdom, Brazil, China, India, Japan, South Africa, Nigeria and Ghana. Secondary data obtained from literature review was used. Content analysis was done on data collected and presented in narratives and discussions.

In analysing the privatization practices among the countries targeted, eight important variables were used as measures of comparison, these were: objectives of privatization in each and every country, history of privatization, privatizations undertaken, methods of privatization, processes of privatization, legal environment of privatization, challenges of privatization and privatization lessons learnt from each country under study. The study found out that privatization is a wave of economic policy which took root in the 1970s starting with the United Kingdom. It came as a result of realization that governments were not efficient in managing state enterprises due to various reasons and that private individuals who pursue profit motive would be more committed towards the success of enterprises under their ownership. Privatization was also driven by the assumption that in a perfect market, competition would yield more benefit to the consuming public.

There are mixed results to the economic policy of privatization across the world and in individual countries. In some instances, it has produced the desired results, but in some cases, it has failed. Across the studied countries, it was observed that the success or failure of privatization depended on economic sectors and cultural factors. Each case was however unique to each country. The key determining factors in the success or failure of privatization seems to rely heavily on the culture of the society in which it practiced as manifested through governance practices. Privatization seems to have done well in civilized communities where the wellbeing of the society is put above those of individuals as opposed to situations where the selfish interest of individuals is allowed to take root. The study ends with a summary of challenges and specific recommendations.

DEFINITIONS OF TERMS

Privatization	A transaction or transactions that result in a transfer, other than to a public entity, of the assets of a public entity including the shares in a state corporation.
Divestiture	The transfer of state ownership to the private sector wholly or in part.
Public Investment	Refers to government spending on economic infrastructure such as airports, roads, railways, water and sewerage systems, public electric and gas utilities, communications and social infrastructure such as schools, hospitals and prisons.

ABBREVIATIONS

ACRC	African Economic Research Consortium
ADR	American Depository Receipts
AFRC	Armed Forces Revolutionary Council
AFT	American Federation of Teachers
APA	American Psychological Association
BNDES	Brazilian National Development Bank
BNFL	British Nuclear Fuel Limited
BOT	Build-Operate-and-Transfer
CCP	China’s Communist Party
CIS	Commonwealth of Independent States
DGIPE	Department of Government Investment and Public Enterprises
DGIPE	Department of Government Investment and Public Enterprise
ERP	Economic Recovery Programme
ERS	Economic Recovery Strategy
ERSWEC	Economic Recovery Strategy for Wealth and Employment Creation
ESTU	Executive Secretariat Technical Unit
FAR	Federal Acquisition Regulator
FGN	Federal Government of Nigeria
FHLMC	Federal Home Loan Mortgage Corporation
GDP	Gross Domestic Product
IFC	International Monetary Fund
IMF	International Monetary Fund
IPO	Initial Public Offer
ISC	Inspectorate of State Corporations
KANU	Kenya African National Union
NATS	National Air Traffic Services
NLC	National Liberation Council
NNDC	New Nigeria Development Company Limited
OECD	Organization for Economic Co-operation and Development
OPM	Office of Personnel Management
PAC	Parastatal Advisory Committee
PC	Privatization Commission
PE	Public Enterprises
PERP	Public Enterprise Reform Programme
PNDC	Provisional National Defence Council
PP	Progress Party
PPP	Public Private Partnership
PRPC	Parastatals Reform Programme Committee
REA	Railway Express Agency
RBM	Results Based Management
SASAC	Sate Owned Asset Supervision and Administration Commission
SIP	Share Issues Privatization
SOE	State Owned Enterprises
SPS	Sector Performance Standards
TCE	Transaction Cost Economics
TCPC	Federal Committee on Privatization and Commercialization
TVE	Township and Village Enterprises
USSR	United Soviet Socialist Republic

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

After the damaging effects of the world war II, many countries across the world had to figure out their ways out of the post war effects. The world war II brought many socio-economic challenges that needed immediate solution. Among the challenges that had to be addressed by many countries was stabilization and growth of national economies. To address the socio-economic challenges, many countries resorted to policies aimed at amalgamation of political and economic forces. Fueled by the prominent political ideologies of the time like socialism and communism, there was rapid expansion of state control of the lives of citizens in many countries. This was due to the belief that society's needs and problems are best addressed through government intervention. Public investments were therefore seen to have beneficial effects such as supporting or enabling the delivery of key public services and therefore desirable.

This wave of socialism and communism which was initially propagated by Union of Soviet Socialist Republic (USSR) gained prominence across the world and spread even to capitalist economies of the west. For instance, the British government nationalized its coal, gas, rail, shipbuilding, and steel industries, and the United States nationalized the facilities of the Tennessee Electric Power Company into the Tennessee Valley Authority and adopted a number of government-run social welfare programs (such as Social Security, Medicare, and Medicaid) under the New Deal and Great Society Programs (Reason Foundation's, 2006).

For developing countries who had just got independence from their colonial masters, especially in Africa, post-world war II was a time for their governments to pursue economic policies which included development of industrial base through a number of ways which included fostering of infant industries, promotion of an entrepreneurial class to have sufficient capital to invest; promotion of indigenization; creation of employment opportunities; effective and efficient management of national strategic resources. To this end, many countries responded by accelerating the role of the state in the economic development through public investment in the production of goods and services. Some countries embarked on nationalization programs in which the nationalized companies were transformed into entities that became government departments and state-owned enterprises (SOE). All these were done with the hope that public enterprises promote development of strategic sectors, gain access to commercial credit and thus fulfil entrepreneurial gaps, empower numerically large but economically weak segment of the population, maintain employment levels and increase savings and investments, the governments in developing countries added significantly to the number of SOEs, marketing boards, utilities, and other enterprises.

1.1.1 Overview of Public Investment

According to the International Monetary Fund (IMF), public investment refers to government spending on economic infrastructure such as airports, roads, railways, water and sewerage systems, public electric and gas utilities, communications and social infrastructure such as schools, hospitals and prisons (IMF, 2015). Public investments are also sometimes used in a wider sense to mean spending on human capital such as education and health spending, or financial investments by government institutions. Generally, public investment has beneficial effects on the long-term growth potential of any economy. Public investments can serve as an important catalyst for economic growth if well managed. It can support or enable the delivery of key public services and connecting citizens and firms to economic opportunities locally and beyond.

But as governments pursued their socio-economic goals based on socialist and communist ideologies, they increasingly consumed an ever-greater share of personal and business income and inhibited private property rights and personal freedoms. It soon emerged that states are inefficient in providing goods and services. Generally, public investments have many challenges. Some of the distinct characteristics of public investments that made it difficult for many governments to succeed with them according to Fainboim, Last and Tandberg (2013) are: Spending on public investment projects involves significant costs and can span several years, making accurate budgeting inherently more challenging; it is hard to estimate costs of public investments more accurately because capital investments are often ‘one off’ and technically complex.

Many government projects have ended up suffering from cost overruns and that has been a major source of fiscal risks for governments; Spending on investments is generally ‘lumpy’, meaning that payments required by governments are not always regular and or/predictable; there is an imbalance in the timing of costs and benefits because projects usually require significant up-front financing, while the benefits accrue over the years and may only be fully realized decades after the asset has been built; spending on investments creates lasting assets that need to be maintained. This means decisions on whether to go ahead with a project today create future financing obligations for operation and maintenance of the enterprises; public investments are also subject to political pressures; the large sums involved and the visibility of such investments, and the fact that its benefits are specific to particular locations means that politicians and citizens pay close attention on whether to go ahead or not with projects. Effort to frame selection of projects solely on economic terms have often tended to overlook the political nature of investment choices; the high monetary value nature of capital investment also makes it prone to corruption. The construction of assets usually involves contracting private providers to undertake the work. The process of contracting these private providers is not always transparent and credible as politicians and government officials always want to benefit from the award and therefore manipulates the processes.

To improve the efficiency of its state-owned enterprises, governments faces a choice between either reforming the corporate governance arrangements of these enterprises while they are still under the state control and then opening the SOEs to market disciplines by admitting outside minority shareholding or transferring them entirely to the private sector through privatization. What many countries including Kenya are still struggling with is the challenge of coming up with the best privatization practices that can put the SOEs on a good corporate footing.

1.1.2 Overview of Privatization

There appears to be no generally accepted definition among scholars regarding the conceptual meaning of state enterprises. One reason according to Sosna (1983) for the inability to have a single standard definition of state/public enterprises was that public enterprises were established at different periods, and each generation brought forth the types of public enterprises most clearly matching its own conditions. It is therefore believed that the variation in definition are informed by the ideological, values, interests, dispositions and circumstances that brought public enterprises into existence (Adeyemo and Salami, 2008).

Privatization may not be easily understood without understanding the meaning of public enterprises, hence the need to define public enterprises. This study examined and reviewed a number of definitions as given by renowned scholars of public enterprises. Efange (1987), for instance, defines public enterprises as institutions or organisations which are owned by the state or in which the state holds a majority interest, whose activities are of a business in nature and which provide services or produce goods and have their own distinct management. Obadan & Ayodele (1998) define public enterprises as organisations whose primary functions are the production and sale of goods and/or services and in which government or other government controlled agencies have no ownership stake that is sufficient to ensure their control over the enterprises regardless of how actively that control is exercised. Privatization can be defined as the process of transferring productive operations and assets from the government who holds them in trust for the public to private individuals and entities. Privatization has been defined as transaction or transactions that result in a transfer, other than to a public entity, of the assets of a public entity including the shares in a state corporation (Kenyan Government, 2005). According to Bradley (1979), State corporations are public bodies in which the government holds more than fifty percent share capital, or which are controlled by and report to the state. Privatization goes beyond mere selling of an enterprise and reflects more as marketization of enterprises (World Bank, 1995b). Privatization can be achieved through ownership changes, organizational changes, and operational changes. Privatization is a political as well as a commercial process with checks and balances to be made to realize its intended objective. The main reasons advanced for embracing privatization by many countries is to reduce the fiscal burden, develop the private sector, broaden ownership of wealth and raise revenue for the government.

The inefficiency in provision of goods and services by public investments led to the facts and belief by privatization theorists like Chong and López-de-Silanes (2003) that in competition, firms act efficiently to reduce cost while providing superior goods and services to the society. Arguments in favor of privatization are primarily based on productivity and efficiency issues. There are two important assumptions on the effects of privatization. First, it is expected that once a firm is privatized, its efficiency and productivity rating will improve. Second, it is also implied that denationalization is accompanied by industry’s liberalization (Ramamurti 2000; Megginson, Bortolotti et al. 2002).

Yarrow (1986) indicated that privatization was first argued by Adam Smith in the year 1776. Privatization was therefore not new in the world economics. There were important privatization programs in West Germany in the early 1960s and in Chile during the 1970s (Guriev and Megginson, 2005). They also realized that state-ownership of business enterprise was pervasive and growing during those periods. But it was late 1970s, when there was growing disappointment with the dismal performance of state-owned companies, as well as the growth slowdown in the socialist countries. This situation prompted the first privatization attempts by Britain's conservative Thatcher government.

The tide began to turn against state investments in the latter half of the twentieth century when the folly of socialism and communism approach became apparent through bloated bureaucracies, sluggish economies, stifling taxes, and failing government programs. Intellectuals, policymakers, and citizens became increasingly interested in market-based policy solutions to improve the efficiency and performance of government. It is in this context that the concept of privatization began to flourish (Reason Foundation's, 2006). The global wave of privatization therefore started in the United Kingdom in 1979. British Telkom was the first large British privatization to take place. This was followed by Organization for Economic Co-operation and Development (OECD) countries and developing countries such as Argentina, Canada, Chile, France, Italy, Germany, New Zealand and Spain. Most of the world privatization programs have been implemented on a case by case basis. In general, these programs seek to increase efficiency, expose state enterprises to market discipline and best practices, promote wider share ownership and entrepreneurship, reduce government interference in the economy, strengthen competition and weaken monopolies, develop domestic capital markets, cut budget deficits, and reduce public and external debt (World Bank, 1998). The largest privatization in history took place in Russia between 1992 and 1995 when as many as 75,000 small and medium scale enterprises were auctioned, 14,000 medium to large scale firms were sold and 130 to 140 million new shareholders were created (IFC, 1995).

Privatization theorists like (Cuervo and Villalonga 2000; Megginson 2000; Bortolotti, D'Souza et al. 2001; Megginson and Netter 2001; Chong and López-de-Silanes 2003) reasoned that where there is competition, firms act efficiently to reduce cost while providing goods and services to the society. These arguments are built on the premise that profit seeking companies would perform better and at lower costs than public enterprises in providing goods and services to the society. Opponents of privatization however argue that denationalization would reduce the range of services and induce price increase thus affecting the economic welfare of the society due to profit maximization by private firms, at worse, privatization can lead to monopoly or monopolistic tendencies.

Although there exists one premise in economics that ownership does not matter, and that performance among firms would not differ from each other in markets with complete information, perfect competition and complete contracts, it should be noted that in principle, as markets fails, state ownership is justified under non-competitive situations such as natural monopolies in which the presence of one firm is not justified on 'efficiency grounds' (Sheshinski and López-Calva, 1999:5). This so-called social view considers that private provision of such services could lead to monopolistic behavior at the expense of both the consumer and the government.

There are two important assumptions on the effects of privatization. First, it is expected that once a firm is privatized, its efficiency and productivity rates will improve. Second, it is also implied that denationalization is accompanied by industry's liberalization. From this stand, many studies (Ramamurti 2000; Megginson, Bortolotti et al. 2002; Chong and López-de- Silanes 2003) affirm that increases in efficiency and productivity are strongly related with performing in competitive environments. It has also been argued that SOEs in competitive industries have similar performances to their private counter parts (Yarrow, 1991:117).

Stiglitz (1994) makes a fundamental argument that privatization is far less important than market structure. Market structure is unlikely to resemble the rarefied world of perfect competition imagined by the neoclassicals. Instead it will be a world of imperfect competition, whose imperfections are heightened once we acknowledge the role of information gaps and asymmetries. Nonetheless, in many cases this market structure need not contain no competition. Stiglitz argues that traditional mainstream theory on privatization is weak, that it is based on perfect competition assumptions and neglects information imperfections. Stiglitz posits that there is no strong theoretical justification a priori for privatization. However, in practice there are substantial benefits to privatization: privatization decreases the transaction costs of securing government protection and subsidy; there probably are better management oversight possibilities within the commercial sector;

and privatization allows for selection of efficient entrepreneurs through market-orchestrated weeding out. Stiglitz however argues that privatization may not be the most important policy, he points out that Chinese rapid economic growth has not been driven by privatization (1998b). To the extent that privatization is still extremely important, what really matters is that it is folded into a competition policy. In other words, privatization is subservient to creating an effective competitive environment that needs still to be watched over by the state.

1.1.3 Overview of Divestiture

Divestiture is used in the sense of the transfer of state ownership to the private sector wholly or in part. The private sector owners may be national or international companies, groups or individuals. In the literature some attempt is made to distinguish between privatization and divestiture. For example, under privatization, Boubakri and Cosset (1999) include the following: (a) promotion of market liberalization, liberalization of prices and trade and encouragement of competition in the economy; (b) transfer of operations of state-owned assets to private or non-state entrepreneurs including contracting out services; and (c) sale of state-owned assets to private investors. However, it is important to distinguish between the promotion of private sector development generally by the state and privatization. Privatization involves the transfer of ownership of state enterprises (SOEs), land and assets into private hands (World Bank, 1996). In the sense that privatization involves the sale of all or parts of government equity in SOEs, it becomes synonymous with divestiture. Thus, privatization and divestiture are used interchangeably in many instances.

1.2 Background of the study

On the realization in 1970's that the Kenyan government investments were not doing well as was expected, several administrative and regulatory interventions were thereafter introduced by the government to protect the ailing public enterprises. Among them was the formation of Parastatal Advisory Committee (PAC) and the enlargement of the role of Inspectorate of State Corporations (ISC) in 1979 to serve as a trouble shooting, management audit and consulting services for parastatals. In 1982, the government released the findings of the working party on public expenditure, which detailed many serious deficiencies in the financial and economic performance of Public Enterprises (PE). The report suggested a series of reforms and proposed the possibility of reducing the role of Public Enterprises and replacing it with increased private sector activity. The reforms measures pursued by the

Kenyan government from 1982 followed a firm-by-firm approach. These reform measures were slow and uncoordinated, thus the need for a comprehensive Public Enterprises Reform Programme (PERP) with well identified core elements and clear policy guidelines. Many other efforts have been made since then, and they have yielded varying results which included the setting up of Privatization Commission (PC).

Privatization Commission is a body corporate established under the Privatization Act, 2005 to implement Kenya's Privatization Programme. The Commission is mandated to: Formulate, manage and implement the Privatization Programme; Make and implement specific proposals for privatization in accordance with the Privatization Programme; Carry out such other functions as are provided for under the Privatization Act; and Carry out such other functions as the Commission considers advisable to advance the Privatization Programme. In enforcing its mandate, the Commission need to undertake several researches to help refine its privatization approaches and processes. It is for this reason that the commission has embarked on a study entitled “Comparative analysis of privatization and government divestiture with focus on Kenya and nine selected countries across the globe.

1.3 Statement of the Problem

While privatization has been going on in Kenya and other countries of the world for several decades now, different approaches have been applied in the past. Privatization has also taken place in different economic environment and geographical conditions, moreover, varying privatization processes have been applied depending on the situation. These privatizations have faced different challenges. Privatization was an economic ideology which was sold and bought by government and scholars after disenchantment with governments involvement in businesses following the end of world war II. While some scholars and practitioners embraced it, others remained skeptical claiming that the economic ideology of privatization was oversold. Various researchers from local Kenyan scene and external have researched on various aspect of privatization with mixed results. Below is a summary of some of the researches done on privatization.

Table 1.1 Summary of studies on privatization

Authors	Methodology	Main findings
Studies done in Kenya		
Samuel Oyieke. (2002). Kenya Airways: A case study of privatization. AERC Research Paper 119 African Economic Research Consortium, Nairobi.	A case study of privatization of Kenya Airways	The findings of the study demonstrate clearly that successful privatization is possible. The study concludes that privatization can achieve its objectives if conducted systematically and transparently.
David L. Ngarama (2010) "Dealing with Resistance to Privatization". Privatization Commission, Nairobi, Kenya.	The study used secondary data and information collected through an intensive desk review of literature on privatization. Most of the literature is downloaded from the internet.	Winning the support of employees is essential to successful privatizations. Privatization must be based on transparent and competitive bidding, with the criteria for selecting buyers carefully specified in advance. Distributing privatization vouchers to citizens to be redeemed for shares can also help reduce resistance.
Zipporah Thambu. (2006). Privatization and performance of public corporations listed in the Nairobi Stock Exchange. Unpublished MBA Thesis, University of Nairobi.	The study was a census survey. The target population was public corporations that were privatized and listed in the Nairobi Stock Exchange. Both primary and secondary data were used in this study. Primary data was collected through structured questionnaire. Descriptive statistics such as percentages, frequency tables, mean scores, standard deviation and cross-tabulation were used to analyze the data.	The empirical results show that appropriate policies were taken before privatization strategy was implemented and the goals for privatization were also set. Further, the results show that majority of the public corporations were privatized through initial public offer. The study established that after privatization, public corporations listed in the Nairobi Stock Exchange perform better than before. The study recommends the need to emphasis on setting privatization goals and formulating appropriate policies before implementing

	This was then interpreted to show the relationship between the privatization and performance.	privatization strategy.
Developing Countries		
Bernal, Richard L., and Winsome J. Leslie. 1999. "Privatization in the English-Speaking Caribbean: An Assessment." CSIS Policy Papers on the Americas. X (7). http://www.csis.org/americas/ pubs/privAssessment.pdf	This study analyzes privatization initiatives in the English-speaking Caribbean. It examines the various modalities which countries have utilized for private sector involvement in the state sector and examines the impact on employment, economic efficiency, and the availability of goods and services.	Overall, privatization has had positive effects in the Caribbean. There have been net gains in terms of employment. Initial divestment of agricultural lands in Jamaica, for example, resulted in employment increases of 150 percent. As a result, the trade unions have been generally supportive of the government's efforts. Efficiency and company performance have improved. In the hotel sector in Jamaica, for example, occupancy levels in privatized hotels are now over 85 percent, as a result of aggressive marketing strategies, tighter management, and physical refurbishing. Privatization has contributed significantly to the reduction in fiscal deficits, not only because of the initial injection of funds after sale, but also due to the elimination of government financing for unprofitable enterprises. Privatization has also brought foreign exchange from foreign as well as local investors.
Boubakri, Narjess, and Jean-Claude Cosset. 1998. "The Financial and Operating Performance of Newly Privatized Firms: Evidence From	The study compares three-year average post-privatization financial and	The study concludes that there are economically, and statistically significant post-

Developing Countries." Journal of Finance. 53: 1081-1110.	operating performance ratios to the three-year pre-privatization values for 79 companies from 21 developing countries and 32 industries over the period 1980-1992.	privatization increases in output (real sales), operating efficiency, profitability, capital investment spending, dividend payments, and employment as well as significant decreases in leverage.
Boubakri, Narjess, and Jean-Claude Cosset. 1999. "Does Privatization Meet the Expectations? Evidence From African Countries." Working Paper. Montreal: Ecole des HEC.	The study examines pre- versus post-privatization performance of 16 African firms privatized through public share offering during the period 1989-1996.	It finds a significant increase in capital spending by privatized firms, but only insignificant changes in profitability, efficiency, output and leverage.
Jones, Leroy, Yahya Jammal, and Nilgun Gokur. 1999. "Impact of Privatization in Côte D'Ivoire." Mimeo. Boston Institute for Developing Economies.	The study covers the welfare consequences of 81 privatizations in Côte d'Ivoire, covering not just infrastructure firms but a range of firms already operating in competitive markets (in agriculture, agro-industries, tradable and non-tradable sectors).	For the entire privatized sector, they concluded that there were substantial benefits: (i) the firms performed better after privatization; (ii) they performed better than they would have had they remained under public ownership; and (iii) the set of transactions as a whole contributed positively to economic welfare, with annual net welfare benefits equivalent to about 25 percent of pre-divestiture sales. These results stemmed from a number of effects, including increases in output, investment, labor productivity, and intermediate input productivity.
La Porta, Rafael, and Florencio Lopez-de-Silanes. 1997. "The Benefits of Privatization: Evidence from Mexico." NBER Working Paper 6215. Cambridge, MA:	Criticisms of privatization have centered around the possibility that the observed higher	The authors find that privatized firms quickly bridge the pre-privatization performance gap with industry

National Bureau of Economic Research. http://papers.nber.org/papers/W6215.pdf	profitability of privatized companies come at the expense of the rest of society. In this paper, the authors focus on two of the most likely channels for social losses: a) increased prices as firms capitalize on the market power; and b) layoffs and lower wages as firms seek to roll back generous labor contracts. This study uses data for all 218 non-financial privatizations that took place in Mexico between 1983 and 1991.	matched control groups. For example, privatization is followed by a 24-percentage point increase in the ratio of operating income to sales. Those gains in profitability are roughly decomposed as follows: 10 percent of the increase is due to higher product prices; 33 percent of the increase represents a transfer from laid-off workers; and productivity gains account for the residual 57 percent. Transfers from society to the firm are partially offset by taxes which absorb slightly over half the gains in operating income. Finally, they also find evidence indicating that deregulation is associated with faster convergence to industry benchmarks.
Macedo, Robert. 2000. "Privatization and the Distribution of Assets and Income in Brazil." Working Paper. Carnegie Endowment for International Peace.	This paper focuses on the Brazilian privation program undertaken in the 1990s.	The paper concludes that privatization contributed to softening both the fiscal and the external constraints, by allowing an enlarged public debt and aggravating foreign imbalances. Because of macroeconomic mismanagement, the objectives of reducing the public debt was not achieved. In spite of the size of the program, the government ended up with increased liabilities. With respect to income distribution, the paper concludes that it was also aggravated, since the poorest groups did not

		have access to the assets and the gains of privatization and will in the end share in the payment of an increased public debt and of a larger interest bill. The better off, on the contrary, reaped the benefits of privatization, and of the larger interest rates practiced by the government. Some correction of these distortions might occur depending on how the government spends the higher tax receipts it is collecting from the former SOEs, as they become more efficient and profitable, a performance also supported by the evidence presented in the paper.
Majumdar, Sumit K. 1996. "Assessing Comparative Efficiency of the State-Owned, Mixed, and Private Sectors in Indian Industry." Public Choice. 96: 1-24.	The study looks into the performance of Indian SOEs, mixed ownership enterprises and private firms during 1973-1989.	Industry-level survey data reveals efficiency scores averaging 0.975 for privately-owned firms, which is significantly higher than both mixed ownership firms (0.912) and SOEs (0.638). Any state sectors improvement is caused by concerted "efficiency drives," but quickly declines afterwards.
Shirley, Mary M. 1998. "Why Performance Contracts for State-Owned Enterprises Haven't Worked." Public Policy for the Private Sector Note 150. Washington D.C.: The World Bank. http://www.worldbank.org/html/fpd/notes/150/150shirl.pdf	A study of performance contracts, looking at 12 enterprises in 6 developing countries	This study shows that only a few cases actually improved performance (in terms of labor productivity and total factor productivity) after signing performance contracts. On the whole performance was unchanged, with a few enterprises actually

		showing declining performance. The contracts are found to have many flaws in that they assign soft or inappropriate measures of economic performance (e.g. output – which takes no account for productivity and can therefore lead to inefficiency in achieving the goal). To combat these problems contracts must reduce the information advantage of managers over owners, and thus lead to appropriate targets being set. Incentives provided to managers must also motivate them. Many contracts in the study do not include either bonuses or punishments for underachievement. Lastly, the bonuses that are included must be enforceable. Contracts in the study that included bonuses did not allow the managers to take the state to court if they failed to pay. Once these three items are included in a contract it has been shown that performance improves.
USAID. 2000. "The Post Privatization Development of Former Law 203 Companies: 15 Case Studies." Special Study for USAID by CARANA Corporation. Washington D.C.: United States Agency for International Development.	This study evaluates the post privatization performance of 15 former SOEs in Egypt, examining the degree to which the firms are independent of the state after privatization.	Three of the 12 companies were noticeably reformed after privatization as control was passed to the private sector and corporate governance were improved. Six firms are in a transitional phase with new shareholders having implemented

		changes in business strategies, though the essential management structure and corporate culture remained fundamentally unchanged. The remaining six remained under state control despite privatization. The main reason for the mixed performance of the 12 companies is that while 51 percent of more equity was sold, the state still remained as the largest single shareholder in the enterprise, giving it a disproportionately large voice in decision making.
Transition Economies		
Barberis, Nicholas, Maxim Boycko, Andrei Shleifer, and Natalia Tsukanova. 1996. "How Does Privatization Work? Evidence from the Russian Shops." Journal of Political Economy. 104: 764-790.	The study surveys 452 Russian firms that were sound at the beginning of the 1990s and attempts to measure the relative importance of the channels through which privatization can promote restructuring.	The authors find that new owners and managers increase the chance of restructuring that increases value. They emphasize the importance of new human capital in the restructuring process and find that equity incentives do not improve performance.
Black, Bernard, Reinier Kraakman, and Anna Tarassova. Forthcoming. "Russian Privatization and Corporate Governance: What Went Wrong?" Stanford Law Review.	A descriptive survey of the history of privatization in Russia. Several specific cases are analyzed in more detail.	The authors find that privatization has created a "kleptocracy" and has failed. They emphasize the importance of decreasing incentives for self -dealing when programs of privatization are designed.
Brada, Josef C. 1996. "Privatization is Transition--Or is it?" Journal of Economic Perspectives. 10: 67-86.	This study sets out the different methods of privatization.	Privatization can occur in a number of ways, through restitution, sale of state property, mass or voucher privatization and privatization from below. The author finds that

		there are two key lessons when looking at privatization in transition economies. Firstly the method of privatization must vary according to the specific SOE and no “grand design” can be drawn up for privatizing a host of enterprises. In some cases, the majority of SOEs can only be realistically privatized by giving them away. The second lesson is that it is difficult to achieve ownership by outsiders.
Claessens, Stijn, and Simeon Djankov. 1999a. “Enterprise Performance and Management Turnover in the Czech Republic.” European Economic Review. 43: 1115-1124.	The study uses a sample of 706 privatized Czech firms during 1992-1997 to examine the effect of management turnover on changes in profitability and labor productivity.	When new managers are appointed by private sector owners there is a significant improvement in profit margins and labor productivity. New managers that are appointed by the National Property fund also improve performance but not by as much.
Claessens, Stijn, and Simeon Djankov. 1999b. “Ownership Concentration and Corporate Performance in the Czech Republic.” Journal of Comparative Economics. 27: 498-513.	Using the same sample data as above this study looks at the relationship between ownership concentration and profitability and labor productivity.	Concentrated ownership is found to be linked with higher profitability and labor productivity. The authors also find that non-bank-sponsored investment funds improve performance more than bank-sponsored funds.
Djankov, Simeon. 1999a. “Ownership Structure and Enterprise Restructuring in Six Newly Independent States.” Comparative Economic Studies. 41(1): 75-95.	The author examines the relationship between ownership structure and firm restructuring for Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia and Ukraine. The sample contains 960	It is found that when foreign ownership is significant (greater than 30 percent), it is positively related to restructuring. Managerial ownership is positively related to restructuring at low levels (less than 10 percent) and high levels of ownership but is negative in between.

	firms privatized between 1995 and 1997 in these countries.	Employee ownership is found to be insignificant except at low levels of ownership where it has a positive effect.
Djankov, Simeon. 1999b. “The Restructuring of Insider-Dominated Firms: A Comparative Analysis.” Economic Transition. 7(2): 467-479.	Using the same survey data as above this study looks at the effects of different privatization patterns on the process of restructuring. Georgia (92 firms) used voucher privatization, while most Moldovan firms (149 firms) were either purchased by investment funds or sold for cash to managers.	Management buyouts are positively correlated with enterprise restructuring. Firms that are privatized through vouchers do not restructure any more rapidly than state owned firms. This implies that incentives to restructure are weaker when manages are given firms for free, since their income is not wholly based on the success of the firm.
Djankov, Simeon, and Peter Murrell. 2000. The Determinants of Enterprise Restructuring in Transition: An Assessment of the Evidence. Washington D.C.: The World Bank (see also Djankov, Simeon, and Peter Murrell. 2000. “Enterprise Restructuring in Transition: A Quantitative Survey.” Washington D.C.: The World Bank).	The authors identified more than 125 empirical studies that examine the determinants of enterprise restructuring. The paper provides a comprehensive review of the empirical results of privatization in transition economies using the data generated by these studies.	Private ownership produces more restructuring than state-ownership in Central and Eastern Europe. In contrast, evidence is mixed for the Commonwealth of Independent States (CIS) countries. The privatization effect in the non-CIS countries is more than twice the size of that in the CIS countries. Privatization to foreign owners is ten times as productive as privatization to diffuse individual owners. State ownership within traditional state firms is the least effective type of ownership. State ownership in

		commercialized enterprises, however, is quite effective. Product market competition has been a major force behind improvements in enterprise productivity in transition economies. Privatization, hardened budget constraints, and product market competition all appear to be important determinants of enterprise restructuring in non-CIS countries, while they are less obviously so in the CIS. The evidence suggests that the difference in impact is due to the varying degree of institutional development between the regions.
Djankov, Simeon, and Gerhard Pohl. 1997. "Restructuring of large Firms in Slovakia." The William Davidson Institute Working Paper No. 73. The University of Michigan Business School.	This paper records the restructuring actions and ownership changes of firms in Slovakia. The case studies were selected to give a wide range of initial conditions, and privatization techniques.	The authors find that the majority of large Slovak firms have successfully restructured without the need for foreign investors and government-led restructuring programs. Also, they find that privatization to insiders did not hamper restructuring as the managers invested heavily in new technology, laid off large numbers of workers, looked for foreign partners and were prepared to sell controlling stakes to outsiders in return for new financial resources. These findings support the view that privatization programs should aim to speedily transform ownership and not be

		overly concerned with the selection of perfect owners.
Earle, John. 1998. “Post- Privatization Ownership and Productivity in Russian Industrial Enterprises.” SITE Working Paper 127. Stockholm, Sweden: Stockholm Institute of Transition Economics.	Looks into the ownership structure and its impact upon labor productivity in Russian industrial firms. The survey sample includes 86 firms that were 100% state-owned, 299 that were partially privatized and 45 that were newly created. The 1994 survey data examines the impacts of insider, outsider or state ownership upon the performance of the firm.	The authors use ordinary least squares regression to show a positive effect of increased private ownership upon labor productivity. However only outsider ownership is significantly related with such changes. The authors conclude that placing insiders in control of a firm has negative long-run implications for restructuring.
Earle, John S., and Saul Estrin. 1998. “Privatization, Competition, and Budget Constraints: Disciplining Enterprises in Russia.” SITE Working Paper 128. Stockholm, Sweden: Stockholm Institute of Transition Economics.	The authors used a 1994 survey data to examine whether privatization, competition and hardening of budget constraints play efficiency enhancing roles in Russia.	They find that 10 percentage point increase in private share ownership raises real sales per employee by 3-5 percentage points. Subsidies (soft budget constraints) reduce the pace of restructuring in state owned firms.
Dyck, I. J. Alexander. 1997. “Privatization in Eastern Germany:Management Selection and Economic Transition.” American Economic Review. 87: 565-597.	This study looks into the Treuhand’s role in restructuring and privatizing eastern Germany’s SOEs. The Treuhand is unique in that it privatized more than 13,800 firms and parts of firms and had the resources to pay for the restructuring itself, but never actually did so.	The author attempts to rationalize this approach and finds that those firms owned by western firms were much more likely to bring in western managers into key position than SOEs. Treuhand is also found to have attempted to open sales to all buyers rather than favoring eastern Germans. In conclusion privatization plans that are open to western buyers and allow

	Instead it sold quickly to existing western firms rather than giving the SOEs away or selling them to capital funds.	management change are more likely to exhibit improved performance in the firm.
Fischer, Stanley, and Ratna Sahay. 2000. "The Transition Economies After Ten Years." IMF Working Paper WP/00/30. Washington D.C.: International Monetary Fund.	The paper summarizes the macroeconomic performance of the transition economies, accounting for the widely differing outcomes in the 25 countries covered in the study.	The most successful transition economies are those that have both stabilized and undertaken comprehensive reforms, and the more and faster reform is better than less and slower reform. The study concludes that both stabilization policies and structural reforms, in particular privatization, contribute to growth.
Frydman, Roman, Cheryl Gray, Marek Hessel, and Andrej Rapaczynski. 1998. "The Limits of Discipline: Ownership and Hard Budget Constraints in the Transition Economies." Mimeo. http://www.ihs.ac.at/publications/tec/ te-5.pdf.	A sample of medium sized manufacturing firms in the Czech Republic, Hungary and Poland is used in order to discover the impact of financial. discipline on governance related deficiencies. The authors argue that although financial discipline restrict waste and force better cost management, there is a limit to what it can achieve. Instead they put forward that the firm's ultimate success is due to the level of inventiveness, creativity and readiness to accept risk.	SOEs are found to represent significantly higher credit risks than private or privatized firms due to inferior revenue performance and the softer budget constraints they face. Since both of these factors act in tandem it is not simply enough to impose harder budget constraints while the SOE is still not able to generate enough revenue to repay obligations. The authors therefore recommend that budget constraints should only be hardened if accompanied by speedy privatization.
Frydman, Roman, Cheryl Gray, Marek	Compares the	The evidence in the report

Hessel, and Andrej Rapaczynski. 1999. "When Does Privatization Work? The Impact of Private Ownership on Corporate Performance in Transition Economies." Quarterly Journal of Economics. 114(4): 1153-1191.	performance of privatized and state firms in the Czech Republic, Hungary and Poland using a sample of 218 mid-sized manufacturing firms. 90 of these firms were under state control and 128 had been privatized. The report focuses on four aspects of performance: sales revenue, employment, labor productivity, and labor and material costs. The authors employ panel data regression in order to single out ownership effects.	suggests that firms that are privatized and controlled by outside owners experience enhanced revenue and productivity, while those controlled by insiders do not see any significant difference. Domestic financial companies and foreign owners add 18 and 12 percentage points respectively to the annual growth rate of the firm. Outside owners also add 9 percentage points to productivity growth. Other findings conclude that these gains do not come at the expense of increased unemployment and that insider-controlled firms are much less likely to restructure.
Frydman, Roman, Marek Hessel, and Andrzej Rapaczynski. 2000. "Why Ownership Matters? Entrepreneurship and the Restructuring of Enterprises in Central Europe." The Center for Law and Economic Studies Working Paper 172. New York: Colombia University School of Law.	The study looks at survey data from 506 manufacturing firms in the Czech Republic, Hungary and Poland. Compares outsider, insider, and state ownership effects on entrepreneurship by looking at ability to increase revenues in privatized firms.	The authors find that all state and privatized firms conduct similar types of restructuring. Firms owned by outside investors have significantly better results when conducting product re-structuring. The authors conclude that outsider owned firms are more entrepreneurial due to incentive, rather than human capita, effects that are brought about by privatization.
Frydman, Roman, Cheryl W. Gray, Marek Hessel, and Andrzej Rapaczynski. 1997. "Private Ownership and Corporate Performance: Some Lessons From Transition Economies." Policy Research Working Paper 1830. Washington D.C.: World Bank. http://econ.worldbank.org/docs/628.	The study is based on a large sample of mid-sized firms in the Czech Republic, Hungary and Poland. It compares the performance of privatized and state	There is strong evidence that private ownership - except worker ownership dramatically improves corporate performance. Privatization is associated with employment increases.

pdf.	firms.	
Groves, Theodore, Yongmiao Hong, John McMillan, and Barry Naughton. 1994. “Autonomy and Incentives in Chinese State Enterprises.” Quarterly Journal of Economics. 109: 183-209.	This study looks at changes that occurred in Chinese firms when output decisions were shifted from the government to the firm, and when firms were allowed to retain more of their profits.	They find that this led to managers paying more in bonuses and hiring more workers on fixed term contracts. These incentives led to an increase in productivity. The greater autonomy therefore raised workers’ wages and investment in the firm.
Havrylyshyn, Oleh, and Donald McGettigan. 1999. “Privatization in Transition Countries: A Sampling of the Literature.” IMF Working Paper WP/99/6. Washington D.C.: International Monetary Fund. http://www.imf.org/external/pubs/ft/wp/1999/wp9906.pdf.	The paper reviews a selection of studies on privatization experiences in transition countries. As transition has continued and as more empirical studies have been undertaken, it appears that the view that privatization was not central for restructuring and firm performance has been largely discredited.	Two clear lessons emerge from the literature: Private enterprises almost invariably outperform state-run companies. In other words, any privatization is better than none, regardless of whether a stable, competitive environment has been established first or not; Private companies that started from scratch rank as the best performers, followed by newly privatized firms run by outsiders, either local or foreign. Privatized companies dominated by insiders are least efficient and productive, but even these regularly do better than state enterprises. It is tempting to conclude that the general market and competitive environment is more important than the method of privatization. Eventually, evidence may support this, but the research so far does not permit such a conclusion. Two findings argue in favor of it: (I) start-up firms outperform others no

		matter what privatization method is used; and (ii) the success of Central European private sector development relative to the former Soviet Union countries partly reflects a better property rights business environment. Perhaps the most important lesson after a decade of transition in the centrally planned economies to market oriented systems is that private sector development can surely be rated a success. Despite a handful of reversals as well as slowdown in 1998, most transition countries are now recording growth in output the bottom-line indicator of trends in efficiency.
Kornai, János. 2000. "Ten Years after 'The Road to a Free Economy': The Author's Self -Evaluation." Working Paper. Cambridge, MA: Harvard University. http://www.worldbank.org/research/abcde/washington_12/pdf_files/10years.pdf	Looks at the privatization process in Hungary.	The author suggests that hard budget constraints are just as important as privatization, liberalization and stabilization. He argues that harder budgets constraints act as a selection process. Those that are profitable can be sold, while those that are not must be allowed to go bankrupt rather than be given away.
Lizal, Lubomir, Miroslav Singer, and Jan Svejnar, 2001, "Enterprise Break-ups and Performance During the Transition from Plan to Market," Review of Economics and Statistics. 83(1): 92-99.	This study looks at the effect on performance effects that the breakup of Czechoslovak SOEs had including both the master firm and the spin offs. The sample contains 635	In 1991 it is found that the break-ups had positive effects straight away for both master and spin off if the firm was either medium or small in size. Larger firms suffered negative effects. There are similar results for the

	firms from 1991 and 1992.	break-ups that occurred in 1992 but they are not statistically significant.
Nellis, John. 1999. “Time to Rethink Privatization in Transition Economies?” IFC Discussion Paper 38. Washington D.C.: International Finance Corporation. http://www.ifc.org/economics/pubs/dp38/dp38.pdf	The paper reviews the accomplishments and shortcomings of privatization in transition economies.	Countries in Central and Eastern Europe and the Baltic states - closer geographically, historically and culturally to Western commercial traditions and markets - have generally privatized more swiftly and with much better results than their more Eastern counterparts. Too much was expected and promised of privatization in institutionally weak transition economies where the speedy, massive, insider oriented forms of privatization have generally not, so far, led to the restructuring required to allow firms to survive and thrive in competitive market operations. Re-nationalization would be a desperate measure, with a high likelihood of failure because the forces and conditions that lead governments to fail in privatization are the same that prevent effective and efficient SOE management.
Pinto, Brian, Marek Belka, and Stefan Krajewski. 1993. "Transforming State Enterprises in Poland: Evidence on Adjustment by Manufacturing Firms." Brookings Papers on Economic Activity. 1: 213-270.	This study surveys 75 SOEs from Poland from 5 different manufacturing sectors covering the period 1989-1992. This period looks at the 6 months prior to the reform program and two	The experiences of Poland show that rapid change of ownership can have valuable effects by giving unambiguous signals changing relative prices and indicating a commitment to hard budgets. The study also shows that restructuring before

	and a half years into it. At the start of the survey all of the firms were SOEs. By 1992, 3 had been privatized and 24 commercialized.	privatization can have an impact that is just as great.
Pivovarsky, Alexander. 2001. "How Does Privatization Work? Ownership Concentration and Enterprise Performance in Ukraine." IMF Working Paper WP/01/42. Washington D.C.: International Monetary Fund.	This paper uses data from 376 medium and large Ukrainian enterprises to investigate the relationship between ownership concentration and enterprise performance.	The authors find that ownership concentration is positively correlated with enterprise performance in Ukraine, and that ownership by foreign companies and banks is associated with better performance over domestic owners.
Pohl, Gerhard, Robert E. Anderson, Stijn Claessens, and Simeon Djankov. 1997. "Privatization and Restructuring in Central and Eastern Europe: Evidence and Policy Options." World Bank Technical Paper 368. Washington D.C.: World Bank.http://www.worldbank.org/ecspf/final/html/papers/entr509.htm	The study analyzes the financial and operating data (1992-1995) for more than 6,300 industrial firms in seven countries: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic, and Slovenia. An econometric analysis measuring changes in total factor productivity is used to identify the government policies that most encouraged firms to restructure.	Privatization has a large impact on restructuring. On average, a firm that has been privatized for four years will increase productivity 3-5 times more than a similar firm that is still in state ownership.
Sachs, Jeffrey, Clifford Zinnes, and Yair Eilat. 2000. "The Gains from Privatization in Transition Economies: Is Change of Ownership Enough?" CAER Discussion Paper 63. Cambridge, MA: Harvard Institute for International Development. http://www.hiid.harvard.edu/caer2/htm/content/papers/confpubs/paper63/paper63.pdf	The authors examine the empirical evidence across 24 countries to determine whether change-of-title alone has been sufficient to achieve economic performance gains	Privatization involving change-of-title alone is not enough to generate economic performance improvements. While reforms directed at prudential regulation, corporate governance, hardening of enterprise

	or whether other factors (e.g. institutions to address agency issues, hardening budget constraints, market competitiveness, and de-politisization of firm objectives as well as the implementation challenge of developing institutions and a regulatory framework to address them) are important.	budget constraints, management objectives, and developing capital markets contribute to economic performance on their own, the real gains to privatization come from complementing the above with change-of-title reforms. The higher the level of prerequisite reforms, the more positive is the economic performance impact from an increase in change-of-title privatization. In fact the study finds a threshold level of reforms in order for change-of-title privatization to have a positive economic performance response. The conclusion is that while ownership matters, institutions matter as much.
Shirley, Mary M., and Lixin Colin Xu. 2000. "Empirical Effects of Performance Contracts: Evidence from China." Paper presented at a Senior Experts' meeting on Corporate Governance of Stateowned Enterprises in China in Beijing, on January 18-19, 2000.	This study examines the performance contracts issued in China and their effects on productivity.	The large sample of manufacturing firms shows that on average these contracts do not improve performance. However, improvements did occur in 38 percent of the firms in the study, and these occurred where the performance contract provided sensible targets, stronger incentives, longer terms and were based in more competitive industries.
Smith, Stephen C., Beon-Cheol Cin, and Milan Vodopivec. 1997. "Privatization Incidence, Ownership Forms, and Firm performance: Evidence From Slovenia." Journal of Comparative Economics. 25: 158-179.	This study examines the impact of foreign and employee ownership on firm performance using a sample of 22,735 firm-years of	The authors find that a one percentage point increase in foreign ownership brings about a 3.9 percent increase in value-added, while employee ownership adds

	data from Slovenia (1989- 1992).	1.4 percent to value-added. Firms with higher revenues, profits and exports are also found to be more likely to have foreign and employee ownership.
Developed Countries		
Allen, Franklin, and Douglas Gale. 1999. "Corporate Governance and Competition." Working Paper. Philadelphia, PA: Wharton School, The University of Pennsylvania. http://fic.wharton.upenn.edu/fic/wfic/papers/99/9928.pdf	An overview of the effectiveness of different corporate governance strategies and competition.	The corporate governance systems operating in different countries are distinct. In the U.S. and U.K., it is often argued that the threat of takeover ensures managers act in the shareholders' interests. In countries such as Germany, Japan, and France it is suggested banks and other institutions act as monitors. There is some evidence that neither system is particularly effective. The authors argue that competition among firms may be more effective than either of these mechanisms in ensuring that resources are used efficiently.
Boardman, Anthony E., Claude Laurin, and Aidan Vining. 2000. "Privatization in Canada: Operating, Financial and Stock Price Performance With International Comparisons." Working Paper. University of British Columbia, Vancouver.	This study looks at the performance of nine Canadian firms privatized between 1988 and 1995. A variety of 3-year post privatization ratios are compared to 5- year pre privatization values. Long-run stock returns are also calculated for the divested firms.	Return on sales or assets more than double after privatization and efficiency, sales and capital spending also increase significantly. Leverage and employment decline significantly as well. Over long term periods the privatized firms outperform the Canadian stock market.
Davidson, Richard. 1998. "Market Analysis: Underperformance Over?" Privatization International Yearbook.	The author examines SIPs from Austria, France,	The results show a long period of market underperformance (1-

London: IFR Publishing.	Italy, Spain and the UK, looking particularly at 1, 3, 5, and 10-year market adjusted returns. The study focuses on the period up until March 1997.	1.5% p.a.) until the last 12 months of the study where SIPs outperform European market averages.
Kay, J.A., and D.J. Thompson. 1986. "Privatization: A Policy in Search of a Rationale." Economic Journal. 96: 18-32.	An overview of privatization in Britain.	This report concludes that while privatization in Britain has been the most popular way in which to boost the performance of previously state-owned enterprises, the promotion of competition can have effects that are just as beneficial. This is particularly true if a natural monopoly exists within a particular industry. Franchising in particular is an effective way of introducing competition. The main difficulty in achieving this is resistance from the incumbent management which, the authors argue, is why privatization has become such a widespread means of improving SOE performance.
General		
Barnett, Steven. 2000. "Evidence on the Fiscal and Macroeconomic Impact of Privatization." IMF Working Paper WP/00/130. Washington D.C.: International Monetary Fund. http://www.imf.org/external/pubs/ft/wp/2000/wp00130.pdf	The study investigates the impact of privatization on fiscal and macroeconomic performance.	Privatization proceeds transferred to the budget are largely used to reduce domestic financing, with little evidence that they are used to finance a larger deficit. The privatization process is strongly correlated with an improvement in macroeconomic performance in the form of higher real GDP

		growth and lower unemployment rates. The estimates suggest that a one percent of GDP privatization corresponds to 0.5 percentage point increase in contemporaneous real GDP growth and a further 0.4 percentage point increase in the following year. The point estimates also suggest that a one percent of GDP privatization is associated with a decline in the unemployment rate of just less than ¼ of a percentage point in the year of privatization and a further ½ percentage point in the following year, resulting in a total impact of around ¾ of a percentage point.
Boardman, Anthony E., and Aidan R. Vining. 1989. "Ownership and Performance in Competitive Environments: A Comparison of the Performance of Private, Mixed, and State-Owned Enterprises." Journal of Law and Economics. 32: 1-33.	Contains a comparison of the performance of the 500 largest non-US industrial firms in 1983. Results are compared for private corporations, mixed enterprises and state-owned enterprises. The comparison is on the basis of four measures of profitability: return on equity, return on assets, return on sales and net income. Also includes two measures of X-efficiency: sales per employee and sales	The authors find that state-owned and mixed ownership firms are significantly less profitable and productive than privately-owned companies. To gain efficiency full privatization is needed because mixed ownerships firms are no more profitable than those owned wholly by the state.

	per asset.	
Boubakri, Narjess, and Jean-Claude Cosset. 1998. "The Financial and Operating Performance of Newly Privatized Firms: Evidence from Developing Countries." Journal of Finance. 53: 1081-1110.	The study examines post-privatization financial and operating performance of 79 companies in 21 developing countries and 32 industries between 1980-1992.	The study concludes that there are economically, and statistically significant post-privatization increases in output (real sales), operating efficiency, profitability, capital investment spending, dividend payments, and employment as well as significant decreases in leverage. About 60 percent of sample firms showed an increase in employment of 5-10 percent after privatization. Real sales per employee increased by 27 percent. Unadjusted net income per employee increased on average by 63 percent.
Davis, Jeffrey, Rolando Ossowski, Thomas Richardson and Steven Barnett. 2000. "Fiscal and Macroeconomic Aspects of Privatization." IMF Occasional Paper No. 194. Washington D.C.: International Monetary Fund.	This paper separates the possible fiscal and other macroeconomic impacts of privatization.	The study finds that receipts of privatization are saved rather than spent. Over time the fiscal situation is improved by privatization with positive impacts upon revenue and for some countries a large decline in deficits. In terms of growth private firms are found to be more efficient than those run by the state, especially in competitive industries. The strong correlation that exists between growth and privatization may be because privatization is a proxy for the more general factor of 'favorable regime change'. The authors also

		find that unemployment falls after privatization, but that it may have detrimental impacts on particular groups of workers. Overall the positive effects of privatization on growth and employment hold for all countries examined, although to a lesser extent in transition economies.
Dewenter, Kathryn, and Paul H. Malatesta. 1997. "Public Offerings of State-Owned and Privately- Owned Enterprises: An International Comparison." Journal of Finance. 52: 1659-1679.	Uses data from 8 countries (Canada, France, Hungary, Japan, Malaysia, Poland, Thailand and UK) to compare initial returns for 109 companies with national average returns. Also, tests whether PIPOs are more or less under priced than private sector IPOs.	Results vary according to country: the UK shows significantly higher initial returns on PIPOs than private sector IPOs, while Canada and Malaysia point to the opposite case. Also, PIPOs in unregulated industries tend to be less than those for regulated industries. There is therefore no evidence that governments systematically underprice PIPOs. Relatively primitive capital markets (in this case Hungary, Malaysia, Poland and Thailand) leads to a tendency for higher initial returns than offers in countries with more developed capital markets. The authors suggest that this is due to an increased uncertainty that about the value of privatization offers leading to lower offer prices. Another suggestion is that those countries with relatively primitive capital markets may try to broaden private share ownership

		by decreasing the initial offer price.
Dewenter, Kathryn, and Paul H. Malatesta. Forthcoming. "State-Owned and Pr ivately-Owned Firms: An Empirical Analysis of Profitability, Leverage, and Labour Intensity." American Economic Review.	This study tests whether profitability, labor intensity and debt levels of SOEs varies from that of privately-owned firms. The authors use a sample of the 500 largest non-US firms in 1975, 1985 and 1995.	After considering the effect of business cycles it is found that private firms are significantly more profitable than SOEs and have lower levels of debt and less labor-intensive production.
D'Souza, Juliet, and William L. Megginson. 1999. "The Financial and Operating Performance of Newly Privatized Firms in the 1990s." Journal of Finance. 54: 1397.	The paper documents offering terms, method of sale, and ownership structure resulting from privatization of 78 companies (mostly from telecommunications and other regulated industries) from 10 developing and 15 developed countries over the period 1990-1994.	The study compares three-year average post-privatization financial and operating performance ratios to the three-year pre-privatization values for a sub-sample of 26 firms. It concludes that there were economically and statistically significant post-privatization increases in output (real sales), operating efficiency, and profitability, as well as significant decreases in leverage. Capital investment spending slightly increased, while employment declined significantly.
D'Souza, Juliet, Robert Nash, and William L. Megginson. 2000. "Determinants of Performance Improvement in Newly Privatized Firms: Does Restructuring and Corporate Governance Matter?" Working Paper. Norman, OK: University of Oklahoma. Http://faculty - staff.ou.edu/M/William. L. Megginson-1/prvsources.pdf.	Using a sample of 118 firms (from 29 countries and 28 industries) that were privatized through public share offering between 1961 and 1995 the authors look at operating performance of the	They find that there are significant increases in profitability, efficiency, output, and capital expenditure, while leverage also decreases significantly. Looking at the determinants of these improvements they find that stronger profitability gains come from firms

	enterprises.	with lower employee ownership and higher state ownership. Output gains are stronger in competitive markets and where the economy is growing faster, and efficiency gains are higher when foreign ownership is high.
Galal, Ahmed, Leroy Jones, Pankaj Tandoon, and Ingo Vogelsang. 1994. Welfare Consequences of Selling Public Enterprises: An Empirical Analysis. Washington D.C.: World Bank.	The study measures the effects of divestiture by comparing actual post-privatization performance of 12 large firms (in aviation, energy, telecommunications, transportation and shipping) in Chile, Malaysia, Mexico, and U.K. with their performance prior to divestiture.	The authors find that divestiture substantially improved economic welfare in 11 of the 12 cases. The gains were mainly due to a dramatic increase in investment, improved productivity, more rational pricing policies, and increased competition and effective regulation. Despite assuring that public managers would adopt new technology and more rational procedures they also concluded that privatized firm performance was superior to the alternative of state ownership.
Jones, Steven L., William L. Megginson, Robert C. Nash, and Jeffry M. Netter. 1999. "Share Issue Privatizations as Financial Means to Political and Economic Ends." Journal of Financial Economics. 53: 217-253.	The study focuses on how political and economic factors influence initial returns of SIPs using a sample of 630 SIPs from 59 countries between 1977-1997.	The mean level of initial returns is found to be 34.1 percent for SIPs and 9.4 percent for seasoned SIPS. The authors do not compare SIPs with private sector IPOs because of their belief that any underpricing is caused by different factors (political considerations and asymmetric information respectively) and therefore, does not lead to any meaningful insights. The study also finds that

		initial returns on SIPs are: (i) positively related to the fraction of the SOE on offer, (ii) positively related to the income inequality in the country, and (iii) not inversely related to the market value of the former SOE.
Megginson, William, Robert Nash, and Matthias van Randenborgh. 1994. "The Financial and Operating Performance of Newly Privatized Firms: An International Empirical Analysis." Journal of Finance. 49: 403-452.	Compares both pre- and post-privatization 3-year average performance ratios for 61 firms in 18 countries over the period 1961-1989.	Significant increases in output, operating efficiency, profitability, capital investment spending and dividend payments are found along with significant decreases in leverage. The changes in employment after privatization are found to be insignificant.
Megginson, William, Robert Nash, Jeffry Netter, and Adam Schwartz. 2000. "The Long-Term Return to Investors in Share Issue Privatizations." Financial Management. 29: 67-77.	Over the period 1981-1997 this study examines the performance of 158 PIPOs form 33 countries. The authors compute 1, 3 and 5-year returns in both local currency and US dollars and compare results to international and national indices as well as matching firm types.	First year mean holding period returns for the SIPs are found to be 25.1 percent, which compares favorably to the mean local currency home market returns (13.2%), FT world Index (13.1%) and S&P 500 Index (17.6%). The HPR for industry matching firms is also less than that for the SIPs (15%). This result is statistically significant for all of the indices used. Similar results are found after 3 and 5 years, with excess returns exceeding 80 percent for most indices.
Megginson, William L., and Jeffrey M. Netter. 2001. "From State to Market: A Survey of Empirical Studies of Privatization." Mimeo. Forthcoming in Journal of Economic Literature. http://www.aei.brookings.org/pulications/related/privatization.pdf	The paper surveys the rapidly growing literature on privatization, attempts to frame and answer the key questions	The paper identifies the following main lessons from the literature on privatization: The privatization programs of the last 20 years have reduced the role of SOEs

	this stream of research has addressed, and then describes some of its lessons on the promise and perils of state-owned assets.	in the economic life of most countries. Most of this reduction in developing countries has taken place only in the 1990s. The SOE share of "global GDP" has declined from more than 10 percent in 1979 to less than 6 percent today. Privately owned firms are more efficient and more profitable than comparable state-owned firms. There is limited empirical evidence, especially from China, that suggests that non-privatizing reform measures - such as price deregulation, market liberalization, and increased use of incentives - can improve the efficiency of SOEs, but it also seems likely that these reforms would be even more effective if coupled with privatization.
Nellis, John. 1994. "Is Privatization Necessary?" Public Policy for the Private Sector Note 17. Washington D.C.: World Bank.	In this study the author argues that privatization is necessary. He argues that there are several reasons why private firms perform better than SOEs. There is a market for managers that leads to higher quality management. Capital markets subject private firms to greater scrutiny; they are much more subject to exit than SOEs; politicians	There are a number of reforms that could help to combat these problems that do not involve changing the ownership of the firm, and there is some empirical evidence to suggest that they can be successful. However, the author argues that ownership is still the best way to improve performance. While it is seen that there may be some overlap in the performance of private firms and SOEs, in general private firms outperform SOEs.

	interfere less with their running; and private firms are owned by self-interested shareholders rather than "disinterested bureaucrats".	Empirical evidence also backs this up with the majority of pre and post-privatization studies showing significant improvements in various factors after privatization. Lastly, the author argues that partial reforms implemented by governments often amount to no more than a compromise and that they are often prone to reversing policy decisions or relaxing them. This is something that can be avoided if privatization is conducted.
Sheshinski, Eytan and Luis Felipe Lopez-Calva. 1999. "Privatization and its Benefits: Theory and Evidence." Development Discussion Paper 698. Cambridge, MA: Harvard Institute for International Development. http://www.hiid.harvard.edu/projects/caer/papers/paper35.pdf	The paper reviews the micro and macroeconomic effects of privatization based on a survey of the empirical literature.	The evidence shows that privatized firms improve their profitability after the sale, even controlling for macroeconomic and industry specific factors. This result holds for different market structures. Deregulation policies speed up the convergence process of firms to industry standards. Partial privatization has a lower effect on profitability when compared with full privatization. Microeconomic evidence confirms that the introduction of competition enhances productivity gains. Firms in more concentrated and regulated markets, though they also go through an important restructuring after the sale, show lower increases in productivity as compared to those that are under market

		discipline. Eliminating restrictions to foreign direct investment and trade barriers, and government controls on prices and quantities fuel the catch-up of firms to competitive standards. The budget deficit shows a positive trend, i.e., it declines during the reform period.
Shirley, Mary, and Patrick Walsh. 2000. "Public vs. Private Ownership: The Current State of the Debate." World Bank Policy Research Working Paper 2420. Washington, D.C.: World Bank. http://econ.worldbank.org/files/1175 wps2420.pdf	The paper reviews the debate over state ownership by searching theoretical and empirical studies for answers to the following questions: (i) Does competition matter more than ownership? (ii) Are SOEs more subject to welfare reducing interventions by government than private firms? (iii) Do SOEs suffer more from corporate governance problems than private firms?	Theoretical studies are ambiguous about the effects of ownership. Empirical literature, however, suggests that while market structure has a positive impact on performance, this impact fails to dominate the ownership effect. The arguments that market structure dominates rests on cases in which public and private firms in competitive environments perform equally well, and these cases are rare. Both the theoretical and empirical literature are ambiguous about the effects of ownership in monopoly markets. Theories that assume a welfare maximizing government suggest that SOEs can correct market failures, but public choice theories are skeptical of these type government models. Corporate governance theories suggest that even well intentioned governments may not be able to assure that SOE managers do

		their bidding. The empirical literature favors the latter view of SOEs. In studies of industrialized countries, where we might expect more developed political markets to motivate greater government concern with welfare maximization or better information and incentives to overcome corporate governance problems, private firms still have an advantage. Theoretical critiques of privatization suggest that distorted objectives, market failures and poor institutions will lead to costly failures. Some of these studies suffer from the absence of a realistic SOE counterfactual or are extrapolating from a few, prominent cases, such as Russia. The 21 empirical studies cited in this paper suggest that most firms do better and all firms at least as well after privatization. None of the studies find that performance would be better had they not been privatized.

Although the literature on privatization has grown, much attention is still required to generate more theoretical and practical knowledge (Ramamurti, 2000). In some quarters, it has been argued that there is death of research on privatization (Zahra, Ireland, Gutierrez, & Hitt, 2000). Various reasons have been given on privatization research gaps. One of the reasons for the research gap may be the fact that management research typically focuses on individuals, groups, and organizational-level management issues, while privatization research focuses on industry or country level (Kim & Yelkina, 2003; Ratto-Nielsen, 2004).

Another possible reason is that management research is often not carried out in a systematic way, making its it difficult to adequately address a phenomenon (Frost, 1980). Despite the numerous privatization and divestiture studies undertaken in Kenya and other countries of the world, no study has been done to consolidate the concerns and learnings needed by Kenya's Privatization Commission to improve its operations towards the fulfillment of its mandate. This lack necessitated this research, which seeks to consolidate the situation, process and challenges of privatization from other countries in a manner that makes sense and enables Privatization Commission of Kenya to draw important lessons that can help champion appropriate strategies in the execution of its mandate.

1.4 Objectives of the study

The overall objective of the study was to undertake comparative analysis of privatization and government divestiture in Kenya and selected countries across the world. The specific objectives of the study were to:

a) Undertake Kenyan situational analysis of privatization and government divestiture.
b) Evaluate privatization process followed by Kenya and selected countries.
c) Identify challenges faced by Kenya and selected countries in their privatization and government divestiture.
d) Consolidate and document privatization and divestiture lessons learnt from other countries.

1.5 Significance of the Study

This study is expected to highlight the Kenyan privatization and divestiture situation. The study is also expected to document privatization process and challenges faced by other countries with a view to drawing helpful lessons that should help improve the privatization practices of Kenya's Privatization Commission.

CHAPTER TWO: METHODOLOGY

The outcome of every research work depends on the methodology applied. An appropriate methodology is therefore needed for every study. This chapter outlines the research methodologies deployed in this research. The chapter focusses on theoretical framework, research design, target population, data collection, data analysis and presentation. The details have been discussed in the subsequent sections.

2.1 Theoretical framework

For many centuries, human beings have tried to mentally understand complex phenomenon by crafting mental representations in the form of theories and models. To some extent, these theories and models have been helpful as a basis for understanding phenomenon. However, theories and models are crafted by human minds and are therefore not foolproof, they have their weaknesses despite their helpfulness. Like any other study, this study needed theoretical frameworks upon which it could be based. And because there was no anyone fit all theory to base the study, the researcher gleaned from several theories, some of which have been discussed in the following passages.

Privatization is a concept and practice that can be viewed through the lens of several theories ranging from organizational theories such as, systems theory, contingency theory, real options theory, institutional theory, agency theory, resource-based views, and transaction cost economics. Specifically, these organizational theories can be applied to privatization and theoretical propositions developed. They are discussed hereunder.

2.2.1 Systems Theory

According to systems theory, a system can be classified according to its common property and it consist of interrelated entities of activities (Scott, 2003). A system defines and redefines itself among its internal components as well as its relationship with the external environment. A system also aims at correcting errors in the direction of increasing compatibility between the system and the environment (DiMaggio & Powell, 1983). From the perspectives of the system theory, a country can be viewed as an integrated political, social, and economic system that interacts with the environment. The country's system is composed of interrelated entities such as government agencies, private and public organizations, and the general public. When a system is disassembled in any way, i.e. a

SOE is privatized, the properties of both the components such as the SOE and the system of an industry or country are changed (Ashmos & Huber, 1987). From the systems perspective, a country's system is an open system that is affected by both external and internal factors. External factors impact whether and how the country undergoes privatization. In an increasingly competitive global environment of today, a country may be forced to respond to external pressures through its purposeful ownership change of privatization with an aim of maximizing its economic efficiency and social responsibility as well as competitiveness in the global market.

2.2.2 Contingency Theory

According to contingency theory, policy makers must interpret the environment correctly and maintain fit through changes (Child, 1972). Contingency theory would see a country's internal and external environmental conditions as critical constraints to privatization. This calls for a country's policy makers to examine the environment and understand the holistic nature of the changing environment and how they impact on privatization. Environmental factors place great demands on a country's entire system in general and on economic, social, and political subsystems specifically. While admitting that there is no one best way to privatise, Lawrence & Lorsch (1967) argues that privatization decisions should be contingent upon the environmental factors a country is facing.

According to Davis (1982), privatization decisions, based on efficiency grounds and justified on welfare grounds should reflect the norms of the social, cultural and political domination. For instance, a World Bank (1996) study concluded that, the inclusion of social factors and the participation by all stakeholders in the privatization process is far more important in the European transition economies and developing economies than in developed countries. From a contingency theory perspective, the uniqueness of a country's environment requires privatization policy makers to take full considerations economically, politically, and socially, and adopt experimentations contingent upon the environment. When a privatization program is contingent upon a country's environment, the success of the program economically, socially, and politically is high.

2.2.3 Real Options Theory

According to Leiblein (2003), real options theory emerged as a compelling approach for evaluating investment opportunities in uncertain environments. According to the perspectives of this theory, a real option is the right, but not an obligation to undertake privatization in an uncertain environment, so that privatization programs can create economic and social values through operating flexibility. If a country has no prior experience or knowledge of privatization, uncertainty and unpredictability of privatization outcomes tend to be heightened. By choice or by chance, a country may view other countries' successful privatization programs as options and simply adopt their practices without considering their environment. Ideally, a country should not completely obligate itself to the similar program but instead, carefully evaluate and modify the programs. This is because every country operates under a different environment which bears its own social, cultural, and political identity.

According to Parker & Kirkpatrick (2005), the economic and social importance of SOEs is far greater within developing and emerging economies, as opposed to developed economies. This is because their environment is less market-friendly, less elastic, and more uncertain, and the private sectors are well underdeveloped. Similarly, the government capacity to regulate a competitive market tend to be poorer. Ramamurti (2000) explains that privatization can be broad or narrow. Narrow form of privatization can be viewed as a real option in an uncertain environment, because it provides government great flexibility when operationalizing privatization. Government can choose to increase the scope of privatization if early rounds of privatization are successful, or, regulate the sector or even take over the privatized firms if early rounds of privatization are unsuccessful. India partially privatized its electricity industry by introducing a parallel market i.e., market-based production sector and state-run sector (Joseph, 2010).

2.2.4 Institutional Theory

Literature review indicates that Neo-institutional theory portrays large institutional structures as rationally coherent autonomous actors whose behaviors are guided by social structures such as law, culture, and norms (March & Olsen, 1984). The actors such as privatization agencies, on the one hand, coherently institutionalize and legitimize decisions to conform to their environment. The actors autonomously develop and shape the public's understanding of the decisions and alternatives. In the privatization case, government policy makers, guided by the social structures, correct market failures through institutionalizing and legitimizing privatization programs that appropriately reflect the country's history and culture (Scott, 1995). Chinese government for instance successfully and systematically introduced certain capitalist market-based enterprises to liberalize the market and correct market failures, while attempted to preserve the socialist institutions in order to maintain its legitimacy and protect their power base (Tan et al., 2007). Success after implementation of the first round of privatization more likely leads to embracing the program in subsequent rounds, whereas failure may lead to other cautionary alternatives e.g., partial privatization and regulations and even nationalization. An effective and efficient institutional system is therefore critical to the success of privatization.

According to DiMaggio and Powell (1983), highly structured institutions such as SOEs provide a context in which individuals' efforts to deal with uncertainty and constraint often lead to homogeneity in institutions' structure, culture, and output. This implies that, in the privatization case, uncertainty may be a driving force that encourages a country simply to imitate other countries' successful privatization programs which are available and accessible. Mimetic isomorphism is the result of a country reacting to its unknown and uncertain environment by modeling itself after successful privatization programs in other countries (DiMaggio & Powell, 1983). Throughout the privatization history, many emerging economies launched ambitious programs to privatize their SOEs with the intention of replicating the success of privatization programs in developed economies (Megginson, Nash, & Van Randenborgh, 1994). Results have shown that Mimetic isomorphism did not always produce expected outcomes as what were in the developed economies. Failed privatization has been observed in Russia (Wright et al., 1998) and in Poland (McDonald, 1993). As such, simply imitating other countries' successful privatization programs may not be an optimal solution to a country's privatization programme.

2.2.5 Agency Theory

Agency theory is concerned with managing principal-agent relationships (Eisenhardt, 1989). From the perspective of this theory, a government is the principal, and privatized enterprises are the agents. Government, representing public interests, has goals of maximizing social welfare, fostering its economy, and maintaining high level of employment. Privatized organizations have their own objectives mainly focusing on maximizing profit and shareholder-wealth. Principal-agent problems arise when government and privatized firms have conflicting or competing goals as well as different risk preferences (Eisenhardt, 1989). To manage principal-agent relationships, agency theory suggests government should write complete contracts that adequately protect public interests and prevent privatized firms' opportunistic behaviors. Furthermore, relevant existing laws or regulations that apply to the privatized firms should be specified by every privatization deal, and enforcements of the contracts should be followed (Ramamurti, 2000). In reality, it is difficult and costly to identify all potential opportunistic behaviors and write complete contracts because agency theory assumes that individuals are boundedly rational (Williamson, 1996).

Other scholars have been of the view that increases in incentive alignment between government and privatized firms may be a way to reduce the likelihood of opportunistic behaviors of the agents (Dharwadkar, George, & Brandes, 2000). Because agency theory assumes that individuals are self-interested (Eisenhardt, 1989, 1996), a country should have effective control mechanisms to prevent and solve agency problems. Agency theory also assumes that individuals are risk aversive (Eisenhardt, 1989), suggesting that privatized firms may assume higher risks or costs for engaging in opportunistic behaviors against their government especially in cases that effective monitoring and control mechanisms are in place. To prevent opportunistic behaviors, some countries such as Mexico and the Philippines made the sale of SOEs transparent by adopting competitive bidding procedures, developing objective criteria for selecting bids, and creating a clear focal point with minimal but necessary bureaucracy to monitor the overall program (World Bank, 1992). Governments can manage principal-agent problems through effective control mechanisms such as company laws, disclosure provisions, appointing non-executive directors, internal and external audit systems, and so on (Heath, 1997).

2.2.6 Resource Based View

The resource-based view (RBV) explains the specific characteristics of resources that are most likely to create and sustain competitive advantage to an entity (Barney, 1991). RBV theorists argue that: resources that are valuable and rare can lead to the creation of competitive advantage; and the competitive advantage can be sustained over longer time periods to the extent that the entity is able to protect against resources being imitated, transferred, or substituted (Barney, 1991; Wade & Hulland, 2004). In business, resources can be defined as tangible and intangible assets and capabilities e.g., technical and managerial skills that are available and essential in detecting and responding to market opportunities or threats (Sanchez, Heene, & Thomas, 1996). In the context of a country, resources may refer to assets and capabilities that are available and critical in creating and sustaining a nation's competitive position in the world. Countries actively compete for resources and capabilities that contribute to building their national competitiveness economically, politically, and militarily.

From RBV perspective, in order to create and maintain national competitiveness, a country should not privatize any critical assets and capabilities, such as nation's historical heritage, valuable human capital, scarce natural resources, unique and essential services, military, and so forth. When a country possesses critical resources and capabilities that are both imperfectly mobile and generalizable (Leiblein, 2003), the nation's competitive position can be sustained. At the country level, if a country is not able to enjoy an economic rent effectively from its resources in one sector, the country is more likely to free the resources for opportunities with higher rents. Thus, the government is more likely to initiate privatization in a sector it doesn't obtain economic rent from. If, in the same sector, the remaining SOEs are not able to generate economic and social values from their resources above and beyond the value yielded by those private firms with the same resources, the country is more likely to further free the resources from these SOEs for better opportunities in the market. The entire sector may end up undergoing full privatization of ownership.

2.2.7 Transaction Cost Economics

Transaction Cost Economics (TCE) describes an entity as an efficiency inducing administrative instrument that facilitates exchange between economic actors (Leiblein, 2003). Transaction costs, apart from production costs, are costs in relation to facilitating and completing an economic exchange. From Transaction Cost Economics perspective, privatization is an economic exchange in which the sum of total transaction and operation costs should be minimized (Williamson, 1979). Transactions costs have been used to explain government choice in the decision to contract out (Sclar, 2000; Hefetz & Warner, 2004). In the privatization case, transaction costs, in addition to costs incurred in designing privatization programs, establishing regulatory systems, and monitoring and enforcing the implementation of the programs, include costs relating to possible social and political problems. Moreover, government transaction costs of intervening in operations and some decisions of the firm are generally higher when firms are privately owned (Megginson & Netter, 2001). Therefore, policy makers should carefully examine privatization transaction costs, because they are not purely economic, but also include potential, delaying social and political costs.

Uncertain environment and unforeseeable outcomes of privatization makes it difficult for the rational policymakers to design a perfect privatization program, write complete contracts and regulations, and monitor the program effectively. The fact that some opportunistic exchange actors (i.e., privatized firms) may seek short-term economic gains at the expense of social justice for those most affected (Prizzia, 2001), especially when incentives for long-term sustainability and social performance in contracts are weak and monitoring and control mechanisms are insufficient. The complexity of privatization and unpredictability of its outcomes create potentials for opportunistic behaviors, which, in turn, increase its transaction costs (Williamson, 1979). It has been observed that government may be better off promoting a free market and introducing competition. Competition drives private firms to be more competitive and place great pressure on all remaining SOEs to improve their efficiencies as well as on government to reduce expenses. Increased number of privatized firms and heightened competition among firms can lead to decreased tendencies of engaging in opportunistic actions and shirking behaviors (Shook, Adams, Ketchen, & Craighead, 2009).

2.2 Research Design

In conducting comparative analysis of privatization and government divestiture, we employed time series analysis as the research design. This is because we had to do both horizontal (selected countries) and vertical (time period) analysis of the situation, process and challenges regarding privatization and government divestiture. Time series allows us to examine the nature of a phenomenon over time. In this study, we examined the concept and practice of privatization for half a century, that is from the 1970s to 2020 with an objective of establishing privatization patterns and their results with the hope that this would provide insight to Kenya’s Privatization Commission.

2.3 Target Population

The study is done to explore privatization and government experiences across the world. But because all countries of the world cannot be studied within available time and resources, nine countries from across the globe were selected for the study. Selection has been made from the West, East and Africa for fair representation. Kenya was treated as the comparator country. The selected countries for this comparative were:

From the west

1. United States of America
2. United Kingdom
3. Brazil

From the east

1. China
2. India
3. Japan

From Africa

1. South Africa
2. Nigeria
3. Ghana

Kenya was also be studied, but much more as a comparator country. Specific privatization and divestiture metrics were identified and used to compare the privatization and divesture in the selected countries against that of Kenya regarding their present situation, processes, and challenges faced.

2.4 Data Collection

This study fully relied on secondary data. Information has therefore been collected from many local and international sources. Specific focus has been made to the nine countries listed in section 2.3 above. Kenyan was also included in the study. Extensive literature review from various sources has been the main source of information.

2.5 Data Analysis and Presentation

Content analysis of information gathered was done. Content analysis is a research method for studying documents and communication artifacts, which might be texts of various formats, pictures, audio or video. Social scientists use content analysis to examine patterns in communication in a replicable and systematic manner. We used content analysis to examine, consolidate and articulate privatization experiences from target countries.

CHAPTER THREE: THE PRACTICE OF PRIVATIZATION IN KENYA

Privatization is a complex phenomenon that involves many uncertain and unpredictable variables prior to, during, and after it has taken place. Governments face big questions on how to implement privatization programs successfully and to achieve desirable outcomes. In this regard, a government should design simple, sequential privatization programs and manage the programs through feedforward, concurrent, and feedback control mechanisms. Every government including the Kenyan government should find better ways to carry out successful privatization. This chapter focuses on analysing privatization and government divestiture in Kenya from various perspectives using eight parameters: Objectives of privatization; history of privatization; privatizations undertaken; methods of privatization; process of privatization; legal environment of privatization; challenges of privatization and lessons learnt from past privatizations.

3.1 Objectives of Privatization

The objectives of privatization and government divestiture are contained in the mandate and mission of Privatization Commission of Kenya, and that is to formulate, manage and implement Kenya's Privatization Programme. The specific objectives of privatization in Kenya are expressed in the functions of Privatization Commission and these are: Formulate, manage and implement the Privatization Programme; Make and implement specific proposals for privatization in accordance with the Privatization Programme; Carry out such other functions as are provided for under the Act; Carry out such other functions as the Commission considers advisable to advance the Privatization Programme.

3.2 Historical Overview of Privatization in Kenya

From independence in 1963 up to the late 1970s, the Kenya Government pursued a Policy of mixed economy where the private sector and the public sector could exist side by side. The Government's direct involvement in productive economic activities was aimed at achieving faster economic development, regional balance, local participation and control of the economy by the Kenyan people through their elected leaders. By early 1980s however, the Kenya Government had realized that these State-Owned Enterprises (SOE's) were not achieving their primary objectives. Several SOEs had accumulated huge debts, were making losses, lacked funds and were depending on the National Treasury for financial sustenance and survival.

3.2.1 Public Investment in Kenya

The history of public investment in Kenyan can be traced to 1901 when the colonial government set up state owned enterprises for specific reasons of promoting governance (Grosh 1994). SOEs were intended to provide essential services to the white settlers. Indigenous Africans participation in economic activities such as trade and cash crop farming were generally discouraged. The trend continued until Kenya got its independence in 1963. Like many developing countries of the world, Kenya which got its independence from the British rule in 1963 was also caught up in the wave of socialist and communist ideologies of post-world war II. At Kenya's independence, there were shortage of private domestic savings and inadequate entrepreneurial training, experience and management skills among the Kenyan populace. To address these challenges, the then KANU government developed sessional paper No. 10 of 1965. The policies set out in the sessional paper No. 10 of 1965 led the country to involvement in public investments through the establishment of various state corporations under several legal instruments including Acts of parliament. Since then, there has been a proliferation of state corporations covering all sectors of the economy.

Within the Ministry of Finance sits Directorate of Portfolio Management. The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following three (3) Technical Departments each headed by a Director: Government Investment and Public Enterprises; National Assets and Liabilities Management; and Pensions Department. The Directorate undertakes the following functions: is the custodian of an inventory of national government assets and liabilities except as may be provided by the Constitution or any other legislation; monitors the management of the finances of public enterprises and investments by the national government and its entities; monitors financial performance of state corporations; divestiture of public enterprises and coordination of public private partnerships; manage the public investment policy; assist county governments to develop their capacity for efficient, effective and transparent financial management; develop policies and regulations on asset management; formulate public pension policy and administration; formulate policies and regulations for retirement benefits; coordinate and manage Group Personal Accident; process and pay pensions and other benefits; and undertake research on portfolio management to inform policy development.

3.2.2 The Meaning of State-Owned Enterprises

In Kenya, state corporations are established under State Corporation Act (Cap 446 Laws of Kenya). The State Corporations Act Cap. 446, Section 2, define state corporations as: those corporations established under section 3 of the Act; a body corporate established before or after the commencement of this Act by or under an Act of Parliament or other written law (but not the Permanent Secretary to the Treasury incorporated under the Permanent Secretary to the Treasury Act; a local authority established under the Local Government Act; a co-operative society established under the Co-operative Societies Act; a building society established in accordance with the Building Societies Act; a company incorporated under the Companies Act which is not wholly owned or controlled by the Government or by a state corporation; the Central Bank of Kenya established under the Central Bank of Kenya Act); a bank or a financial institution licensed under the Banking Act or other company incorporated under the Companies Act, the whole or the controlling majority of the shares or stock of which is owned by the Government or by another state corporation; and a subsidiary of a state corporation (Government of Kenya, 2013).

The State Corporations Act Cap. 446, Section 2 puts together commercial entities, regulatory bodies, service providers, universities, training institutions and research institutions without considering their mandates and operational requirements and subjects all of them to a uniform regulatory regime. The definition of state corporations in section 2 of the Act tends to defeat the principle of operational autonomy, flexibility, result orientation and accountability. In order to address this a normally, the 2013 Presidential Taskforce on Parastatals Reforms report recommends the enactment of a single overarching law (the Government Entities Bill 2013) to govern national government owned entities as well as County Corporations and Agencies (Government of Kenya, 2013). The 2013 Presidential Taskforce on Parastatals Reforms report recommended that all entities that were previously known as state corporations before the 2013 Presidential Taskforce on Parastatals Reforms be renamed as Government Owned Entities (GOEs), which the taskforce further placed into four categories: state corporations; state agencies; county corporations; and county agencies.

The taskforce further proposed that a state corporation be redefined as an incorporated entity that is solely or majority owned by the government or its agents for commercial purposes, and is governed by a competitive profit driven market and that can be performed commercially but also serves a strategic socio-economic purpose as from time to time as defined by the President. According to the taskforce, a State Corporations therefore shall include: Commercial State Corporations; and Commercial Corporations with strategic functions that are to be defined through the national development planning process. These entities shall be incorporated and managed under the Companies Act Chapter 486 according to the 2013 Presidential Taskforce on Parastatals Reforms report.

The taskforce defines State Agencies as incorporated entities outside the mainstream civil service established for purposes of public service delivery. These bodies are agencies of the Government established for specified purposes and for purposes of policy and regulation. These include: Executive Agencies; Independent Regulatory Agencies and Research Institutions, Public Universities, Tertiary Education and Training Institutions. According to the said taskforce, a County Corporation is an incorporated entity that is solely or partly owned by a county government for commercial purposes and is governed by a competitive profit driven market. The county corporation should also serve a strategic socio-economic objective. A County Agency is defined by the taskforce as an entity incorporated by a county government to undertake a specific strategic county government objective in delivering public service. Such objective includes regulation and service delivery. These include County Executive Agencies and Joint County Authorities (Government of Kenya, 2013). This study adopts the 2013 Presidential Taskforce on Parastatals Reforms definition of a state corporation because of its clarity and appropriate classification of State-Owned Enterprises.

3.2.3 Performance of State Corporations

In the 1960s and 1970s, Kenya deliberately invested heavily in State Corporations to redress regional imbalances, increase participation of Kenyans in the economy, promote indigenous entrepreneurship and promote foreign investment through joint ventures. The Centre for Corporate Governance and Development (2005), conducted a study and examined the legal, legislative and administrative factors that impede effective and efficient performance of State Owned Enterprises during the period 1993 and 2002 and came to a conclusion that there existed politicization and poor governance, bad laws, weak supervisory mechanism, poor structure and recruitment of board members and management, poor financing structure and financial management systems, poor resources for government audits and oversight, perpetuation of institutional impunity. In order to address the ills affecting State Owned Enterprises, the government introduced Results-Based Management (RBM) which was guided by Economic Recovery Strategy (ERS) for Wealth and Employment Creation (2003-2008). In recognition of the challenges faced and the competitive environment of state corporations, the Government of Kenya Legal Notice No. 93, and the State Corporations (Performance Contracting) Regulations, (2004) brought in the concept of performance contracting and strategic planning management in public service.

In 1979, the Kenyan government conducted a review of performance of Statutory Boards. In June 1982 the Government again appointed a Working Party on Government expenditure chaired by Mr. Philip Ndegwa whose report revealed that the Government was directing a lot of its budgetary resources to support commercial activities and to provide services at subsidized rates. From the two reports of 1979 and 1982, it became clear that investing in State Owned Enterprises was no longer tenable and it became evident that most of the farming, industrial and commercial activities undertaken by the Government could be more efficiently handled by the private sector. Consequently, the Working Party recommended divestiture from some of the parastatals and full privatization of others.

The ongoing Public Enterprise Reform and Privatization program started in July 1992, with the issuance by the Kenya Government of a Policy Paper on Public Enterprise Reform and Privatization which set out the objectives, principles, scope, and other significant aspects of the Public Enterprise Reform Program and the principles and procedures that would guide the Parastatals Reform Programme Committee (PRPC) and its secretariat, the Executive Secretariat and Technical Unit (ESTU) to facilitate the privatization process. Under the Parastatals Reform and Privatization Program the government listed 33 strategic parastatals to be restructured and retained in the public domain and 207 non-strategic parastatals to be privatized. Methods which have been used for privatization in Kenya are; public offering of shares, concessions, leases, management contracts and other forms of public-private partnerships, negotiated sales resulting from the exercise of pre-emptive rights, sale of assets, strategic sales, including liquidation and receivership (Okelo, 1997). As of today, the following privatization transactions has taken place: 86 full divestitures, 7 partial divestitures, 9 subsidiaries and associate companies and 39 tea factories.

The direction of thinking regarding structuring and retention of a number of strategic corporations under Government operation and control changed in 2002 due to: inadequacy of public sector resources to finance the requisite investments in infrastructure facilities; the need to attend to continued deterioration in infrastructure services; lessons learnt from other countries which had succeeded in improving their infrastructure services through Public Private Partnerships; and restructuring which resulted in separation of commercial activities from regulatory functions, making it possible to privatize commercial activities while ensuring the Government‘s continued presence in the privatized sectors through establishment of strong legal and institutional regulatory frameworks. As a result of the change in thinking, the Government implemented several key privatization transactions under the Economic Recovery Strategy for Wealth and Employment Creation, (ERSWEC) 2003-2007. These included the KENGEN (IPO), Kenya Railways (Concessioning), Mumias Sugar Company (second offer), Kenya Reinsurance Corporation (IPO), Telkom Kenya (sale of shareholding to a strategic partner) and Safaricom (IPO). Through these transactions, the country mobilized over Kshs. 80 billion, which was used to support the country’s recovery and overall development agenda.

Further policies and regulations followed with the introduction of Kenya’s Vision 2030, Privatization Act of 2005, the constitution of Kenya 2010, the Sector Performance Standards, current Performance Contract Guidelines and the report of the Presidential Taskforce Parastatal Reforms among other policy documents. Vision 2030 came in to play a key role in the economic development of the Country. Privatization Programme executed under Privatization Commission falls under the Economic Pillar of the Vision 2030. Under this pillar, contribution expected from the privatization programme include the improvement of the efficiency of the Kenyan economy by making it more responsive to market forces, mobilization of resources required to rehabilitate, modernize and expand productive capacity under commercial SOEs, the reduction of the demand for Government resources and the generation of additional Government revenues. Upon effective implementation of the privatization transactions, benefits are expected to accrue to millions of Kenyans who rely on the affected enterprises for livelihood.

The Privatization Act, 2005 which established Privatization Commission came in to provide the basic legal framework within which the Privatization Programme operates. The Act empowers the Commission to formulate and implement a Privatization Programme. It was soon realized that the Privatization Act of 2005 had its own limitations which necessitated the need for amendments. The limitations of the Act have been identified and proposed amendments forwarded to the National Treasury for approval before onward submission to the Cabinet and eventually to the National Assembly.

The report of the Presidential Taskforce on Parastatal Reforms released in October 2013 further shaped privatization programme by outlining the strategy to harmonize Parastatals in order to enhance efficient service delivery to the public. The report proposed the formation of a Government Investment Company which among other changes were expected take over the mandate and operations of the Privatization Commission. This however is no longer certain as the GOE Bill omitted the repealing of the Privatization Act. The nature of the reforms with respect to the Privatization Commission remains uncertain at the time of completing this research report. The work of the parastatal reforms took a toll on the Privatization's Commission ability to achieve its core mandate: by initially freezing the progress of work on Privatization Programme in 2013 and subsequently limiting implementation of the Programme to only a few transactions in 2014.

The Constitution of Kenya 2010 which is an overarching legal document on which privatization programme is anchored adds a new dimension to Privatization Commission's activities. It entrenches the requirements of the Constitution in its body, text and spirit. Among other issues, the Constitution provides for the need for public participation, high standards of ethical behavior, leadership and integrity, service delivery, corporate governance and the mainstreaming of gender, youth and persons with disability.

The requirement that Privatization Commission comply fully with the annual performance contracting with the Government necessitates the cognizant of the Sector Performance Standards (SPS) that guide the setting and implementation of the Performance Contract targets by the Privatization Commission. The SPS were structured to include key performance targets for the Vision 2030 and the Medium-Term Plans. The National Treasury, under which the Privatization Commission falls, is expected to, among other key result areas, ensure: "effective mobilization and management of public resources". This requires Privatization Commission to among other things develop and execute strategic plans which incorporates medium-term plans by the Government. By so doing, it is expected that privatization programme are well executed.

3.3 Undertaken Privatizations

Sources from Privatization Commission of Kenya records as cited from 1998 Policy Paper on Public Enterprise Reform and Privatization indicates that a total of 146 privatization and Kenyan government divestiture took place between 1992 and 2002 and a further six (6) took place between 2003 and 2008. KWAL was privatised in 2014, bringing total privatization and Kenyan government divestiture to 152 at the time of writing this report in 2019.

Table 3.1: Completed Privatizations between the period 2003-2008

S. No	**Company**	**Year**	**Methods of Privatization**	**Public Share before (%)**	**Public Share after (%)**	**Sector**
001	Kenya Electricity Generating Company	2006	IPO	100	70	Energy
002	Kenya Railways Corporation	2006	Concessioning	100	100	Transport
003	Mumias Sugar Company (2nd Offer)	2006	IPO	38.4	20	Manufacturing
004	Telkom Kenya	2007	Strategic Sale	100	49	Telecommunication
005	Kenya Reinsurance Corporation	2007	IPO	100	60	Insurance
006	Safaricom	2008	IPO	60	35	Telecommunication
007	Kenya Wine Agencies Limited (KWAL)	2014	Sale	72.65	42.65	Manufacturing

Source: Privatization Commission (2019)

3.4 Methods of Privatization and Government Divestiture

In privatization, the choice of method and the way privatization takes place is of great importance in determining the outcome of privatization (Mario, 2008). In many cases, the choice of methods used by a country is determined by many factors which include political leaning of the government, international debt, levels of national economic development, institutional capacity, industry specific factors and enterprise specific factors. The most common methods of privatization are: sale by competitive tender, liquidation, competitive sale of assets, direct sale of shares, leases and concessions, pre-emption right sales, public floatation, management contracts, management or employee buyout, restitutions, transfers or trustee, transfer without remuneration, joint ventures, direct sales of assets, debt/equity swaps, equity dilution, open auction (World Bank, 1999).

In Kenya, the methods that have been used to privatize organizations include but are not limited to public offering of shares at Nairobi Securities Exchange, sale of shares by private placement, negotiated sales, sale of enterprise assets, employee/ management buyout, management contracts, strategic sales, new private investment in the enterprise (Odondi, 2008). Nairobi Stock Exchange report however shows that listed firms have been privatized mainly through public share floatation, pre-emptive rights and competitive sale (Nairobi Stock Exchange Report, 2012). According to information obtained from Kenya's Privatization Commission, the methods used in privatization prior to enactment of 2005 privatization Act and operationalization of the said Act in 2009 have been discussed in the subsequent paragraphs. They have also been summarized in Table 3.2

3.2 Summary of Privatization Methods used in Kenya

S. No	Method	Number of Enterprises
1	Pre-emptive rights	53
2	Divestiture (Tea Companies)	39
3	Receiverships	14
4	Competitive Bidding	14
5	Liquidations	12
6	Public Floatation	8
7	Partial Derivatives	5
8	Initial Public Offer	4
9	Concessioning	1
10	Strategic Sale	1
11	Management/Employee Buy Out	1
	Total	**152**

Source: Privatization Commission (2019)

3.4.1 Direct Sales

This is where the assets of a State-Owned Enterprise are sold off to an existing individual, a corporation or a group of investors. In this method of sale, the highest bidder carries the day. It entails a transfer of ownership and control to private investors whose expertise ought to guarantee a successful performance of the firm in a competitive environment. This transfer can be done through either competitive bidding or a privately negotiated deal. An open competitive bidding process however has several advantages over a privately negotiated sale. An open competitive bidding enhances political acceptability, it maximizes revenues for the government when properly designed, it reduces the possibility of ex-post political distress, and, from a theoretical point of view, it assigns the company to the most efficient investor (McMillan, 1995).

3.4.2 Public Share Floatation

This is the method in which shares are offered to the general public through the stock market or any other organized market. This method is sometimes referred to as "initial public offering" or simply as "public offering". Initial public offering is believed to promote fair pricing and therefore minimize politics in the privatization process. This method also allows for local investor participation, diversifying ownership of the economy's resources and contributing to the credibility of privatization if effected through stock market Holzmann & World Bank (2009). The disadvantage associated with this method is that it increases business costs, requires disclosure of operating data and reduces the control of the original owners (Brauch, 2003).

3.4.3 Competitive Bidding

This method involves selling to the highest bidder. It includes sale by any method in which ownership in the bulk of enterprises is transferred based on sale at an agreed (market) price to people, including foreigners not previously associated with the enterprise (Bennet et al, 2007). In this method, shares owned directly or indirectly by the government are offered for sale to private investors through competitive means. This usually involves open public tender. This method may occasionally involve pre-qualification of potential investors (World Bank, 2000). The fact that this method has been associated by sale to the highest bidder has made it the preferred method in developed economies (Megginson, 2004).

3.4.4 Sale by Pre-emptive Rights

Preemptive rights are contractual restrictions on the rights of transmission of a company's securities. These rights give insiders a right of first refusal. This means insiders can preempt sale by exercising their rights (Gunderson, 2013). Pre-emptive rights may be general, included in a country's civil code or specific, inserted in a company's bylaws or other founding documents or agreements Oliver & Nellis (1998). Pre-emptive rights are commonly used by founding partners to diversify high risk investments while retaining control over who their cofounders are. Pre-emptive rights have been used by governments in privatization in which original owners are favored. In many governments, pre-emptive rights have been granted to employees of privatized state-owned enterprises on all or part of the shares for sale, some-times with large discounts on price (Guislain, 1997). The government may also retain some shares referred to as golden or Special shares in order to have a say in key decisions involving the organizations.

3.4.5 Management and employee Buyouts

These involve the acquisition by management, or by employees generally, of the shares or principal assets of an enterprise. Under this method the managers and employees acquire a controlling interest in a state-owned enterprise. The usual procedure is for a holding company to be created in which the management and employees buy a controlling interest. The holding company then uses the equity and any debt funds to the privatizing enterprise, subsequently paying debt interest and principal out of the funds available from enterprise dividends. Management and employee buy outs have the advantage of minimizing the social cost associated with layoffs and liquidation of enterprises. It also has the beneficial effect on future productivity because workers shall now have higher incentive to work harder due to the stake in ownership which translates into dividends payable to the new owners. Management and employee buy outs are seen to be risky for the business because of the usual lack of entrepreneurial experience on the part of the workforce, together with the probability that the enterprise may have been experiencing operating and financial problems caused by the very management and employees. Secondly, giving preferences to insiders inhibits and may even eliminate competition in the privatization process (UN, 1993; Gray, 1996 Tanyi, 1997; Wieser et al, 1997).

3.4.6 Contracting out.

Provision of capital-intensive services like water and electricity supply, garbage collection, and other public works are worldwide run as state monopolies. The production as well as distribution costs of these services discourage private investors. Over time it has been accepted that efficiency in the provision of these services could be improved through contracting-out privatization without ownership change. Under this method, the private operator contracts with a government entity to provide the service in accordance with certain performance standards; the government, in turn, guarantees the market for the services and keeps control by using payment of the service fee as leverage for performance. Other modified versions of contracting-out include management contracts and operating leases & concessions. Management contracts places a public enterprise under private management for a specific period of time, during which the contractor is paid a fee. Such a fee may partly be based on performance. Ownership of assets remains with the enterprise and ownership of shares remains unchanged. This method is often used in situations where there is a need to turn around a company in readiness for eventual privatization (Nankani, 1993; Berg, 1994; AfDB, 1997; Oliver and Bhatia, 1998).

3.4.7 Concessioning

There are sectors of the economy which represent national monopoly because investment requires high sank cost, as such, the simple sale of the enterprise may not be the best option as it can result to monopolistic rent which exposes consumers to exploitation by the providers of goods and services in such a sector (Klein, 1998). Such markets or sectors include telephone, electricity and railways. Bayliss and Fine (2008) observes that in Sub-Saharan Africa, private investors have shied away from investing in such utilities making their privatization a failure. Effective privatization of such markets or sectors of the economy require government intervention using mechanisms such as regulations among others so that they can be sold and regulated in a standard way. The most efficient way to carry out privatization in such markets or sectors is by concessions for the right to build These concessions are assigned more efficiently through competitive bidding (Klein 1998).

The elements that make concession a better option in certain cases are the existence of large, sunk investments, inherently high uncertainty in demand forecasts, and the fact that it is very costly for the government to switch quickly to a new provider after the contract is awarded. The most common sector in which concessions have been successfully implemented is construction of infrastructure through "Build-Operate-and-Transfer" schemes (BOT), as in the cases of standard gauge railways in Kenya. This kind of privatization can however be costly for the government especially in motivating investors to invest. Moreover, the focus of investors on cost recovery has not promoted social objectives of privatization such as reducing poverty and promoting economic equity in the country.

Since the coming into effect of the privatization Act of 2005, some methods have been removed and functions transferred to the Public Private Partnership Act of 2013. The methods approved for privatization as contained in section 25 of the Privatization Act 2005, which was amended by deleting section 25(b) are: public offering of shares; negotiated sales resulting from the exercise of pre-emptive rights; sale of assets, including liquidation; and any other method approved by the Cabinet in the approval of a specific privatization proposal. Other methods such as concessions, leases, management contracts were deleted from the Privatization Act of 2005.

3.5 Process of Privatization

Privatization process requires a clearly thought out plan with clear objectives. Success in privatization is dependent on many factors, among them, the actual process of privatization. According to White and Bhatia (1998), the first activity in undertaking privatization is programme design and preparation exercise whereby a privatization agency is established, enterprises to be privatized are selected and the mode of privatization for the enterprise is determined. The method of privatization is then determined followed by drawing of terms of reference for transaction processes and recruitment of consultants. An examination of the privatization commission process reveals the steps discussed in the following paragraphs.

3.5.1 Approval of privatization Programme

Privatization process in Kenya starts with approval of the privatization programme which is a list of the public sector investments and operations approved by the Cabinet to be considered for privatization and subsequently privatized once all required approvals are granted. To prepare the programme, the Commission reviews the assets and operations of public sector investments. The Commission then proposes a programme which it submits to the Government for approval by the Cabinet. A sector ministry may also propose that an institution under the sector be included in the programme. Once approved, the programme is gazetted by the Minister responsible for Finance.

3.5.2 Preparation of Detailed Privatization Proposal

For every investment and operation in the approved Privatization Programme, the Commission is required to prepare a detailed privatization proposal for approval by the Cabinet. Each detailed proposal should set out the purpose of the establishment and existence of the asset or operation; the extent to which the purpose has been met including any inadequacies in meeting that purpose; the rights or other entitlements and resources that have been provided to meet the purpose; recommendations for continuing to meet the purpose; if the asset is a state corporation - its financial position; the recommended method of privatization; the estimated cost of implementing the proposed privatization; recommendations for dealing with the employees directly affected by the proposed privatization, including any benefits they might be owed; the benefits to be gained from the proposed privatization; a work plan for the proposed privatization; information regarding any written law, the repeal, amendment or enactment of which will be necessary for the proposed privatization to be carried out; and proposals on how Kenyans are to be encouraged to participate in the transaction. As the Commission has adopted a lean institutional structure, to enable it to address the above issues adequately, it procures the services of transaction advisors who assist it to carry out detailed financial, legal and technical due diligence and comprehensive assessment of the needs both of the investment and the sector.

3.5.3 Approval of Detailed Privatization Proposal

Privatization proposal approval goes through several processes. The first process of approval is done internally by Privatization Commission. After the privatization proposal has met the assessment of the commission, it is forwarded to the parent ministry (Ministry of Finance and Planning) who undertakes its own evaluation and approval processes. Should they find the proposal okay, it is taken to a cabinet meeting and subjected to further evaluation with expectation that it will get approved by the Cabinet.

3.5.4 Presentation to Parliament

Presentation of the approved detailed privatization proposal to the relevant Committee of Parliament by the Cabinet Secretary responsible for Finance is then made. This is because it is the members of parliament who are politically accountable to the citizens they represent and are empowered by the law to curb any abuse of office by either Cabinet or civil service in general. And privatization is one of such areas where such abuses of public office are rampant (Rose-Ackerman, 1996; Wei, 1998). Parliamentary approval curbs public office abuse, it also reduces public discontent on privatization process and increase probability that public interest will be considered. Ultimately adherence to this process promotes the success of a privatization programme.

3.6 The legal environment of privatization in Kenya

Legal environment forms part of the corporate governance framework needed for successful running of any organization. The legislative and institutional framework of state-owned enterprises are of extreme importance as they offer a suitable environment for survival and growth of these enterprises. The legislative and institutional framework on state owned enterprises started soon after independence in 1965 when the new government expressed its philosophy about the role of the state in sessional paper number 10 in which the government committed itself to promoting rapid economic growth and equitable distribution of economic resources through establishment of public enterprises.

By 1970s, the state-owned enterprises were not performing well as per plan because of widespread inefficiency and mismanagement of state enterprises. The situation necessitated the setting up of a committee to review statutory boards in 1979. The committee recommended that parastatal managers be put under tight control of the central government with terms and conditions harmonized with those of the civil servants. In 1982, the working party on government expenditure found major problems among public enterprises and recommended government divestiture programme. The working party did not discuss how the recommended government divestiture should be carried out. The sessional paper No. 1 of 1986 on Economic Management for Renewed Growth shifted the paradigm from Asian socialism to a market economy. Several years after its issue, government officials considered it a mere improvement of sessional paper No. 1 of 1965.

The sessional paper No. 1 of 1986 was followed by state corporations Act of 1986. The Act was the first clearly promulgated law on wholly state-owned enterprises. Before then, state enterprises had been regulated by specific Acts of parliament that had brought them into existence, together with various legal notice and policy circulars issued by the parent Ministry. The state corporations Act of 1986 also provided for a State Corporation Advisory Committee that would supervise the operations of these enterprises, while the Investments Division at the Treasury would oversee their investment and evaluate their performance (Nyong'o et.al 2000). The Act makes provision for the establishment of state corporations, for control and regulation of state corporations, and for connectedness purposes. The policy paper on Public Enterprise Reform and Privatization of 1992 laid the policy and institutional framework for privatization in Kenya. The 1992 policy paper was followed by two similar agreements between 1993-94 and 1994-97. The policy framework papers became the basis by which progress in privatization could be measured. Policies have never seized, the vision 2030 provides national policy guidelines for the nation of Kenya. Under vision 2030, the National Treasury, under which the Privatization Commission falls, is expected to, among other key result areas, ensure: "effective mobilization and management of public resources".

With time, it became clear that the policy papers and state corporation Act of 1986 proved inadequate to provide the necessary framework for privatization of Kenyan state-owned entities. Due to the legal inadequacies, certain legal amendments were submitted to parliament on the State Corporation Act, the Exchequer and Audit Act, and the permanent secretary to the treasury (Incorporation) in June 1994 (Government of Kenya, 1994). The Bill further established the office of the Investment Secretary as Head of the Department of Government Investments and Public Enterprises (DGIPE), appointed by the President, and with the responsibility of formulating plans, and advising the government on the restructuring of state corporations and other public enterprises. The Bill also abolished the office of the Inspector of State Corporations, giving the functions to the Investment Secretary who was now directly answerable to the Minister of Finance as the Permanent Secretary in charge of parastatals and the privatization/reform program.

The Exchequer and Audit (Amendment) Bill, 1994 sought to provide for the powers of the Auditor-General (Corporations) to audit the accounts of corporations which are owned or controlled directly or indirectly by the Government specified by notice in the gazette by the Minister. The Bill also sought to enable the Investment Secretary to direct the Auditor-General (Corporations) to appoint a person nominated by him to audit the accounts of a state corporation without the Minister's approval. This would make it much easier, and faster to prepare public corporations for privatization. The amendment to the Act, related to the incorporation functions of the Permanent Secretary to the Treasury, was to enable the Minister for Finance to give directions to the Permanent Secretary to the Treasury, on the recommendations of the Investment Secretary, regarding voting rights on behalf of the government in relation to shares held in any company by the Government. Further, it gave express powers to the public corporations to dispose of their assets under terms deemed fit by the corporation, unfortunately, the proposals in the bills were however withdrawn and privatization went ahead with the assumption that the State Corporation Act and Policy Paper on reform provided as adequate guideline for implementation.

The fact that prior approval of Parliament is required under the State Corporation Act in the case of privatizing those corporations made the government and its partners like World Bank to see no problem with the absence of a privatization law. The fact that, the Act gives the President the power to exempt a state corporation from the provisions of the Act as a way of speeding privatization further game the government and its stakeholders comfort. The big problem is that this exemption power has been abused by the executive. The continuous abuse of this power has been exhibited by acrimonious expression by the public, parliament and other stakeholders (Anyanzwa, 2019). The Parastatal Reform Programme

Committee (PRPC) and the Executive Secretariat and Technical Unit (ESTU) had to take over the coordination of privatization programme. PRPC and ESTU exhibited weak planning and operated in an ad hoc manner because they lacked sound legal basis, they had to bargain from a position of weakness vis a vis other government departments and agencies. In situations where receiver managers have been appointed to liquidate parastatals, ESTU had little powers to influence the cause of events.

The first phase of privatization programme started in 1992 and went on to 2003, by which time most of the non-strategic enterprises had been partially or fully privatized. By 2003, the direction of thinking regarding structuring and retention of a number of strategic corporations under Government operation and control changed due to: inadequacy of public sector resources to finance the requisite investments in infrastructure facilities; the need to arrest continued deterioration in infrastructure services; lessons learnt from other countries which had succeeded in improving their infrastructure services through Public Private Partnerships; and restructuring which resulted in separation of commercial activities from regulatory functions, making it possible to privatize commercial activities while ensuring the Government‘s continued presence in the privatized sectors through establishment of strong legal and institutional regulatory frameworks. As a result of the change in thinking, the Government implemented several key privatization transactions under the Economic Recovery Strategy for Wealth and Employment Creation, (ERSWEC) 2003-2007.

Privation Act of 2005 was enacted. The Privatization Act, 2005 provided the basic legal framework for establishment and operation of Privatization Commission. The Act empowers the Commission to formulate and implement a Privatization Programme. The Privatization Commission is established as a corporate body under the Privatization Act, 2005. The mandate of the Commission is to formulate, manage and implement Kenya’s Privatization Programme. The Programme consists of the list of investments and assets approved for privatization under the Privatization Act. The Privatization Act of 2005 too had its limitations. The promulgation of Constitution of Kenya 2010 brought in new dynamic within the legal framework of Kenyan constitution. The constitution of Kenya 2010 took the place of an overarching legal document on which the Commission’s activities are continually anchored. Among other issues, the Constitution provides for Public participation, high standards of ethical behavior, leadership and integrity, service delivery, corporate governance and the mainstreaming of gender, youth and persons with disability. There have been several reviews of Privatization Act 2005 such as Act No. 15 of 2013, Act No. 7 of 2017, Act No. 18 of 2018 with ongoing consolidation of amendments.

3.7 Challenges of Privatization in Kenya

Privatization as a programme faces many challenges in Kenya. While some challenges originate from the internal environmental factors of the body charged with privatization (privatization Commission), some challenges are driven by external environmental factors which are beyond the control of the privatizing body.

3.7.1 Privatization Commissions Institutional Challenges

Privatization commission faces many challenges associated with budgetary constraints. These challenges include but are not limited to lean staff which have also proven very difficult to retain due to Labour market forces. Limited office space and facilities is also a challenge on the operations of Privatization Commission of Kenya. Other challenges are to do with corporate governance, especially the appointment and replacement of board members which has led to difficulties in meeting board quorums at times. The several multi-layered nature of Privatization Commission's stakeholders with varied interests and powers have led to conflicts which have in the past slowed down the privatization process. There have been instances of opposition by some stakeholders who have not only appeared to sabotage the activities of Privatization Commission such as education of other stakeholders but have also sued Privatization Commission and the Kenyan Government (Petition No. 187 of 2016).

3.7.2 Political Challenges

Privatization is an activity with strong political aspect which cannot be ignored. Politics therefore greatly influences privatization programmes in Kenya and in many incidences negatively. Governments in developing countries which include Kenya are viewed as corrupt and incompetent, lacking credible commitments not to intervene, failing to safeguard property rights and being incapable of implementing proper, consistent regulatory procedures. As a result, privatization in developing countries is poorly implemented and regulated, even in cases where they have regulations, those regulations are poorly implemented. The absence of strong governance means that 'policies are changed by absolute decree with no prior notice' and 'bureaucrats may have a great deal of discretion in the application of business regulations with their decisions being unpredictable (Clague 1997a).

3.7.3 Economic Challenges

The recent exponential rise in Kenya's public expenditure and in inflation over the last few months have been a concern, with calls from the public for the expediting of privatization of public entities that continue to depend on the exchequer. The fundamental privatization theorem states that 'when certain conditions are satisfied, government involvement cannot improve upon the performance of the private market' (Sappington and Stiglitz 1987). Here, privatization failures are analogous to market failures, and have been blamed on weak economic institutions in developing countries compared to developed countries. These have been exacerbated by political interference and corruption.

3.7.4 Regulatory Factors

Privatization Act is considered rather restrictive. This is mainly due to the onerous requirements for obtaining approvals. While approvals at various levels may be good for accountability purposes, expected benefits from privatization could be diluted by such delays. A more enabling legal framework is necessary, and this could be achieved through flexibility that would shorten the approval levels and time. Generally, regulatory frameworks in developing countries are seen as fragmented and lacking in coherence (Kessides 2004), constrained by the lack of technical expertise, insufficient institutional preconditions (including a lack of checks and balances, and weak auditing, accounting and tax systems), a resistant political and administrative culture, and opposition from organized labour (Parker and Kirkpatrick, 2002).

CHAPTER FOUR: COMPARATIVE ANALYSIS OF PRIVATIZATION AND GOVERNMENT DIVESTITURE

Knowing what other countries have done or are doing as far as privatization and divestiture are concerned is good for enhancing the capacity of Kenya's Privatization Commission. This chapter of the report is presenting an analysis and comparative study of what selected developed and developing countries have done and are doing on privatization and divestiture. The aim of this chapter of the report is to draw lessons which could be applicable in the Kenyan situation. Presentation from the analysis of the target countries have been presented based on eight thematic areas: Objectives of privatization; history of privatization; privatizations undertaken; methods of privatization; process of privatization; legal environment of privatization; challenges of privatization and lessons learnt from past experiences.

4.1 United States of American

By and large, privatization is both an economic and political policy that aims at improving the financial state of the government. Privatization has left a great imprint on how the US government functions. The idea of transferring government functions to the private sector solved many problems that remained unsolved for a long time. The objective of privatization in the US was to enhance efficiency in the allocation and sharing of resources via increased competition. Private companies are majorly profit-oriented, and they do everything possible to maximize their profits. This competition led to the production of quality items. Privatization in the US has led to increased market exposure and reduced the wage burden of the States.

4.1.1 Objectives of Privatization in the USA

Privatization is a central element in the USA economic reform. The move to implement privatization in the USA was motivated by several objectives. The first was the need to enhance efficiency in allocation and sharing of resources via increased competition. The view was that private companies are majorly profit-oriented thus will compete to command the market. The other objective of privatization was to reduce the power of public sector workers to suppress the wage pressures thus rendering investments more appealing. When the government owns enterprises, it always becomes the responsibility of the government to pay the employees whether the enterprise is making profits or not. State-owned corporations have a history of making losses and this puts pressure on the government in offsetting the wages (Araral, 2008). By privatising, the USA government aimed to reduce its spending on offsetting the wages of employees.

4.1.2 History of Privatization in the USA

The history of privatization in the USA dates back to the Second World War. During the post-Second World War, the conservative economists in the US as well as business leaders, intellectuals and academics faced tough times (Araral, 2008). The increased role and responsibility of the government in running the economy led to increased socialism and assault on freedom. To solve such challenges, the government realized that there was a need to privatize. As such, privatization was used to deal with the tight public budgets and a means of enabling the domestic and global corporations to obtain a lucrative market opportunity.

In the 1970s, various cities within the US were experiencing financial crisis and some think-tanks proposed the need to embrace privatization as a means to downsize the government. Reagan, administration supported the idea of privatization in 1980s, targeting various programs and assets, although not many people understood what that meant at the time. One of the first major privatization was the sale of 85% government interest in Conrail which was providing freight rail service (Henig, 1989-90). A President's Commission on Privatization was established in 1987, which put in further efforts to increase privatization in areas such as low-income housing, air-traffic control, the postal service, prisons, and schools. In his second term, Reagan embraced privatization fully and his budget consisted of more privatization proposals. Since then, privatization has been a key policy in all American administrations. In 1988, the American Federation of Teachers (AFT) president proposed the idea for the need to have private sector be involved in provision of public services including education (Araral, 2008). As a result, charter schools were formed, and their success confirmed the need to privatize more sectors.

Within what is commonly referred to as the American federalism approach to governing, the national government is looked to for the provision of pure public goods like national defence, while state and local governments are generally responsible for providing those public goods and services that most directly impact the citizens within their respective political jurisdictions. During the last two decades state and local governments have increasingly looked to the private sector for the provision of goods and services that have been traditionally supplied by governmental agencies. A number of factors have contributed to the devolution of public service functions to the private sector. Increased state and local government budgetary constraints and the need for greater cost containment, along with calls for greater government accountability continue to fuel interest in privatization and the outsourcing of additional public sector programs. Although most of the privatization activities still take place at the local government level, the states, and even the federal government, have increased their participation in outsourcing programs (Zumpano, 2003).

Various presidents in the US have dealt with privatization as a means of solving some fiscal challenges that the government experiences. For instance, in 1995, President Clinton issued a directive to his Vice President to survey programs within the government which needed to be sold or privatised (Araral, 2008). Many of the programs were privatized including corporations such as the OSHA, and Seafood Inspection Service. In the recent past, more of the battle over privatization has been moved to various states and cities in the US. The immediate president of the US, Barack Obama rolled out various initiatives that were aimed at sensitizing people on the need for privatization.

4.1.3 Privatizations Undertaken in the U.S.A

Privatization in the U.S. has somewhat lagged other areas of the world. One reason for this is that the U.S. was developed as a free market economy. As such, the government has not been the owner of numerous industries as in other countries. Because of this, US nation has not had to distribute assets as frequently as other countries. Another reason privatization was limited was due to federal regulations concerning infrastructure assets. Complete privatization of public assets to private investors was limited prior to 1992 due to federal regulations that required state and local government units to fully reimburse the federal government for grant monies received for infrastructure assets upon the sale of those assets. From 1992, privatization has become more easily done by states and local governments. By Presidential order in 1992, the amount of reimbursement was reduced to the depreciated value of the federal grant monies. This was followed by the Federal-Aid Facility Privatization Act of 1995 which allowed state and local governments to transfer assets without reimbursing the federal government as long as the asset continues to be used for its original purpose. McDonald (2014) cited that some of the major examples where privatization has been witnessed are in the airport operations, water and wastewater utilities, data processing, corrections, and waste collection disposal among others.

Various corporations have been privatized in America such as Railway Express Agency, Conrail, Federal National Mortgage Association and Students Loan Marketing Association among others. The idea to privatize is majorly a product of the realization of how efficient and beneficial privatization can be for a country. Conrail serves as one of the major privatizations that was done by the US government. This was in 1987 when the government sold its 85 % interest in Conrail to private ownership (McDonald, 2014). It is to be noted that Congress established Conrail in 1976 with the sole purpose of offering freight rail service in the North. During the administration of President Clinton, Alaska Power Administration, Elk Hills Naval Petroleum Reserve, U.S. Enrichment Corporation and Intelsat were privatised. These are briefly discussed here below:

Contrail

Conrail was incorporated in Pennsylvania on October 25, 1974, and operations began April 1, 1976. The government owned 85% with employees owning the remaining 15%. The theory was that if the service was improved through increased capital investment, the economic basis of the railroad would be improved. During its first seven years, Conrail proved to be highly unprofitable, despite receiving billions of dollars of assistance from Congress. The corporation declared enormous losses on its federal income tax returns from 1976 through 1982, resulting in an accumulated net operating loss of $2.2 billion during that period. Congress once again reacted with support by passing the Northeast Rail Service Act of 1981 (NERSA), which amended portions of the 3R Act by exempting Conrail from liability for any state taxes and requiring the Secretary of Transportation to make arrangements for the sale of the government's interest in Conrail. After railroad regulations were lifted by the 4R Act and the Staggers Act, Conrail began to turn a profit in the 1980s and was privatized in 1987 (Christopher, 1994).

With Conrail's increasing success, they decided to merge the company with another railroad, so they approached CSX Transportation about buying Conrail. This, however, drew the attention of Norfolk Southern Railway who, fearing that CSX would come to dominate rail traffic in the eastern US, made a bid of their own leading to a takeover battle between the two railroads. In 1997, however, the two railroads struck a compromise agreement to jointly acquire Conrail and split most of its assets between them, with Norfolk Southern acquiring a larger portion of the Conrail network via a larger stock buyout. Under the final agreement approved by the Surface Transportation Board, Norfolk Southern acquired 58 percent of Conrail's assets, including roughly 6,000 Conrail route miles, and CSX received 42 percent of Conrail's assets, including about 3,600 route miles. The buyout was approved by the Surface Transportation Board (successor agency to the Interstate Commerce Commission) and took place on August 22, 1998. Under the control of lawyer-turned CEO Tim O'Toole, the lines were transferred to two newly formed limited liability companies, to be subsidiaries of Conrail but leased to CSX and Norfolk Southern, respectively New York Central Lines (NYC) and Pennsylvania Lines (PRR) (Christopher, 1994).

The Federal National Mortgage Association (FNMA)

Historically, most housing loans in the early 1900s in the USA were short term mortgage loans with balloon payments. The Great Depression wrought havoc on the U.S. housing market as people lost their jobs and were unable to make payments. By 1933, an estimated 20 to 25% of the nation's outstanding mortgage debt was in default. This resulted in foreclosures in which nearly 25% of America's homeowners lost their homes to banks. To address this, Fannie Mae was established by the U.S. Congress in 1938 by amendments to the National Housing Act as part of Franklin Delano Roosevelt's New Deal. Originally chartered as the National Mortgage Association of Washington, the organization's explicit purpose was to provide local banks with federal money to finance home loans to raise levels of home ownership and the availability of affordable housing (Frank and Franco, 1992)

Commonly known as Fannie Mae, is a United States government-sponsored enterprise (GSE) and, since 1968, a publicly traded company. Founded in 1938 during the Great Depression as part of the New Deal, the corporation's purpose is to expand the secondary mortgage market by securitizing mortgage loans in the form of mortgage-backed securities (MBS), allowing lenders to reinvest their assets into more lending and in effect increasing the number of lenders in the mortgage market by reducing the reliance on locally based savings and loan associations (or "thrifts"). Its brother organization is the Federal Home Loan Mortgage Corporation (FHLMC), better known as Freddie Mac. As of 2018, Fannie

Mae is ranked 21 on the Fortune 500 rankings of the largest United States corporations by total revenue (Frank and Franco, 1992)

Fannie Mae was acquired by the Housing and Home Finance Agency from the Federal Loan Agency as a constituent unit in 1950. In 1954, an amendment known as the Federal National Mortgage Association Charter Act made Fannie Mae into "mixed-ownership corporation", meaning that federal government held the preferred stock while private investors held the common stock; in 1968 it converted to a privately held corporation, to remove its activity and debt from the federal budget. In the 1968 change, arising from the Housing and Urban Development Act of 1968, Fannie Mae's predecessor (also called Fannie Mae) was split into the current Fannie Mae and the Government National Mortgage Association ("Ginnie Mae") (Frank and Franco, 1992).

The Railway Express Agency (REA)

The Railway Express Agency (REA), founded as the American Railway Express Agency and later renamed the American Railway Express Inc., was a national package delivery service that operated in the United States from 1918 to 1975. REA arranged transport and delivery via existing railroad infrastructure, much as today's UPS or DHL companies use roads and air transport. It was created through the forced consolidation of existing services into a national near monopoly to ensure the rapid and safe movement of parcels, money, and goods during World War I. Due to rate increases, express operations remained profitable into the 1950s. REA concentrated on express refrigerator service after 1940, and continued to expand its fleet of express reefers until the mid- to late-1950s. At that time, business declined dramatically owing to competition from refrigerated motor trucks. By this time, overall rail express volume had also decreased substantially. Federal investment in the interstate highway system after WWII meant that trucks and other vehicles had more flexibility in transporting goods to a variety of cities.

The increase in private ownership of automobiles doomed many passenger lines of the railroads, and industrywide restructuring took place. REA baggage car detail. Railway Express Agency worker, WWII safety poster in 1959, REA negotiated a new contract, allowing it to use any mode of transportation. It also acquired rights to allow continued service by truck freight after passenger trains were discontinued. REA unsuccessfully attempted entering the piggyback and container business. Another blow came when the Civil Aeronautics Board terminated REA's exclusive agreement with the airlines for air express (Solomon, 1984).

In the early 1960s, Railway Express Agency was renamed REA Express. By 1965 many of REA's refrigerator cars, stripped of their refrigeration equipment, were in lease service as bulk mail carriers. Many were relegated to work train service. In 1969, after several years of losses, REA was sold to five of its corporate officers. By then its entire business constituted less than 10% of all intercity parcel traffic, and it transported only 10% of its business by rail. Trying to find a way to survive, REA Express became embroiled in extensive litigation with the railroads and the United Parcel Service and tried to renegotiate contracts with the Brotherhood of Railway Workers' Union. In November 1975, REA Express terminated operations and filed for bankruptcy. During the railroad strike of October 1974, the first Altair 8800 microcomputer was lost. It had been shipped from Albuquerque to Popular Electronics magazine in New York via REA and never arrived (Solomon, 1984).

Student Loan Marketing Association (SLM)

The Student Loan Marketing Association was originally created in 1972 as a government-sponsored enterprise (GSE) and began privatizing its operations in 1997, a process it completed at the end of 2004 when Congress terminated its federal charter, ending its ties to the government. The company remains the country's largest originator of federally insured student loans. Through its specialized subsidiaries and divisions, Sallie Mae also provides debt management services as well as business and technical products to a range of business clients, including colleges, universities and loan guarantors. SLM Corporation (commonly known as Sallie Mae; originally the Student Loan Marketing Association is a publicly traded U.S. corporation that provides consumer banking. Its nature has changed dramatically since it was set up in 1973. At first, it was a government entity that serviced federal education loans. It then became private and started offering private student loans, although at one point it had a contract to service federal loans. The company's primary business is creating, servicing, and collecting private education loans. The company also provides college savings tools such as its Upromise Rewards business and online planning for college tools and resources. Sallie Mae previously originated under the Federal Family

Education Loan Program (FFELP). It served as a servicer and collector of federal student loans on behalf of the Department of Education (David and James, 2007).

4.1.4 Methods of Privatization and Government Divestiture.

There are various methods of privatization. Each country chooses to use the method that fits it best. One of the methods of privatization in the public sale of shares. This method entails the selling of shares of public companies that are owned by the state. Shares of a public company that have been privatized are controlled by the rules that regulate the activity of the National Stock of Exchange that has been applied. The other method for privatization is through public auction. A public auction is referred to as a method that is used when obtaining the highest sale price for the privatised property. There also exist other privatization programs related to those assets and they too need to be fulfilled. The property is given to the bidder who has given the highest price. There exist many potential bidders and there is no limit as to how many bids that may be applied. However, it is the highest bidder that takes it all. Privatization can also be through the transfer of control. In the US, the transfer of controls happens where enterprises that are controlled by the State or municipal have more than 50 % of their shares being privatised by applying other privatization methods (Cook & Kirkpatrick, 2010). It is to be noted that the use of any privatization method is usually based on the government directive. As such, some privatization methods can be allowed in one country while others cannot be applied in other countries. The methods of privatization that have been used in USA are discussed here below (Kosar, 2006):

Divestiture/Load-Shedding

The government has done privatization by sale or divesture of government interests in a company to private entities. This has not been limited to assets only but also privatization of government services. The method was used in privatization of Conrail in 1987 through a stock offering, creation of US Investigations Service, a private entity, from the Office of Personnel Management’s (OPM’s) and transferring to it employees of Federal Investigations Division, Alaska Power Administration in 1996, U.S. Enrichment Corporation, Inc. in 1998, and Elk Hills Naval Petroleum Reserve in 1998.

Contracting for Goods and Services

This is where the government contracts private sector to provide goods. Government contracting has been practised in USA for a long time, supported by federal government policy of not competing with the private sector (Kosar, 2006). Federal government acquisition is based on uniform policies and procedures as set out by the Federal Acquisition Regulation (FAR). The challenge with contracting has been difficulties in coordinating the activities of the private entities by the federal government. Contracting for services (outsourcing), is also done with government agencies engaging private entities to carry their function or provide a service. The approach is also used in situations of large and infrequent demand of government services. Outsourcing is governed by federal laws to ensure competitive sourcing.

Quasi-Governmental Entities

This is where entities set up have both private sector and government legal attributes. Such entities can be government sponsored, congressionally chartered, or government venture capital firms (Kosar, 2006). These institutions offer services that should be offered by government entities.

Third-Party Financing

It is where financing of a government project or service is done by the private sector through a Special Purpose Vehicle (SPV) that becomes the owner of the facility. The SPV involves an agreement between a government agency and a private entity. Such arrangements allow for the SPV to raise finances and once the facility is in place, it manages the facility under a long-term contract. Some of the areas where this method has been used is in financing infrastructure projects such as electric power facilities and government office buildings.

4.1.5 Process of Privatization in the USA

The process of privatization is usually dependent on the government or state and the individual investor. The government or state must be willing to release the enterprise to a willing individual investor to make the privatization process complete (Cook & Kirkpatrick, 2010). Besides, some laws must be followed during the privatization process. The process of privatization involves two main players: the private sector and the public sector. The public sector includes those industries and operations which are within the public sector. There are some sectors such as the education sector which can be run by the government and by individuals at the same time. Before privatization occurs, there must be an agreement between the parties involved and the process must be within the stipulated law. Privatization process in the USA is based on a clear framework that is based on laws of the country. The process involves various stakeholders and in certain cases, congressional legislation is necessary to provide appropriate legislations and guidelines to support the process.

4.1.6 Legal Environment of Privatization

The U.S. Constitution is very central within its national politics as well as in its legal discourse. While it is difficult to obtain a simple summary of the constitutional law of privatization, it can be pointed out that regardless of political background or jurisprudential orientation, the Justices of the US Courts have tended to embrace doctrine that elevates judicial administration of public law. No other legal system in the world permits its judges to wield such influence and to take such a creative approach to the development of constitutional law like the US. The US courts have had so little to say about privatization. This is partly because of the relatively small size of the public sector in the United States. Even before deregulation and privatization became politically fashionable in the late 1970s, the United States allowed private firms to perform functions that in many other countries fell into the province of state-owned firms. The US international air transport, telecommunications, utilities, and extractive industries, for example, never needed privatization. Another reason for constitutional limitations on privatization in the US is the fact that the U.S. Constitution plays more role as a blueprint for decision making processes, rather than as a guarantee of substantive outcomes. Some legal analysts have pointed out that no clear consensus exists within the United States over what functions are either properly or exclusively the governments. When it comes to constitutional guarantees of privatization, one finds slightly more case law, but those decisions have been termed stale and doctrinally dubious. There is therefore no authority dealing with privatization process in the US (Stephen III and Gillette, 1998).

In the absence of authority dealing directly with the privatization process, there exists three areas where decisions to privatize can arise. First is where constitutional rules that normally would apply only to governmental actors might apply to privatized activities. Second is the federal administrative law governing decisions by the federal government to contract out its functions. Third is the constitutions of the several States that have affected privatization. While the federal government employs various forms of privatization, Congress's authority to delegate governmental functions and services to other entities has its constitutional limits. Constitutional principles, such as the nondelegation doctrine, the Due Process Clause, and the Appointments Clause, may constrain Congress's authority to delegate federal authority to private, governmental, or quasi-governmental entities (Gillette and Stephen III, 1998).

4.1.7 Challenges of Privatization in the USA

Despite the global success of privatization, there have been various challenges that have been seen to derail the implementation of privatization and related factors. Privatization is not an old policy and many people are still struggling with it. This lack of enough information or proper understanding of privatization makes it lack public acceptance in some cases. This is rather serious because, before privatization of a government agency, the public needs to be consulted and its opinions put into consideration.

The other challenge of privatization in the US is that some interested companies may fail to post the required financial estimates for the privatization. It is not possible for a company that is experiencing losses to be allowed to run a government enterprise. Due to the hype on privatization, many private companies have shown interest and willingness to acquire state-owned enterprises although this has not been possible since many of them are financially weak (Bennett, Estrin, & Giovanni, 2007).

The other challenge is the lack of national guidelines on how to effect privatization. There have been several government-owned enterprises that have been advertised for privatization and received widespread expressions from various companies but there have not been proper national guidelines on how the privatization process should proceed.

4.1.8 Privatization Lessons from the USA

During its privatization journey, the US has made several strides and applied varied methods of privatization. There are several lessons to be picked from US privatization experience. One of the greatest lessons learned is that for privatization to be successful there must be political transparency. Privatization is usually a political process even though, on the surface, it appears to serve an economic purpose (McDonald, 2014). The ability to insist on transparency is essential as it maximizes the perception that the playing field is level and all the parties are meant to benefit from the process. Thus, every privatization process should take into consideration the correct balance between political and economic goals. The second lesson is that privatization should be supported by strong legal and regulatory environment, which will make the process open, transparent and have value for money, and ensures there is competition in the privatised sector. Another lesson is that while privatization may improve efficiency, it may make provision of goods and services costly as witnessed in the US following privatization of schools and water sector. The challenge with this in developing countries is that such services will not be accessible to a large portion of the population, hence leading to negative welfare effects.

4.2 United Kingdom

Although the Labour Government of 1974-79 arranged the sale of some of the UK's state shareholding in state industries, the sales were dictated by budgetary pressures faced by the government at the time and did not reflect a belief within government that state industries should be privatised. It was only with the election of a Conservative Government in 1979, led by Margaret Thatcher that the real change in attitude occurred within the government towards the role of the state in the economy. There was no doubt that Mrs. Thatcher's personal crusade against state ownership added an important impetus into privatization in the United Kingdom. This she put clearly in her memoir:

> 'Privatization was fundamental to improving Britain's economic performance. But for me it was also far more than that: it was one of the central means of reversing the corrosive and corrupting effects of socialism. Just as nationalization was at the heart of the collectivist programme by which Labour Governments sought to remodel British society, so privatization is at the centre of any programme of reclaiming territory for freedom.' (Thatcher, 1993, p.676)

4.2.1 Objectives of Privatization in the UK

Privatization in UK was mainly aimed at raising efficiency in service provision, widen the ownership of these companies and generate investment that would be necessary to spur economic activity. Privatization in the UK was based on various objectives (Ramanadham, 2019), these include: the need to reduce government role in the overall functioning of the markets, to permit industry to raise funds from the capital markets on commercial terms without support from the state, as a way of providing an incentive to drive dynamic efficiency, restoring financial controls and ownership with a more effective system of economic regulation aimed at ensuing maximization of consumer satisfaction, raising revenue and reducing government budget demands, enabling business culture and permit wide share ownership, and fostering employee share-ownership in their firms.

4.2.2 History of privatization in the UK

Privatization in the UK started in the early 1940s but gained momentum during the Conservative government of Margaret Thatcher in late 1970s. Before this period, several industries were state owned. The privatization drive was based on The Ridley Plan (that is, Ridley Report) of 1977 on the nationalized industries in the UK, which followed the 1973-74 coal strike. In 1979, government-owned enterprises in the UK were in several sectors of the economy such as energy, telecommunications, steel production and public transport. This followed the nationalization initiative that had been there after the World War II.

During the period of recession in the 1980s, the Tories had started to propose privatization as a policy, but this idea was not initiated immediately. The push for privatization was motivated by the need to make utilities more efficient as well as productive. The intention was also to make British capitalism more competitive than it had been. Privatization in the UK was intensified following re-election of the Tories government in 1983 (Ramanadham, 2019), making it the most large-scale privatization project in Europe. The idea of privatization was based on the notion that private firms are more efficient than government owned firms and that competition is better than monopoly (Parker, 2009). During this time, major utilities and organisations such as British Telecom, British Aerospace, Rolls-Royce and British Airways were privatised.

The privatization policy received significant opposition from various parties, but the government was committed to rolling out more privatization programs. Privatization focused on profitable firms as a way for the government to raise revenue and reduce public borrowing. Between 1992 and 1996, the British government was divided over a range of policies, especially the European Monetary Union. The government went on to push for privatization by selling off British Coal and other companies that generated electricity such as National Power, British Rail, and Powergen. It is noted that most privatizations done from early 1980s to mid-1990s involved companies which operated as actual or near monopolies, thus removing them from government control meant the need to create regulatory regimes to ensure their operations were in line with acceptable market requirements (Rhodes, Hough and Butcher, 2014).

The privatization process changed tune in mid-1990s following the end of the fourth Tory administration. A new privatization policy known as Private Finance Initiative was introduced that aimed at raising money in the short term with no effect on taxes. Between 2002-2008, the new Labour administration was keen on pushing for further privatization (Haque, 1996). There were initiatives to privatise more entities to make the country competitive as the administration was out to show that there was no alternative to privatization. The historical journey of privatization in the UK was faced by various challenges, but the determination shown by various leaders ensured that it succeeded. The challenge was that most national entities had been privatised and thus the government adopted the Public Private Partnership (PPP) as a way of divesture (Rhodes et al., 2014). This meant that the government maintained partial interest in these entities. Through this approach, the National Air Traffic Services (NATS) was partially sold in 2001, sale of Quinetiq in stages from 2003 to 2018, and British Nuclear Fuel (BNFL) in 2006.

4.2.3 Privatizations undertaken in United Kingdom

There has been extensive privatization in the UK, especially from the time of Margaret Thatcher. With her re-election in 1979, privatization was made a national policy, and many companies were privatised. The government started by selling off its holding entirely and in other cases sold off enough so that it was left as a holder and this paved the way for the market forces to drive the decisions of the company. Some of the companies that were privatised in the UK include the ICL computers which were among the first companies to be privatised in 1979 (Haque, 1996). The other company that followed soon after was Fairey and Ferranti in 1980. After this, some other companies continued to be sold off such as National Freight Corporation, British Sugar Corporation, Cable and Wireless, and British Rail Hotels.

As a way of seeking support for privatization among the wage earner, the government used various strategies. One of these strategies was selling small numbers of shares to low-income households at lower prices, coupled with giving additional shares to some individuals. This is what was done with the sale of Britoil. This was a British company which dealt with the exploration of oil in the North Sea (Haque, 1996). Priority was given to those who wanted small amounts of shares. This motivated many investors to seek the purchase of shares from the company. The number and proceeds of privatization in the UK are presented in the table below.

Table 4.1: Number and proceeds of major privatizations in UK, 1971 – 2014

Year	Number	Proceeds (£ millions
1971-1980	3	859
1981-1990	24	38,141
1991-2000	12	25,718
2001-2014	8	6,907

Source: Compiled from Rhodes et al. (2014)

4.2.4 Methods of privatization and government divestiture

Privatization can take several methods in the United Kingdom. The methods used were determined by the British government directive regarding privatization. The methods of privatization in United Kingdom include asset transfer, deregulation, and public or private partnership (Haque, 1996). The choice of the privatization method to use is important since the process is irreversible, hence the method used must be customized to fit the circumstances of whatever is being privatised. Any method chosen carries with it both advantages and disadvantages. One of the major methods that the UK government uses in privatization is the direct sale of assets of state-owned enterprises to individuals. In this method, some formerly state-owned corporations are transferred to individual ownership, and the individuals take full control of the corporations. This method is characterized by a sale that is usually given to the highest bidder and led outside ownership.

Privatization can also be by the government selling her entire equity in a state-owned enterprise (SOE) by way of a public share offering. In this case, the government may remain a minority shareholder in the corporation, meaning that it will not be the key decision-maker. The other method of privatization is direct negotiations. In this method, the government shows its willingness to engage a private investor in the running of a certain state-owned corporation. During the negotiation, the state and the investor agree on the running of the corporation where the interests of each party are factored in. However, many investors may not like such a method because the government tends to put much pressure on them. The government also affects their monopoly when it comes to making decisions. In direct negotiations, the investors are chosen based on specific qualifications. The chosen investor must have the interest of the government at heart. The approaches used in privatization in the UK depended on the industry and political environment. The methods used in privatization in the UK are given as below (Rhodes et al., 2014):

Public sale of shares

This is where the government sells shares of a public entity on the stock market. It was most used to privatise big companies such as British Gas and British Telecom in 1980s and Royal Mail in 2013. Public sale of shares was done after restructuring the companies to make them attractive and were backed by appropriate legislations to prepare the companies for privatization. In certain instances, restructuring involved separating the company in different entities and selling only a part of it. Public sale of shares can only be successful under full information disclosure on the company and aggressive marketing.

Private sales

This involves direct negotiation between the buyer and the government and is mainly concerned with transferring responsibility for a company to a private entity in return for money paid to the government. It starts with a number of potential buyers having direct negotiation with the government which then settles on one buyer for further negotiations. It may also involve restructuring of the government owned entity before privatization. In most cases, part of the company is sold through a private sale and before complete transfer is done using other methods of privatization. Companies privatised through this approach include sale of British Leyland to BAe in 1988, partial sale of QinetiQ in 2003 to the Carlyle Group, and the sale of the Tote in 2011 to Betfred.

Management and employee-led buyouts

This is where a group of investors brought together by management and employees directly negotiate with the government to buy a company. In most cases, it involves the final sale of remaining parts of the company after other parts have been sold, and mostly some shares are reserved for employees. Example of where this method was used is in sale of British Technology Group. Another method close to this is the employee shares method where a proportion of shares are reserved exclusively to employees of the government entity e.g. in privatization of BT in 1984, and Royal Mail in 2013.

Special shares

This is where privatization of a company provides for special shares to enable the government to retain limited control over an industry which is considered to be strategically important. It provides a tool for the government to veto future takeovers and certain management decisions (Rhodes et al., 2014). These shares are valid for a specified period. Example of privatization using this method is British Energy and Amersham International.

4.2.5 Process of Privatization

There are several ways that privatization of various government operations happens. Privatization is majorly a tool that helps governments to save money as well as increase efficiency. The process of privatization involves two leading players: the private sector and the public sector. The public sector includes those industries and operations which are within the public sector. For instance, in the UK, the government agencies include public schools, the Postal Service, as well as the university systems. The enterprises that are not run by the government are categorized under the private sector. Most of these enterprises are meant to generate profits. The process of privatization involves turning these government-owned operations into private owned entities. The government does this as a means of enhancing competition in the workforce and reducing monopoly.

4.2.6 The legal Environment of Privatization

In UK, nationalized industries often required primary legislation before they could be privatised. This is because they have been placed into State ownership by Act of Parliament, meaning that they require further legislation to return to the private sector. For example, the Postal Services Act 2011 prepared Royal Mail for privatization. Ensuring high standards in customer service, pricing and competition in the markets newly established by privatization required the creation of an organisation that has the statutory powers to control the new private companies. This means that the regulatory framework (including the regulator) had to be established in law. For example, the Telecommunications Act 1984 set up the regulatory framework for the new telecommunications market and created the regulator (the Office of Telecommunications (Oftel) later Ofcom).

Industry regulators were also created in the UK with the specific aim of being independent from government. For example, Oftel was created with the specific aim of being a force for regulation that was independent from Ministers and, therefore, independent of short-term political pressures (Butler and Prire, 1989). The significance of the regulator in the UK lies in the need to ensure competition in the newly created markets. In a privatised market, competition is intended to deliver efficiency, lower prices and better customer service. If one or a group of providers can gain a dominant position in a market and reduce competition, then the desired features of the market are potentially compromised. Therefore, the regulatory framework had to be empowered to ensure that no single company or group of companies can dominate a market or threaten the existence of competitors. The existence of regulation in the UK was one of the most significant changes attributable to privatization. As Parker states, privatization has led to reformulated role for the UK Government as a market regulator rather than a direct service provider (Parker, 2004).

4.2.7 Challenges of Privatization

There are several challenges that are associated with privatization. In the UK, the Conservative government faced the problem of the companies that they sought to privatise not making enough profits (Fitzpatrick, 2016). As a result, the companies remained unattractive to investors. Investors are only willing to invest in a company that has a prospective future. A company that does not generate profits is avoided by investors. This is what the UK government experienced since many companies were not making profits, thus rendering them hard to privatise. The other challenge of privatization is that the issues of public interest must come to play at the end of the day. One thing that the UK government came to realize is that privatization is all about making profits as opposed to serving the citizens. There are several industries which are supposed to serve the public such as education and health care and privatising such industries would mean denying some people those services (Haque, 1996). The profit motive does not need to be the primary goal of the firms. Thus, the UK government realized that not all the industries could be privatised.

4.2.8 Lessons learnt from UK

Although it was faced with considerable opposition during its inception, the UK government is now one of the greatest supporters of privatization. Currently, the value of privatised assets in the UK is more than £200 billion (Fitzpatrick, 2016). Some of the areas that have been affected by privatization include some corporations which were previously state-owned such as airlines, telecommunications, gas, and airports among others. This has been a great lesson to the UK of how beneficial privatization can be. These privatised entities are better managed and more profitable than if they were owned by the state. Another great lesson for the UK from privatization is that the latter leads to an increase in market exposure. Consequently, this leads to an increase in service quality. It is to be noted that privately owned corporations report their performance measures publicly and this leads to an increase in the quality of services offered.

Several lessons can be learnt from the privatization process in the UK. As indicated by Parker (2004), privatization can only lead to improvements in performance if it results into competition, and effective state regulation is necessary in cases where there is no competition. Efficiency and competition do not arise merely due to change in ownership especially where the market has one major player. It should also be noted that while the objective of privatization may be to benefit consumers, it is the investors who may get higher benefits in terms of returns at the expense of the consumers especially when a public entity goes public.

Another aspect that is important is development of economic regulation by strengthening regulatory agencies. Regulatory agencies should be set up and strengthened with improvements in regulatory governance and adoption of regulatory tools to guarantee a favorable operating environment (Parker, 2004). This will also ensure that consumer interests are protected especially where the privatised entity was dominant and provides some of the basic services to the public. UK experience shows that almost all the sectors have a regulator. Competition policy development should also be prioritized to ensure efficiency in privatised markets, encourage new entry and prevent monopoly.

By and large, privatization has been a gradual process in the UK, but it has had a great significance in the economy of the country. Since the 1980s, the UK has continued to embrace privatization as a suitable policy to keep its economy competitive. Privatization has led to increased market exposure and a more competitive economy in the UK.

4.3 Brazil

The emergence of state capitalism in Brazil followed a similar path found in other countries, where governments created and managed SOEs in the second half of the twentieth century. Thus, after World War II, many governments in Continental Europe owned and ran water, oil, gas, electricity, telecommunications, shipping, and other companies (Millward, 2005). In Brazil, state ownership of large-scale enterprises began mostly after World War I when the government ended up bailing out a large portion of the railway companies of the country. In the 1940s, the then President Getulio Vargas created many state-controlled enterprises in sectors that were considered fundamental for economic development, such as mining, steel, chemicals, and electricity. Although the mainstream state capitalism in Brazil took place in the 1970s, it was by 1976-1977 that the public sector represented 43% of the total gross capital formation in the country, with around 25% of those investments coming from large state-owned enterprises (Trebat, 1983).

4.3.1 Objectives of Privatization

Privatization began in the early 1980s. It entered the economic policy agenda in 1981, when the Special Privatization Commission (Comissão Especial de Desestatização) was created. According to Pinheiro and Giambiagi, (1999), privatization was an active response to short-term macroeconomic problems, arising from the fiscal indiscipline from the military government (1964 to 1984). The transitioning from military to civilian regime in 1985, left the State-Owned Enterprises (SOEs) in a bad financial situation and generally high indebtedness in Brazil, leading to poor financial systems. Therefore, the state (regional governments) welcomed privatization as an important source of funding, which would not only stabilize currency, reduce debt, but equally increase spending (Pinheiro et al. 2004). Also, privatization was considered to drive competitiveness among companies.

President Fernando Collor de Mello administration (1990-1992) enforced privatization using various laws. One of the main Collor’s initiatives was the creation of the national desestatization plan, through Law 8.031/90, which stated the objectives of the privatization as to: reorder the state's strategic position in the economy, transferring to private initiative activities unduly exploited by the public sector; contribute to the reduction of public debt, contributing to the improvement of public sector finances; allow the resumption of investments in companies and activities that may be transferred to the private sector; contribute to the modernization of the industrial park of the Country, increasing its competitiveness and strengthening business capacity in the various sectors of the economy; enable the public administration to concentrate its efforts on activities where the presence of the State is fundamental to the achievement of national priorities; contribute to the strengthening of the capital market by increasing the supply of securities and democratizing the ownership of the capital of the companies participating in the Program (Brasil, 1990).

4.3.2 History of Privatization

The 1970s marked the golden age of the State-Owned Enterprises (SOEs) in Brazil. The intermediate goods industry was most favored by state huge investment program over other sectors. The Second National Development Plan (II PND) – Segundo Plano National Development Plan prioritized steel, petrochemicals, fertilizers, pulp and paper which were generally, generating large deficits at the time. The II PND focus were on production of capital goods and intermediate goods; transportation and communication infrastructure and development of alternative energy sources, with the objective of reducing dependence on foreign supplies. In the second half of 1970s, under the process called ‘nationalization’ of external debt, the SOEs were used as macroeconomic instruments, in order to curb inflation and raise hard currency following the then oil shock. The SOEs then experienced a process of progressive deterioration in their economic and financial conditions. This was exacerbated by the strong growth in their share of contracted external debt. The impact was a deterioration in the quality of services rendered to the public (Pinheiro et al. 2004; Pinheiro and Giambiagi 1999).

The public sector increasingly took-up external resources necessary to maintain economic growth. This was due to the private sector unwillingness, resulting from the then fragility of the Brazilian financial system. Consequently, there were international pressures and the view that the poor situation of the fiscal accounts blocked a rise in much needed investment, which was expected to occur under private ownership. Coupled by the poor outcome of the public services, a strong argument for capital restructuring ensued for SOEs, in the form of privatization. In 1980, Brazil began the privatization process of the SOEs. To facilitate the privatization exercise, the ‘National Program of Debureaucratization, Interministerial Council on Privatization and the Control secretariat of State Enterprises were created with the main agent of privatization being BNDES (Banco Nacional de Desenvolvimento Economico e Social-National Bank for Economic and Social Development). The institutions worked as ‘companies’ hospital’ by providing help to improve financial situations for firms under financial stress and then selling to the private sector. The period 1981-1989, 38 SOEs were privatized, generating then a revenue of US$726million. A proportion of small SOEs were closed or transferred to local governments. Six companies (in the steel sector, -(Companhia Siderúrgica Nacional (CSN), Cosipa, Companhia Siderúrgica Tubarão, Piratini, Acesita, Cosinor and Açominas) in a bankrupt state were incorporated by BNDES through the ‘hospital operations’ (Amann et al. 2004).

In the first half of 1990s, following political transition, the civilian government sold off several large and traditional SOEs. Privatization reached its peak 1995-1998, when 80 companies were sold, raising US$73.3billion in total proceeds. A large proportion of which was from the state ceding participation in telecom, electricity, railways, ports, roads, water and sanitation sectors. This was motivated by the engagement of state/regional governments in the privatization process, leading to the sale of several electricity distribution companies, in addition to several smaller companies in banking, transportation, and other sectors. The amendment of the constitution in 1988 discontinued public monopolies and the discrimination against subsidiaries of foreign companies. This opened the opportunity to privatize the Brazilian largest SOEs in the telecommunications, electricity, gas distribution and mining sectors. The railways and ports were partly or totally transferred to the private sector. Privatization was driven by persistent failure of the government to stabilize inflation and provide the much-needed funds for economic growth recovery. The access to SOEs domestic and external financing was limited by then existing fiscal policy.

The regional states appetite for funds to reduce debt and expand spending compelled them to strongly advocate for privatization. They entered into contract by the BNDES to borrow against future privatization revenues. The success of privatization carried out in 1991-1994, evidenced by the companies’ increased efficiency and investment, helped to widen political support for the program. Pinheiro (1996) shows that privatization substantially improved the performance of the former SOEs, with significant increases in real sales, sales per employee, net profit, stockholders' equity, investment, fixed assets and the ratio of investment to sales. The growth in FDI flows further increased the appeal for privatization. The FDI flow from privatization of large sales of SOEs in 1997-1998 was important in the stabilization program, the Real Plan. This reduced the country's current account deficit and averted debt explosion by 8.4% of GDP, lower in 1999 (Carvalho 2001).

As could be perceived, however, privatization in Brazil was not a walk in the park. In 1999-2002, the popular support for privatization declined. This was due to the reduced pressure coming from the macroeconomic policy needs. Also, the economic instability discouraged foreign investors. Also, was the rising technical and political complexity of privatizing the remaining SOEs. As a result, the state remains the owner of sizable assets in the electricity (generation and transmission), oil, financial and water and sanitation sectors. Despite these drawbacks, privatization is still an on-going process given its immense benefits.

4.3.3 Privatization Undertaken

The transitioning from the military government in 1985 and with the enactment of a new constitution in 1988, a number of large and traditional SOEs sold off was accelerated from over 38 companies in the 1980s. The privatization reached its peak between 1995 to 1998, when 80 companies were sold, raising US$73.3billion in total proceeds. A large proportion of which was from the state ceding participation in telecom, electricity, railways, ports, roads, water and sanitation sectors. This section reviews large privatized SOEs, whose privatization proceed effected the economy.

Fabrica Nacionale de Motores (FNM)

In 1938, the Minister of Transportation and Public Works commissioned a study to examine the possibility of establishing an airplane engine in Brazil. Production commenced in 1943 and the first airplane engines ready by 1946. Later, FNM focused on repairing engines for airlines, producing engines and industrial parts for textile mills and railway. The government further charged the firm with the assembly of tractors and trucks and beyond which produced trucks and buses after 1946. However, the idea of building airplane engines was stopped. In 1956, diverse interest groups interested in the development of the auto industry in Brazil recommended the entry of foreign auto manufacturers to develop a strong private auto industry. They proposed the closing of the FNM, by then perceived as an inefficient and lacking the required capabilities to operate in a complex industry. Gradual divesture of FNM commenced in 1956 with the government selling its 49 percent voting rights. Between 1956 and 1959 there were two equity investors in which the private sector increased its ownership share.

In 1959, FNM got the license to produce a car, the Alfa Romeo 2000. A financial crisis ensued at FNM as the government controlled the prices of buses, trucks and tractors built by FNM. Further, destabilizing the FNM financial performance, was the entry of Scania-Vabia and Mercedes Benz in the truck and bus sector at the end of 1950s. In 1967, the government ordered recapitalization of the company using BNDES (Banco Nacional de Desenvolvimento Economico e Social-National Bank for Economic and Social Development) as an investor. The Ministry of Finance and Commerce was then authorized to privatize the shares that belonged to the Treasury, as part of the government policy of 'divesting firms that do not justify government ownership' (Musacchio, 2009). Alfa Romeo acquired control of the company in 1968 and by 1973 signed a joint venture agreement with Fiat (51% for Fiat, 43% for Alfa Romeo, 6% for minority shareholders) splitting the TNM ownership thereafter.

Companhia Vale do Rio Doce (CVRD)

In 1942, the facilities of Itabra Iron Ore Company, its railway network, and loans from the American Eximbank were used to create CVRD. Simultaneously created the Companhia Siderúrgica Nacional (CSN) (Triner 2011). CVRD was responsible for over 80 percent of Brazilian iron ore exports as at the end of 1980s. The company was profitable and experienced growth because of its relative autonomy from the government. The company used its retained earnings to buy companies in other sectors, both to diversify in investment portfolio and to create joint venture. In the early 1970s, Vale sought broad diversification in the natural resource sector and moved aggressively through subsidiaries and minority-owned affiliates into bauxite, alumina, aluminum, manganese, phosphate, fertilizers, pulp, paper and titanium (Trebat 1983). By 1970s, Vales distribution network included railway, shipping lines and a port. Fuelled by foreign capital, the company owned 12 major subsidiaries and was an active partner in 12 Joint ventures. Vales most important investment project was the development of the Carajás iron ore deposits in the state of Amazonas. It is estimated to be the world's largest iron ore reserves, with at least 18 billion tons of the mineral. By 1986, Vale was exporting all of the production from the Carajás mines. Vales expansion came to a stop in 1980s, when the government stabilization policies-controlled expenditures, especially capital expenditures. Eventually, Vale was privatized in 1997, but with remaining (minority) state capital. This company was sold at bargain prices, at the sale value of a third of the company's profit in 1997, causing public dissent over privatization of SOEs.

Embraer

In 1941, the Ministry of Aeronautics embarked on coordinating the development of a national aeronautic industry. FNM was part of this effort. In 1949, 1950 and 1954 the Aerospace Technology Centre (CTAT), Aeronautical Technology Institute (ITA) and Institute for Research and Development (IPD were established respectively at Sao Jose dos Campos, Sao Paulo State. As a center of aeronautics, private companies established in the region, working closely with CTAT, IPD and ITA. In 1970, the commercial production of Embraer 'Bandeirante' project started in cooperation with foreign parties under co-production and licensing arrangements. Management was more autonomous like Vale/CVRD, with half of the board of directors appointed from among private sector corporate executives. The apparent success of the company at the time was described as the outcome of 'tripple alliance' between multinational enterprises, local private companies and SOEs. Around 1990, Embraer faced the most severe crisis in its existence. This was partly due to the Latin American Crisis in the early 1980s but more attributed to increased politicization and focus on engineering over commerce by heavily relying on government procurement. In 1994, Embraer was privatized, and it speedily recovered under private ownership. The state remained with a minority equity position through BNDES and Previ, the pension fund of state-owned bank Banco do Brasil. (OECD 2013; Lazzarini & Bourgeois 2008)

Petrobras

Petrobras was granted a monopoly over production of oil and gas in 1953. However, it was not successful in prospecting oil in Brazilian and at least producing the amount necessary to supply the domestic market. That is why, until the 1970s, Petrobras imported crude oil and refined products. In that decade it partnered with the private sector to develop the petrochemical sector in Brazil, eventually absorbing all of its private partners into

Petroquisa. By the early 1990s Petrobras was one of the largest companies in the Americas, with distinct capabilities in oil exploration. In 1997 the “Petroleum Law,” was enacted, ending Petrobras’s oil monopoly and opening oil and gas markets in Brazil to foreign investment. Foreigners were allowed to own shares in Petrobras. Finally, in August 2000, Petrobras listed its shares on the New York Stock Exchange, through the American Depository Receipts (ADR) program and later 2002, listed in Europe. These allowed Petrobras and the Brazilian government to gain international credibility and the Brazilian oil sector had a boom in the first few years of the 21st century. Companies from all over the world partnered with Petrobras to pursue large exploration projects and large mutual funds from all over the world bought Petrobras shares.

The Petrobras management changed with the board of directors including independent members’ and rights of minority stakeholders being statutory protected. Petrobras privatized a relevant part of its capital, keeping most of the voting capital to veto major decisions of the firm. It also changed the incentives of its executives by including pay-for-performance provisions. Finally, the monitoring of the actions of the firm fell not only on a variety of institutional investors and rating agencies, but also on the National Oil Agency (ANP), a regulatory body established in 1998.

Usimnas (Usinas Siderugicas de Minas Gerais)

Usimnas was one of the largest producers of steel in the world. It was the first “big” privatization under II PND. In the steel industry, it was among the Big Six companies - CSN, Cosipa, Companhia Siderúrgica Tubarão, Piratini, Acesita, Cosinor and Açominas) that underwent privatization between 1991 ending 1993 (Amann et al. 2004). The result of these privatizations was disastrous: despite being one of the largest producers of iron ore, Brazil has not managed to build a globally competitive steel industry. Worldwide, Brazil was ranked the ninth steel producer as at 2013.

Espírito Santo Centrais Elétricas (Escelsa) Espírito Santo Centrais Elétricas (Escelsa)

Escelsa was the first public utility company (electricity) to privatize in 1995. The privatization of public utility companies was centered in the electric sector, gas, sanitation and road concessions. In 1996, the main electricity company of Rio de Janeiro, and Federal Railway (“Rede Ferroviária Federal Sociedade Anônima”, RFFSA). Strange from this privatization was that it was below its equity valuation of 33 percent. By the end of 1996, 47 public utility companies had been privatized.

Telebrás

This was the state phone company privatized in 1998 altogether with other state phone companies. The sale of the Telebrás companies generated US$ 19.2 billion. The proceeds thereof were below the state massive injection in the telecommunication prior to privatization. The result was that, national companies were sold at discount price to foreign capital, leaving as a legacy an expensive and inefficient system to the end user. Further the destruction of whole productive chains and destruction of the domestic technological generation and worsening the problems in the balance of payments and national security

4.3.4 Methods of Privatization and Government Divestiture

The various methods of privatization adopted by Brazil are auction, concessions, public procurement, public-private partnerships and outsourcing of labor in public administration, depending on the political and economic orientation of the government at the time of privatization.

Auction

This involves bidding of the SOEs to fetch at least the minimum firm price if not the competitive market price. It also encourages both domestic and foreign individuals to participate. Despite the merit, the poor financial situation in Brazil did not attract investors. There were SOES sold-off at below the reserved minimum price, which amounted losses to the state.

Concessions

The government sales SOEs, especially those of public utilities such as water, electricity with a negotiate room of regulation. This is more on price regulation, which in most cases is not competitive. Consequently, leading to loss making of these enterprises and their exit in the various sectors they operate. However, if successful, the citizen welfare is maintained with some profits to the investor.

Public Procurement

This involves floating shares to the public through Initial Public Offer in the stock market. This facilitates public participation and diverse ownership of SOEs. It also builds confidence in the public, with regard to the process followed. Sometimes, the IPO may not raise enough funds, calling for a re-evaluation of the method.

Public-Private Partnership

This is a high breed system where the public and the private sector co-own SOEs. They draw in technical expertise from both the public and the private sector to sit on the board of management. This is good in meeting the interest of both parties. However, depending on the equity voting share, either party may be overruled resulting into conflict.

Outsourcing of Labor in Public Administration

This is where companies contract out third-party firms to absolve themselves from labor costs of these employees, which serve to contain costs and increase profits. This is not the case, rather it does increase the private accumulation within the state environment. Important to note that the role public administration is for a common good. Thus, a fallacy of this method in enhancing 'efficiency' in public management. In addition, it weakens the ability of state-controlled firms to act independently of the private sector.

4.3.5 Process of Privatization

To facilitate the privatization exercise, the 'National Program of Debureaucratization', Interministerial Council on Privatization and the Control secretariat of State Enterprises were created with the main agent of privatization being BNDES. The institutions worked as 'companies' hospital' by providing help to improve financial situations for firms under financial stress and then selling to the private sector. BNDES is an executor of the National Privatization Council guidelines whose role is supervision and decision-making. BNDES is also the program manager of the National Privatization Fund ('Fundo Nacional de Desestatizacao). A fund with shares or quotas issued by companies that had been included in II PND. As a program manager, they identified priority SOEs to privatize and acted as a financier in the stage of acquisition, financed restructuring of enterprises to be privatized (BNDES, 2009). Finally, after improving them, then privatized.

4.3.6 The legal environment of privatization

Before the 1988 constitution was ratified, privatizations were done as per the wishes of the president. For instance, the former President Jose Samey granted radio and television concessions to friends and political supporters. A total of 1,080 radio and TV concessions were granted during the president's five-year term from 1985-1990, thereby doubling the number of stations. But following sweeping changes in the constitution of 1988, Brazil's government-run infrastructure network was opened to private capital. A broad-based Transfer of public services and facilities to private management begun with an intention to cover telecommunications, power, water and sewage services, roads, bridges, ports and airports, and railways.

The ability to move ahead with privatization of infrastructure and public services is rooted in amendments to two imperatives embodied in the 1988 constitution. Article 175 of the 1988 document requires that all public service concessions or authorizations be subject to public bidding and legally binding contracts. Concessions law 8987, passed in February 1995, regulates Article 175 by providing the legal definition for all public services concessions. At the same time, in 1995, Article 171 of the 1988 constitution was repealed. This article gave preferential treatment to "Brazilian companies controlled by Brazilian nationals" in government tenders for goods and services. The constitutional repeal meant the end to some restrictions on foreign companies. In practice it gave a specific green light to foreign firms to enter the mining sector and partially lifted restrictions on foreign participation in the gas distribution and oil exploration sectors. The 1995 concession law provided a foundation for private involvement in energy, telecommunications, and water treatment.

The first Brazilian privatization Law was enforced on April 12, 1990 (Law 8.031/90), under the Fernando Collor de Mello administration (1990-1992). Collor was the first impeached president in the Brazilian history. When he took the presidential office, Brasil had 1,972.91 percent inflation in one single year, the worst inflation in the Brazilian history (IBGE, 2018). Beginning in January 1995, a series of laws and decrees were enacted to regulate the telecommunications market in accordance with Article 175 of the 1988 constitution, which requires public tenders for all public service concessions. The telecommunications laws are separate from Public Services Concession Laws 8987 and 9074. Regulations also had to be enacted relative to constitutional Article 21. which allows telecommunications concessions to be granted to private companies. The 1995-1996 series of laws and decrees covers cable TV. commercial communications and band B and leisure services. This law was also known as “Minimum Law”. Towards the end of 1996, the so-called “General Law” was under debate in congress. This law would establish a telecommunications regulatory agency and address the restructuring and privatization of Telebras.

4.3.7 Challenges of Privatization

Political Challenges

The neo liberal reformers-Political Workers Party (PT), after receiving power from the military government embarked on the privatization of SOEs through auction. This was not received well by the Brazil citizens as the quality of services kept on decreasing and commodity prices persistently rose. This made the government unpopular, hence losing in the next elections. In fact, the opinion polls of 1980s and 1990s showed that, a relevant share of the electorate opposed privatization, especially after 1999. On returning to power, later, the PT deployed a strategy of privatization through concessions, public procurement, public-private partnerships and outsourcing of labor in public administration.

Economic Challenges

The privatized companies had a higher propensity to import and repatriate profits outside Brazil. So, Privatization indeed did not decrease the internal debt as well as offset external debt. (Gonclaves, 2005). In fact, during the peak years (1995-1998) of privatization the net public debt increased and remained above 30% of GDP. One objective of privatization was to enhance the competitiveness of the SOEs and thereby increase quality of services and tariff reduction to the users. This has not come to be. Even under regulation created by state agencies, the privatized companies abuse their economic power. Before privatization (1980s) it was certain that the children of the middle class could get safe jobs from the civil service. Today those jobs go to the children of the upper class, who are better ‘trained’ to take up run the Brazilian capitalism. This has perpetuated income and wealth distribution inequalities.

Social Challanges

Brazil fiscal adjustment for her to be able to pay debt through privatization proceeds resulted to low allocation of government budget to social utilities like health and education (Petras, 2013). In June 2013, most cities in Brazil witnessed mass protests arising from sharp deteriorations in health and education from the public sector. Brazilians were forced to buy private health and education services because of the lack of quality in the public services rendered to the end user. This is in cognizant of the fact that the Brazil financial system was poor.

4.3.8 Lessons Drawn from Brazil Privatization.

Privatization should be above board. Should be transparent and accountable especially on matters of social public utilities such as health and education. All means for sound governance must be instituted to avoid undervaluation of SOEs to satisfy individual, group and political interests. In this way help maintain and or reduce income and wealth inequality.

Using privatization as a macroeconomic stabilization instrument is not tenable or efficient. It increased domestic, external debt and balance of payment deficits. There are other a macroeconomic strategy such as fiscal discipline. For instance, reducing government expenditure on recurrent expenditure. The government should rework stringent rules that avoid manipulation of the minority and state equity voting rights to enable the private sector to operate within the corporate social responsibility.

Privatization increases competitiveness among companies as indeed evident with Embraer who is the world’s largest aircraft manufacture. Embraer has continued be a success story of privatization in terms of effectiveness and productivity. The state, therefore, need initiate sound law, rules and regulation enforceable and equally with sound monitoring and evaluation tools for market self-correcting mechanisms.

SOEs identified for privatization with poor financial performance should be privatized as they exist. The government should not inject more investment into them, which ideally may not be realized at the time of privatization.

The government should negotiate a contract in which some caliber of employees may be retained depending on the new owner requirements for the enterprise growth. This will reduce mass lay-offs that could lead to protests.

4.4 China

China's efforts to develop a modern economy began from a modest economic base. In 1979, China's GDP was $177 billion (at 2002 prices), with a per capita income of $183, more than half of the GDP was generated by agriculture. China was among the world's poorest countries. Thereafter, a combination of mainly fiscal incentives to subnational governments that provoked local entrepreneurial initiatives coupled with the pruning of controls on trade, foreign direct investment, and prices together with the gradual creation of markets for goods, labor, capital, foreign exchange, and housing were responsible for growth rates averaging nearly 9 percent per year during the 1979–2004. By the end of 2004, China's GDP had risen to almost $1.65 trillion, and per capita GDP, at over $1,268, had moved squarely into the lower-middle- income range (Ohmae, 2002).

In December 1978, the Third Plenum of the Eleventh Central Committee issued a low-key communiqué whose directives have since reverberated throughout the Chinese economy. The communiqué called for a solution to economic imbalances and for an end to the "disorder in production, construction, circulation, and distribution." It then crucially defined the medium-run objectives for the government, which were to seek economic balance and lay a solid foundation for rapid development. The communiqué's cautiously voiced ambitions to reduce the centralization of economic management, reform the commune system, and raise living standards. It also talked of opening doors to economic changes. (Riskin 1987).

Since 1997, China has embraced the policy of zhua da fangxiao (grasp the large and free the small). This has entailed the divestiture and privatization (mainly through employee and managerial buyouts) of thousands of small and medium-size SOEs and the corporatization of a minority of the large SOEs. At the 15th Plenary Session of the Party's Meeting in September 2002, Premier Zhu Rongji called for a redoubling of efforts to diversify ownership of SOEs, including the larger ones.

4.4.1 Objectives of Privatization

Chinese privatization strategy has not been that of handing control and equity but bringing private savings into state-controlled shareholding enterprises. Therefore, the objective of privatization is due to the state appetite to control the growing private capital outside its control in the non-state sector.

4.4.2 History of Privatization

The Chinese privatization strategy was mooted in 1978. The SOEs were granted authority to produce above state quotas and sell surplus in the free market (Steinfeld 1998). The government split entities with the aim of separating the SOEs by regulating inputs and outputs of goods from the banks (providing funds) to the government (regulating economy). At the beginning of 1980s, the central government replaced bureaucratic control over resources with a market-based allocation where producers control the output and price according to consumer demand. The nominal legalization in 1986 of private enterprises with eight or more employees, provided for the very existence of private business albeit with financial constraints. The financial sector then, wholly state-owned, facilitating private financing was technically illegal. In 1994, the modernized corporate law and labor law became effective with the complete liberalization of prices and commercial trade. It also marked the end of the last Five-Year Plan 1996-2000, with production targets.

The modernization of the corporate and labor law, therefore opened great opportunity for privatization in China in the form of SOEs ownership reformation. Chinese enterprise ownership reformation went through four distinct stages. First was the entry of large numbers of new non-state enterprises mainly from the rise of townships and village enterprises in the 1980s. These businesses were typically family-owned and founded for subsistence, or were township enterprises, which were managed like private firms but meant to raise fiscal revenues for local governments in rural areas (Bei 2014). Also, the foreign investment in SOEs that were converted into joint venture then brought a new dimension of enterprise system. Secondly, the reform of managerial control rights through contract responsibility system within an established system of public ownership. Third the change in asset structures resulting from non-state investment in the state sector. This involved the outright conversion of enterprises from state to some other formal ownership.

In 1995, despite restructuring, SOEs experienced losses across the country. A phenomenon that shocked the central planners. The SOEs then represented a net fiscal burden on the central and the local governments. This resulted into lay-offs and treatment of labor as a variable input. In 1997, a new privatization policy emerged, where central planners prioritized liquidation, forced merger, or privatization of small, lossmaking SOEs. Consequently, the number of SOEs decreased from approximately 238,000 to 116,000 in 1998 to 2007 respectively. Most of the local SOEs including township enterprises were sold to private hands. While the large SOEs were left under the state control (Jin 2013)

4.4.3 Privatization Undertaken

China had many state-owned enterprises running into hundreds of thousands. It is therefore not possible to list all of them; however, few prominent ones can be discussed as contained in the subsequent sections.

Lenovo

Lenovo, a computer maker, is owned by the Chinese Academy of Sciences, a government institute. The privatization of Lenovo is in the form of state owned privately managed enterprises (SOPMES), where managers are given free reign. Lenovo has become a world re-known brand through this privatization strategy.

Fujian Start

Fujian Start Computer was founded in 1988 by 16 former employees of the Fujian Province Electronic Computer Research Institute and the Fujian Province Fumin Economic Development Corporation (FPFEDC). It was owned by the Chinese Air Force. It underwent organizational reforms in 1999 when its largest shareholder, the FPFEDC, had to transfer all of its stake to a different former SOE in Beijing for extraneous reasons. This was due to executive order that the armed forces stop involvement in commercial activities. Its privatization strategy was also like Lenovo. A problem arose of lack of understanding of Fujian Start Computer business by the lead shareholder. Consequently, reacting to its losses by sucking the company president. According to the then company president, the company strategy problems were that the government would sit silently in as long as profits and dividends were increasingly generated. In the event the financial performance weakened it would generate strange internal politics of each government agency. The decision-making was too slow. Therefore, state ownership was advantageous in conferring resource but poor in profit maximization.

Geely Auto

In 1994, the central government initiated an industrial policy that prioritized the automobile industry and effectively barred new entry. The plan was to consolidate car manufacturing among the top eight SOEs: the three largest makers (First Automobile Works, Dongfeng Motor, and Shanghai Automotive Industry Corporation), three smaller makers (Beijing, Tianjin, and Guangzhou), and two light automobile makers (Changan and Guizhou). Geely set up a joint venture in 1994 with the failing Sichuan, acquiring 70% ownership, to obtain a license to manufacture motorcycles in 1994 and for light vehicles (under 900cc) in 1997. Finally, Geely, entered the regular sedan market in 2001 through a joint venture with another SOE in Jiangnan that had the sedan license. To overcome the institutional handicaps as a private enterprise, Li recruited his management team from among the former officers of the top three SOEs and the provincial government.

Huajings Semiconductor and Electronics

Huajing has its origin in the mid-1960s when the 4th Machine Industry Department (which controlled the semiconductor industry at the time) established the 742nd plant in Wuxi, as part of Maos efforts to develop electronic devices for military use at the height of Chinas international isolation. In 1978, the plant became a vehicle for the technology transfer from Toshiba of Japan, and in 1989, it became an integrated device manufacturer (IDM), Huajing Electronics. The eighth Five-Year Plan (1991-95) contained a major government project to develop electronics and semiconductor industries. In 1991, the Electronics Industry Department proposed a plan to build an advanced semiconductor plant with 0.9um-technology production lines. However, the construction took eight years and the technology had become obsolete by 1998. The delays stemmed from a coordination problem among multiple government agencies, including the Electronics Industry Department, the Planning Committee, the Finance Department, and the Commerce Department. Huajing could not find a productive use of this brand new but obsolete plant, but Central Semiconductor Manufacturing Company (CSMC), a private firm, agreed to manage it as a foundry. In 1999, the government authorized the privatization of the plant as a joint venture in which the private firm has the majority ownership. The new firm, Wuxi Huajing CSMC, became the first Chinese foundry and turned profitable within a few years.

4.4.4 Methods of Privatization

Share Issue Privatization (SIP)

SIP strategy make-up 1% of privatization. It is used for large SOEs that the government intends to “retain” under the policy of “retaining the large, releasing the small.” i.e. off-loading small enterprises. The government off-loaded 50% ownership, retaining the remaining 50%, which is non-tradable to the private sector. The state-owned controlling shares were deposited in the State Assets Management Bureau or with other SOEs that did not have close business relationships with the listed company. This ensued with the strong incentives to expropriate resources from their listed subsidiaries to solve their own problems under state ownership. In addition, the minority shareholders voice is considered inconsequential by the state. However, the public is satisfied that they are included in the privatization exercise.

Management Buyouts (MBO)

Management buyouts (MBOs) accounts for about 47% of all privatization programs. In the MBO, the manager becomes the largest shareholder, resulting in no separation of ownership and control. It is argued that insiders/managers are best able to turn weaker firms. However, given that the majority holdings are mangers from parent SOEs, there is likelihood of poor corporate governance. More so state interference is inevitable.

Sales to Outsiders.

This is the second most important method of privatization accounting for 22% of privatization events. The buyers include domestic and foreign firms, as well as wealthy individuals. In this type of privatization, the firms tend to be smaller, less leveraged, and more profitable. It is a major avenue for foreign direct investment.

Joint Ventures with foreign firms

This accounts for 2% of privatization programs. It has the advantage of drawing in new technology in enterprise management and transfer of the same to the SOEs and non-state private enterprises. The dysfunction is in the massive repatriation of profits. Other forms of privatization that have been used and not really changing form of ownership include leasing (8%), and employee holding (10%).

4.4.5 Process of Privatization

The central planners and not the SOEs managers identify the SOEs to be off-loaded (liquidation, forced merger, or privatization) is decided by the central planners and therefore outside the control of the SOEs managers. The exact mode and outcome of restructuring were often negotiable (Bei 2014). The managers of the targeted SOEs are then given the limited choice between exit (by liquidation or forced merger) and continuation (by privatization). The choice is limited by the Central Planning Commission.

4.4.6 Regulatory Framework

China's government policies, together with the regulatory framework and market institutions, undoubtedly define the incentives and shape the behavior of economic agents, but the nature of outcomes depends on the actions of myriad market participants. Much of China's growth since 1979 has been propelled by the response to reforms first directed toward agricultural production and marketing and subsequently toward collectively owned enterprises (COEs), township and village enterprises (TVEs), and to a lesser extent state-owned enterprises (SOEs) (Ding, Ge, and Warner 2002). In 2003, the government created the State-Owned Assets Supervision and Administration Commission (SASAC), a super ministry directly under the State Council authorized to lay down the rules for the restructuring of SOEs. This agency brought together under one roof administrative functions previously performed by a half-dozen bodies (Green and Ming, 2005). Some of the largest firms were directly supervised by the central offices of SASAC, while smaller firms were supervised by local state asset management agencies under its control (Mu, 2003). It is however important to note that there is a major problem of selection bias. For example, in initial public offerings (IPOs), the China Securities Supervisory Commission in 1997 gave preference to state firms that had taken over loss-making SOEs (Zhang 2004a).

4.4.7 Challenges of Privatization

Political

The Chinese privatization attempts to balance political interests and profitability of privatizing the SOEs. The China Communist Party (CCP) addresses privatization in a manner prioritizing creation and distribution of wealth to avoid social unrest and political instability. The CCP concern is to stay in power and therefore focuses on avoiding criticism from its people regarding privatization of SOEs.

Social

The life of many Chinese depends on the SOEs. Reforms in the education system, pension, healthcare and social benefit are therefore contingent on SOEs. Because of the social security system, the government cannot facilitate massive lay-off in in the SOEs. Further, is the challenge of modernization in the agriculture sector, exacerbating the unemployed migration from rural to urban areas.

State Control

The state intervention is strong in the privatized SOEs. As at 1998, there was lack of property rights protection. China State Planning Commission, comprised of Industrial Ministries, Investment Boards or Economic Commission still exist at the Municipal or local level. The state role has been passive shareholding, waiting to gain from profits and dividends. In the event loss is realized, they politicize the management of the privatized SOEs, where in most cases managers from the private sector are forced-out.

4.4.8 Lessons Drawn from China

China's privatization has not completely changed the SOEs ownership. However, it created a large share of private ownership in the SOEs with an independent decision making. Notwithstanding, the state policy support is still important to the growth of privatized SOEs, but with the potentiality of reducing the production efficiency. There is need for the state to provide sound business regulatory policy and avoid direct involvement in production of the privatized SOEs.

There are several privatization designs that would be adapted to avoid massive lay-offs and or welfare loss. The agreed design should also be implemented gradually, considering that profitability and political stability is equally important for a country. Large shareholders should be given the incentives to undertake critical restructuring to enhance efficiency.

Privatization efficiency is only possible in established product and labor markets. In addition to developed financial institutions for financing and legal institutions to protect property rights (Johnson et al. 2002). So, it is important that privatization be delayed until these fundamentals, at the minimum are developed, in order to realize privatization efficiency.

To ensure greater ethics and professionalism in the privatized institutions, the State Assets Agency, who has multiple social welfare objectives should be placed under standards/rules/regulations to monitor, evaluate and report their work to avoid pursuing individual interests. Hiring of professional managers, establishing boards of directors and adoption of international accounting standards is critical.

4.5 India

To other people, privatization is a fluffy idea which covers an extensive variety of thoughts, projects, and strategies. In the wide feeling of the term, privatization is exchange of possession from the general population to the private segment, or exchange of control over resources or exercises as on account of privatization through renting, where proprietorship is held, leaving the administration of benefits and movement to private gatherings. It might be noticed that privatization changes the part of the state, and not really lessens it. In India, because of functional reasons, the administration has reliably utilized the word 'disinvestment', notwithstanding the fact that the term implies privatization. Organizations set up for the intention of privatization are therefore called Disinvestment Commission and Department of Disinvestment.

Long before India achieved its formal independence from British rule, the emerging political and economic elites had envisaged a major role for the public sector. Since the time of India's independence in 1947, enterprises in public utilities and infrastructure, including the railways, ports, airports and telecommunication and power units had largely been in the public sector. With a weak bourgeoisie, limited domestic savings, a tiny capital market and a small banking sector, and a global economy disrupted by long wars, the consensus was that the emergent state should play a major role in fostering economic development and industrialization through a process of planning (Chattopadhyay 1987). India’s first five-year economic plan was modelled on the pattern of the USSR and China, with emphasis on fiscal measures to raise resources for investment and state-led investment planning.

In 1951, India formally launched its economic plan of development with the first 5-year plan. The newly independent Indian government had inherited an economy that was all but stagnant, having grown at an estimated one per cent annually over the first half of the twentieth century, implying stagnant or declining per capita incomes (Kohli, 2004). Factories accounted for only seven per cent of the economy, while agriculture contributed over 50 per cent. The industrial base was extremely low even by the standards of other recently independent nations (Kohli, 2004). This made the public sector to be the main sector of investment in the economy. At the beginning of the First Five-Year Plan (1952), the country had only five SOEs, with a total investment of 290 million rupees (Rs.) (approximately US$60 million, at the 1955 exchange rate). From 1956 when the Second Five-Year Plan was made, the public sector accounted for about 45-50 per cent of gross capital formation. It was the Industrial Policy Resolution (1956) that reserved the commanding heights of the economy for state enterprises. Despite the bulk of the economy being in the private sector, the private corporate sector accounted for about 20 per cent of total capital formation (less than 3 per cent of GDP) until early 1980s. India was generally regarded as a growth laggard in 1970s. India’s GDP growth in 1970s averaged 3.2 percent a year, a rate which was much lower than that of Sub-Saharan Africa and the global average for developing countries.

A key component of India's state-led development model was the establishment of state-owned enterprises across nearly all sectors of the economy. Nehru often stated that SOEs would occupy the “commanding heights" of the economy (Nayar, 2000), and frequently referred to SOEs as temples of modern India (Majumdar, 2008). India’s growth performance improved considerably in the 1980s, rising to an annual average of 5.7 percent. The 1980s was at the same time a decade of growing fiscal crisis in India as the government began to run larger fiscal deficits, with a significantly large revenue deficit by 1990. The public administration became a drain on the savings from state enterprises. The tightening economic conditions of the 1980s forced India to embark on its neo-liberal policies by dismantling planning and shifting to the market and private sector to propel growth. These entailed taking measures such as policy of lowering tax rates, cutting subsidies and reducing investment in sectors reserved for the public enterprises, while facilitating the entry of the private sector into such areas. Indian government also encouraged opening the financial sector and capital market to global investors, thus ending the public sector's monopoly over the financing of private enterprises.

The country’s growth rates improved further in the first half of the 1990s. The acceleration of growth in the 1980s was associated with a process of policy rethinking and (very partial) reforms. Prior to 1980s, India’s economic system was characterized by extensive government controls over private sector activity in the form of investment licensing and price controls, high levels of tariff protection combined with quantitative restrictions on imports, restrictive controls on foreign investment, and so on. This economic system came to be regarded as dysfunctional and in need of change. Even though India’s economic system was not fundamentally altered in the 1980s, it operated more liberally. Controls were relaxed in marginal ways by removing some industries from licensing controls, allowing some automatic expansion in licensed capacity, and removing some imports from controls. More important, the controls in place were generally operated more permissively, in the sense that there was less suspicion of private sector activity and permissions needed were more freely given.

As this process of incremental liberalization proceeded and produced good results in the 1980s, many technocrats were convinced that deeper, more systemic changes were needed. Several committees were appointed to review various aspects of the economic management system, and these committees recommended further liberalization. By 1981 the government of India was shifting back towards encouraging private investment in the economy (Rajakumar, 2011). This shift was much more pronounced when Rajiv Gandhi became Prime Minister in 1984. Rajiv Gandhi made effort to increase the scope of reforms and clearly stated his intention to reform the Indian economy. However, within six months of his 1985-86 pro-reform budget, the government had to roll back reform plans due to strong opposition within the Congress Party and outside (Kohli, 2006). By 1985, and owing to political reasons, a government spokesperson was assuring the public that SOEs would be protected (Kohli, 2006). In 1986 the government again made another drawback by saying that privatization was not on the table. By 1989 labours were larger in terms of total employment and in terms of contribution to total GDP than in 1981.

Effort for continued reforms in the 1990s were triggered by the fact that India experienced a severe balance of payments crisis in 1991 (Chhibber and Eldersveld, 2000). The new administration, headed by Prime Minister Narasimha Rao, appointed a technocrat and economist, Manmohan Singh, as minister of finance. Singh unveiled a comprehensive program of economic reforms, including: Abandoning the earlier predisposition in favour of a dominant role for the public sector and recognizing the importance of the private sector as a leading engine of growth; placing much greater reliance on market forces and competition as the primary means of increasing efficiency; and opening the economy to international trade, foreign investment, and foreign technology.

In the 1990s, as the policy of liberalization and deregulation gathered pace, along with policies to promote increasing integration of the Indian economy with the global economy, SOEs were robbed of their historic role. A new industrial policy was announced on 24 July 1991, which opened up most sectors of the economy to private entry and investment. Simultaneously, foreign investment was welcomed. Foreign-owned enterprises could now hold 51 per cent or more in the enterprises set up in the country. Foreign Institutional Investors (FIIs) were allowed to invest in Indian stock exchanges and restrictions on mergers and acquisitions were abolished. The new industrial policy announced that the exclusive role of the public sector was to be limited to a few strategic sectors. By the time of the election, the Indian economy was entering the balance of payments crisis and the newly elected Prime Minister Rao used the crisis to undertake reforms that followed the same general scope as earlier reforms but did so to a much larger degree and with a force (Ghate, 2012).

Because reforms were implemented at a time of crisis, when the economy also had to resort to IMF financing and a structural adjustment loan from the World Bank, they were criticized as being driven by the IMF and World Bank. But the fact is that the package of reforms was the outcome of considerable internal thinking within India. Although the reforms were broadly in line with what was considered sensible policy by international institutions, this was more a reflection of a genuine convergence of views on development policy than of pressure exerted by the IMF and the Bank. One indication of the extent to which the design of the package was home-grown is that in many areas, especially privatization and the pace of external liberalization, India’s reforms differed significantly from those in typical IMF-Bank programs. Another indication is that the reforms were continued even though the crisis was overcome relatively quickly. The initial response to the reforms was an impressive acceleration in annual GDP growth, which averaged 6.7 percent in the first half of the reform period (1992-97). This acceleration was widely viewed as vindicating the government's approach. But in the second half of the reform period (1998-2003) the growth rate decelerated to an average of about 5.7 percent. This deceleration brought a great deal of concern in India. The deceleration can be explained by two factors. First, global economic growth slowed in the wake of the East Asian crisis and the collapse of the technology boom in the United States. Second, there was a weakening in the pace of reforms. By 1995, the private sector had overtaken both the public sector as well as the household sector in terms of investment and capital formation. This expansion in the private corporate sector's share has been entirely at the expense of the public sector, where capital formation has fallen from 49 per cent of total investment to about 25 per cent.

4.5.1 Objectives of Privatization in India

Privatization in India was driven primarily by the need to raise resources for the budget and was limited to selling minority shares in public enterprises (described as "disinvestment" rather than privatization). While the primary motivation was to raise revenue, there was also a belief that by bringing in private shareholders, management of public enterprises would take on a more commercial orientation (Ahluwalia, 2005). Thus, privatization in India was a fiscal necessity to cover excessive spending as opposed to a policy that the government implements so as to improve economic performance (Panagariya, 2011).

4.5.2 History of Privatization in India

The reforms of the 1990s envisaged a systemic change on all three fronts but at a graduated pace. In 1991 the fixed exchange rate was devalued by 25 percent (in two successive steps) to a more reasonable level. Since import controls were to be liberalized, it was logical to shift to a system that allowed greater exchange rate flexibility. This was done in two stages. In 1992 a dual exchange rate was introduced, with one fixed rate at which exporters were expected to surrender 30 percent of export earnings (which were then used to finance essential imports such as petroleum and to meet government debt servicing obligations) and a floating rate at which all other transactions took place based on the demand and supply of foreign exchange. There was no indication at the time on how long the dual exchange rate system would be kept, but the government clearly intended it to be a transitional measure, and internally, it was clear that if the market exchange rate did not get pushed to unreasonable levels, the two rates would quickly be unified. In 1993 the dual exchange rate was replaced by a single exchange rate that was effectively market-determined (Ahluwalia, 2005).

The Congress government, which began the process of disinvestment, was succeeded after the 1996 elections by a left of centre government that was not expected to favour privatization. It is an interesting example of the way gradualism helped build consensus that the new government did not reverse policy. Instead it focused on process issues, criticizing the earlier process as one in which the choice of which public enterprises would be privatized was arbitrary and non-transparent. To address the arising concerns, the government created a Disinvestment Commission to examine the issue, hold hearings, talk to all stakeholders, and then make recommendations. The government did not endorse any policy, it simply established a commission to make recommendations on which units should be privatized and to what extent or in what manner. The commission held consultations and submitted reports recommending different courses of action for different public sector units, including full privatization in some cases (Ahluwalia, 2005).

The effort of the Congress Government did not bear any fruit as it collapsed before implementation of its recommendations following the elections of 1997 that saw its succession by a right of centre coalition led by the Bharatiya Janata Party (BJP). The new government decided to accept the recommendations on privatization, and in 1998 announced that it would transfer management control of all nonstrategic public enterprises. A new Ministry of Disinvestment was created to push the process more vigorously (Ahluwalia, 2005).

The first two privatizations involving a change in management occurred in 1999 and 2000 and created tremendous controversy. Company workers took the matter to court, saying that privatization was illegal. Numerous nongovernmental organizations (NGOs) also opposed the government’s efforts, as did a variety of other individuals and institutions, with many filing petitions accusing it of doing something wrong. The Supreme Court considered the matter and pronounced that the government was perfectly within its rights to sell public enterprises. But while the principle was established and some units were privatized, the government was unable to overcome internal resistance to privatizing some of the most attractive public units in the petroleum sector, despite its declared intention to do so. As opposed to the sweeping wave of privatization across the globe, India looked uncertain about its intentions to privatize, hence the slow pace in its decision-making towards the same. The government took a series of partial steps and encouraged active public debate, giving many voices a chance to be heard. This approach was aimed at building enough consensus before moving forward. In general, changes were made opportunistically, with the government moving forward when it sensed an opportunity but being just as willing to hold back when there was opposition (Ahluwalia, 2005).

India’s experience with privatization shows that ensuring debate on a policy does not guarantee that consensus will emerge. The essence of democracy is that it is adversarial, and parties participating in a democratic process do not have a compulsion to reach an agreement. Debate is an essential part of the political process, and while it helps ensure participation, it does not guarantee convergence. Indeed, it can sometimes even sharpen conflicts that might have remained muted in the absence of debate. In short, public debate does not eliminate the need for political leaders to make decisions in areas where full support may not be forthcoming. On the contrary, opponents will remain opposed even after an issue has been extensively debated, at least until public opinion changes very broadly. In the end, politicians still must take risks, and if they fail, their opponents will obviously try to capitalize on those failures (Ahluwalia, 2005).

Before liberalization, the India’s central government’s exercised control over private investment decisions, and that enabled it to spread resources thinly across Indian states. However, with the liberalization, role of India’s sub-national governments becomes more important in a liberalized environment. Resources therefore flew to states where conditions were considered most favourable for private investment. This situation was heightened by the fact that state governments responded very differently to liberalization. More enlightened states aggressively adopted investor-friendly policies, trying to attract both domestic and foreign investors. Less enlightened states were laggards in this respect. Some of the poorest states, which have the largest populations, grew slower in the 1990s than in the 1980s. So, while India as a whole experienced faster growth, many important states saw a deceleration. This was not because the central government followed a discriminatory policy. India’s liberalization was not geographically selective like in the case of China. It was the different responses by states that created inequality between states (Ahluwalia, 2005).

This outcome had predictable consequences. It generated pressure on the central government to adopt a more proactive approach to ensure more egalitarian growth processes. Although this objective was widely supported, it was not entirely clear what the central government should do. It could provide more money to slower-growing states, but its resources were limited. Another question was whether additional resources provided to poorly performing states should be unconditional transfers, on equity grounds, or whether they should be linked to efforts that would improve performance. Implicit in the latter approach is the notion that additional transfers to poorly performing states should be linked to greater conditionally. This is a controversial issue, and hard decisions of this type cannot be avoided indefinitely. The key lesson in this area was that economic liberalization implies that unless state governments actively engage in reforms, the potential benefits of liberalization may not materialize. This therefore meant that if a state government did not change its approach, economic performance would actually deteriorate because of the competitive environment created by reforms. This simple fact took time to sink in some states (Ahluwalia, 2005).

The programme of reforms, economic liberalization and deregulation since 1991 marks a turning point in the history of modern India’s economic development. It signals a decisive shift towards a neo-liberal strategy of development, long advocated by multilateral institutions such as the International Monetary Fund and the World Bank. Whether this shift was a result of the conditions imposed by these institutions when India, confronted with the problem of acute balance of payments in 1990-91, approached them for assistance, is immaterial today. This is because over the period of the last two decades there has been strengthening of resolve by domestic lobbies that have long favoured deregulation and privatization. The state-owned enterprises (SOEs) which had long dominated the industrial and commercial sectors started facing unprecedented pressures as the political economy shifted decidedly in favour of large business, largely controlled by business families or groups. This shift means that private competitors could now influence ‘controllers’, usually politicians and bureaucrats who shape policy as well as regulate and approve further investment and expansion of SOEs.

4.5.3 Privatization Undertaken in India

Individual state governments own approximately 941 firms, primarily in the power and agricultural sectors. Firms owned by the federal government of India account for about 85% of the total assets of all government-owned companies. Only a handful of state governments have launched privatization programs and that too with limited success. According to Gupta (2007), an average of 19% of equity was sold in 40 firms during 1991-1999 period via public offerings. Management control was however maintained by the government. And between the period 2000 to 2004, majority stakes were sold in 17 firms by BJP government, with majority control transferred to private hands. Below is a summary of some of the institutions privatized in India.

Bharat Aluminium Company Ltd. (BALCO)

This is an Indian Aluminium company. It was incorporated in 1965 as a Public Sector Undertaking. It was the first public sector enterprise in India which started producing Aluminium in 1974. Till 2001, BALCO was a state enterprise owned 100% by Government of India. In 2001, Government of India divested 51% equity and management control in favour of Sterlite Industries India Limited. There's a little history behind the privatisation of the company that was not performing well. There were groups formed BALCO employees and other people who opposed its privatization. Rallies and processions were carried out in the evenings to oppose the privatisation, there were minority who however supported its privatization. There was allegation of scam involved in disinvestment of BALCO.

Cochin International Airport

Cochin is an international airport serving the city of Kochi, in the state of Kerala, India. Located at Nedumbassery, about 25 kilometers (16 mi) northeast of the city, Cochin International Airport is the first airport in India developed under a public-private partnership (PPP) model. This project was funded by nearly 10,000 non-resident Indians from 30 countries. It is the busiest and largest airport in the state of Kerala. As of 2019, the Cochin International Airport caters to 61.8% of the total air passenger movement in Kerala. It is also the fourth busiest airport in India in terms of international traffic and eighth busiest overall. In fiscal year 2018-19, the airport handled more than 10.2 million passengers with a total of 71,871 aircraft movements. The airport is a primary base for Air India Express operations which is also headquartered in the city.

Cochin airport is the first airport in India to be built in a public-private partnership and is owned by a public limited company called Cochin International Airport Limited, better known as CIAL, floated by the Government of Kerala in 1994. The Government of Kerala holds 33.36% stake, making it the single largest investor in the project. Indian government companies like Air India, BPCL, AAI hold 8.74% stake, while foreign companies like Abu Dhabi based Emke Group, the Oman-based Galfar Group, UAE based Majeed Bukatara Trading holds 5.42% stake. Indian companies hold 8.57% stake, while scheduled commercial banks like Federal Bank, SBT and Canara Bank holds 5.91%. The remaining 38.03% stake is held by more than 10,000 personal investors from 29 countries, mostly non-resident Indians.

Delhi International Airport Limited (DIAL)

Initially started as Safdarjung Airport in 1930 and was the main airport for Delhi until 1962. On 2 May 1986, the airport was renamed as Indira Gandhi International Airport (IGIA). On 31 January 2006, the aviation minister Praful Patel announced that the empowered Group of Ministers have agreed to sell the management-rights of Delhi Airport to the Delhi International Airport Limited (DIAL. Delhi International Airport Limited (DIAL) is a consortium of the GMR Group (54%), Fraport (10%) and Malaysia Airports (10%), and the Airports Authority of India retains a 26% stake.[26] Nine years later, in May 2015, Malaysia Airports chose to exit from DIAL venture and sold its entire 10% stake to majority shareholder GMR Infra for $79 million. Following this GMR Group's stake at DIAL increased to 64%.

Hindustan Zinc Limited (HZL)

Hindustan Zinc Limited (HZL) is an integrated mining and resources producer of zinc, lead, silver and cadmium. It is a subsidiary of Vedanta Resources PLC. HZL is the world's second largest zinc producer. Hindustan Zinc Limited was incorporated from the erstwhile Metal Corporation of India on 10 January 1966 as a Public Sector Undertaking. In 2001, as part of the Government's disinvestment program of loss-making Public State Utilities

(PSUs), the company was put up for sale. In April 2002, Sterlite Opportunities and Ventures Limited (SOVL) made an open offer for acquisition of shares of the company; consequent to the disinvestment of Government of India's (GOI) stake of 26% including management control to SOVL and acquired additional 20% of shares from public, pursuant to the SEBI Regulations 1997. In August 2003, SOVL acquired additional shares to the extent of 18.92% of the paid-up capital from GOI in exercise of call option clause in the shareholder’s agreement between GOI and SOVL. With the above additional acquisition, SOVL's stake in the company went up to 64.92%. Thus, GOI's stake in the company now stands at 29.54%. SOVL was merged with Sterlite Industries India Ltd in April 2011. Sterlite Industries merged with Sesa Goa Ltd to form Sesa Sterlite Limited in August 2013. Sesa Sterlite was renamed to Vedanta Limited in April 2015. Hindustan Zinc is now a direct subsidiary of Vedanta Limited.

GMR Hyderabad International Airport Ltd (GHIAL)

RGIA is owned and operated by GMR Hyderabad International Airport Ltd (GHIAL), a public–private venture. It is composed of public entities Airports Authority of India (13%) and the Government of Telangana (13%), as well as a private consortium between GMR Group (63%) and Malaysia Airports Holdings Berhad (11%). Per the concession agreement between GHIAL and the Central Government, GHIAL has the right to operate the airport for 30 years, with the option to continue doing so for another 30 years.

Maruti Udyog Limited

Maruti Udyog Limited was founded by the Government of India in 1981, only to merge with the Japanese automobile company Suzuki in October 1982. The first manufacturing factory of Maruti was established in Gurugram, Haryana, in the same year. It is a 56.21% owned subsidiary of the Japanese car and motorcycle manufacturer Suzuki Motor Corporation. As of July 2018, it had a market share of 53% of the Indian passenger car market. Maruti Suzuki manufactures and sells popular cars such as the Ciaz, Ertiga, Wagon R, Alto K10 and Alto 800, Swift, Celerio, Swift Dzire, Baleno and Baleno RS, Omni, baleno, Eeco, Ignis, S-Cross, Vitara Brezza and newly launched S-Presso small SUV. The company is headquartered at New Delhi In May 2015, the company produced its fifteen millionth vehicle in India, a Swift Dzire.

4.5.4 Methods of Privatization and Government Divestiture

India pursued partial privatization in which stakes in state owned enterprises were sold gradually and in stages. Selling in stages reduces information rents of buyers by revealing information about the firm and increasing price in next period (Chakraborty, et al., 2006). The one-time prime minister for India Prime Minister Mr. Narasimha Rao once said during his tenure that:

"If I do it (privatization) immediately, I get into trouble. I get trouble from the workers. I get trouble from the political parties. I get trouble from the general public," (Financial Times, 11 March 1994).

4.5.5 Process of Privatization

Literature review shows that the criteria for selecting firms for privatization is a function of size and value, i.e. larger and more valuable firms have been privatised first (Arun and Nixson, 2000; Rastogi, 2004). The reason for this is that the primary goal for privatization in India has been to raise funds to cover the deficit and for other more popular subsidies (Varshney, 1998; Mani and Bhaskar, 1998).

4.5.6 Legal Environment of Privatization

As a deviation from the earlier economic policies laid by the Indian government after independence, New Economic Policy (NEP) was instituted within months of the election and IMF loans were secured to cover the balance of payments crisis. The NEP called for dramatic economic reforms including limited privatization. Regardless of the importance of the IMF and World Bank in pushing through broad reforms, there was little pressure on privatization specifically (Sapat, 1999). A Department of Disinvestment was established which declared that majority shares of labours would be sold. Between 1999 and 2004 the BJP sold majority shares in the case of 17 SOEs (Dinc and Gupta, 2011). The Disinvestment Minister during this period, Arun Shourie, was a particularly strong advocate of strategic sales, i.e. ensuring that management of SOEs actually passed into private hands (dberg, 2001).

The Bharatiya Janata Party (BJP) is one of the two major political parties in India, along with the Indian National Congress. BJP came into power in 1996. As of 2019, BJP is the country's largest political party in terms of representation in the national parliament and state assemblies and is the world's largest party in terms of primary membership. However, the BJP only sold shares in 10 SOEs that had not had some equity sold under the Congress led government from 1991-96 (Dinc and Gupta, 2011). Along with these strategic sales of SOEs, minority shares were sold in five other companies, all of which had already had minority sales under the Congress-led government. The method of sale under the BJP was generally not by individual bids for shares. Instead the government announced how much equity they would sell, and then took bids on the entire equity being offered (Uba, 2008). Foreign buyers were also allowed to purchase controlling shares in SOEs, whereas in previous privatizations, they had only been able to participate as minority investors and only as financial institutions (Kapur and Ramamurti, 2002).

Despite the BJP being widely considered more in favour of privatization, the Party still attacks privatizations when they are in the opposition. They opposed privatization of water service in Delhi against a local Congress government that was in favour of privatization. In this case, the BJP used the fact that the private company that would take over is Israeli as part of their argument against the privatization. The BJP is also actively opposing private dams being built in Assam, again on grounds that the dams would be built by non-Indian companies (Baruah, 2012). When opposing the privatization of a hospital in Goa, the BJP simply focused on corruption in the privatization process (The Times of India, 2010).

4.5.7 Challenges of Privatization

A principal cause of inefficiency in government-owned firms is arguably interference by politicians in the operations of the firm (Shleifer and Vishny, 1994). If politicians obtain private benefits from controlling government-owned firms (Dinc, 2005), then any loss in these benefits following privatization may influence the decision to privatize. Politicians may influence the hiring of staff and purchase decisions of government-owned firms so that they favor their interests and those of political supporters. If the politician in charge of a firm is also elected from the state where the firm is located, the politician may be reluctant to support the privatization of that firm because it may weaken his ability to secure campaign contributions and reelection.

Another challenge in the Indian privatization programme has been the low number of bidders. This has been experienced across the board for poorly performing as well as for better performing state-owned enterprises. Potential buyers like financial institutions and other mutual funds have not been very enthusiastic in listing and trading of shares purchased by them as it would reduce their control over Public Service Utilities (PSUs). Instances of insider trading of shares have also come to light. All this has led to low valuation or underpricing of equity.

Further, in many cases, disinvestment has not really changed the ownership of PSUs, as the government has retained a majority stake in them. There has been some apprehension that disinvestment of PSUs might result in the crowding out of private corporates (through lowered subscription to their shares) from the primary capital market. An important fact that needs to be remembered in the context of divestment is that the equity in PSUs essentially belongs to the people. Thus, several independent commentators have maintained that in the absence of wider national consensus, a mere government decision to disinvest is not enough to carry out the sale of people assets. Inadequate information about PSUs has impeded free, competitive and efficient bidding of shares, and a free trading of those shares. Also, since the PSUs do not benefit monetarily from disinvestment, they have been reluctant to prepare and distribute prospectuses. This has in turn prevented the disinvestment process from being completely open and transparent.

It is not clear if the rationale for divestment process is well-founded. The assumption of higher efficiency, better / ethical management practices and better monitoring by the private shareholders in the case of the private sector all of which supposedly underlie the disinvestment rationale is not always borne out by business trends and facts. Total disinvestment of PSUs would naturally concentrate economic and political power in the hands of the private corporate sector. The US economist Kenneth Galbraith had visualized a role of countervailing power for the PSUs. While the creation of PSUs originally had economic, social welfare and political objectives, their current restructuring through disinvestment is being undertaken primarily out of need of government finances and economic efficiency. Lastly, to the extent that the sale of government equity in PSUs is to the Indian private sector, there is no decline in national wealth. But the sale of such equity to foreign companies has far more serious implications relating to national wealth, control and power, particularly if the equity is sold below the correct price. If the disinvestment policy is to be in wider public interests, it is necessary to examine systematically, issues such as - the correct valuation of shares, the crowding out possibility, the appropriate use of disinvestment proceeds and the institutional and other prerequisites (Rastogi and Shukla, 2013).

4.5.8 Lessons Learnt from India

The deceleration of GDP growth in India in the second half of the reform period of (1998-2003) suggests that India's reforms may not have been as successful, however we have very important lessons to draw from India’s privatization, some of which are discussed here: To set privatization on the recovery path, it is necessary to reflect seriously on the aberrations that have entered the country’s economic system. The need of the hour is introspection and searching for remedial measures. The second lesson relates to the importance of a home-grown approach for reforms to take hold. The third relates to the inevitability of gradual implementation in a pluralist, highly participatory democracy. The fourth is that implementation of complex reforms involves a process of learning and discovery, which means that there will inevitably be some false starts and midcourse adjustments in the implementation process. The fifth is that when dealing with multiple reforms on several fronts, careful attention must be paid to sequencing. The sixth relates to India's federal political structure and the increased importance of policy action at the subnational level in an environment where the central government is liberalizing controls. Finally, India's experience yields important lessons about poverty alleviation through privatization.

4.6 Japan

By the late 1970s, Japan reached a crisis economic and financial situation. The financial structure had become inflexible and could not adapt to the necessity of reducing expenditures. In 1975, the government began issuing special bonds (deficit bonds) to help cover administrative expenditures. By 1979, bonds issued reached a total of US$438.5 billion, thus putting the government’s dependence on them at 39.6% of the government’s total budget. This level was extremely high compared with those of other leading OECD countries, whose dependence ratios in 1979 ranged from 5.6% (USA) to 14.2% (Germany). In particular, the deficits generated by the Japanese National Railways (JNR), the Foodstuff Control Special (Mitsuhiro and Tsuji, 2000).

Account, and the National Health Insurance System posed critical financial problems for the Government.

4.6.1 Objectives of privatization in Japan

The first objective of privatization is to attain Efficiency. According to Nambu (1997) until early 1970s, a telephone monopoly was most efficient because service would have been much more expensive if more than one company had established its own network, but by the early 1980s the introduction of new telephonic technology threatened Nippon Telegraph and Telephone (NTT's) existence. In railroads, although economies of scale existed and were important to the extent that Japan National Railways (JNR) provided bulk transport, a nationally integrated network was not necessarily the most efficient system, because JNR faced competition from another transport mode, namely, cars. Thus, the railway system could be bypassed, implying that JNR's efficiency was slipping from the start. A second objective is premised on improved welfare. Han and Ogawa (2007, 2008) and Matsumura and Shimizu (2010) illustrate that privatization improves welfare when the number of private firms is large.

A third objective of privatization is to address organizational rigidity and Bureaucratic inefficiencies. As explained by Nambu (1997), Independent bureaus within each kosha were responsible for different activities. Collaboration between these bureaus was often limited, and the absence of cooperative decision making was the biggest obstacle to changing the economic environment. For example, NTT's headquarters could not collect customer data from regional divisions because regional independence was so strong. Also compounding these bureaucratic inefficiencies was the koshas wage and promotion scheme; wages were based on workers' tenure other than their productivity, and promotions were handicapped by the traditional lifetime employment system. Because employees had no incentive to reform the existing old system, organizational rigidity reigned.

The fourth objective of privatization was to manage political interferences and labour unrests in the corporations. As contextualized by Nambu (1997), Koshas policies were under discussion by special committee members that consisted of politicians, who usually never missed the opportunity to influence a kosha. These politicians were liable to seek political rent. Thus, the system of political intervention was introduced into decision making and Political rent seeking was most striking when the politicians were representing local interests. As political pressure from the government grew greater, managerial independence was lost. Such political distortions deprived the corporations of their self - governing mechanisms. For example, even when the JNR had no prospect of profiting from the rail construction in local areas in the 1970s, there was political enforcement. In the period (1960s and 1970s), labor unrest also flared up as the koshas' labor unions became one of the centers of the radical labor movement that were characterized by protests. The relationship between management and laborers was often marred by the ideological bias of labor union leaders. For example, in the JNR, factions sought to assume leadership of the labor movement to bring about a Marxist revolution.

4.6.2 History of Privatization in Japan

As presented by Clarke and Pitelis (2005), Japan has not been immune from the drive for privatization. Yamamoto (1996), the pattern and objectives of state intervention in industry in Japan has been different from the Western economies and the process of privatization has also been different. Resulting from the Shokusun Kohgyoh policy of promoting industry, Japanese government owned a wide variety of enterprises towards the end of the 19th century, some of which were sold off in the first wave of privatization in the 1880s. To US occupation policies from 1949 to 1952 compelled a further round of privatization as the Japanese government scrapped off or sold off many state enterprises, including Japan electric power. The third wave of privatizations began in the mid-1990s in response to market and technological changes, which suggested government monopolistic services were no longer permissible in the face of a growing fiscal crisis, the rising cost of public corporations, and the failure to improve performance in the public sector. In addition, there was foreign pressure to privatize as a way of opening up and expanding markets for imports, and the realization that with booming capital markets in Japan sell-offs could be highly profitable for the state,

4.6.3 Privatizations undertaken in Japan

Nambu (1997) indicates that after World War II Japan embarked on an industrialization program to promote economic expansion and thereby increase its international competitiveness. At the heart of the program was infrastructure development to redress critical shortages in some sectors, repair damaged equipment and facilities in others, and expand coverage overall. To control the strengthening and expansion of key infrastructure sectors, the government immediately established public corporations known as koshas in; roads, airports, railways, and telecommunications. By regulating the markets of these sectors directly, the Government ensured an environment for the koshas that was free of competition, theoretically enabling them to sustain their financial viability and to operate efficiently. However, two of the largest koshas namely, Nippon Telegraph and Telephone (NTT) and Japan National Railways (JNR) ultimately deteriorated under government control. Their profitability proved untenable and they were unable to meet the demand for services or to respond to shifts in consumption patterns. Acknowledging these failures, the government has allowed NTT and JNR to begin operating in a privatized environment. Other privatization cases are the nine regional private monopolies that constitute the electric power sector in Japan.

Japan Electric Power Privatization

Kikkawa (2012) indicate that the developmental process of Japan's electric power industry can be categorized into three eras: First, the era when the industry had a large number of privately owned and managed electric power companies, with some public-sector power suppliers owned and managed by local municipal entities (1883-March 1939). Secondly, the era of state control when Japan Electric Power Generation and Transmission and the nine power distribution companies held a monopoly over power generation and transmission, and distribution businesses, respectively (April 1939-April 1951). And thirdly, the era of the nine (ten) company structure, where the industry was dominated by nine (ten) privately owned and managed electric power companies with integrated power generation, transmission and distribution businesses and regional monopolies, supplemented by some public sector electric power suppliers owned and managed by local municipal entities, Electric Power Development Co., a special corporation, and Japan Atomic Power Co., jointly owned by the government and the private sector (May 1951 onward). The developmental process of Japan's electric power industry is principally characterized by the fact that the industry has been basically managed by the private sector, except for Era B, when it was placed under state control. The central feature of the developmental process of Japan's electric power industry – the predominance of private management – is a contrast from western economies that made efforts after World War II to nationalize electric power companies over national security concerns. In Japan, the reorganization of electric power businesses in 1951 that created the present industrial structure of nine privately managed electric power companies, with the abolition of the state control introduced under the wartime controls. As a result of this reorganization, the structure of the electric power industry in postwar Japan came to be dominated by the nine large - scale private electric power companies, an internationally distinctive characteristic.

Japan National Railways (JNR)

As noted in Clarke and Pitelis (2005), Japan National Railways (JNR) shared many of the problems of other public enterprises including ambiguity concerning management responsibility, lack of customer responsiveness, overmanning, unstable management/ union relations and regional provisioning problems. Those opposed to the privatization approach claimed that it would only worsen regional imbalances in transport provision and consequent economic development. The opponents suggested that large scale redundancies and worse labour relations would endanger passenger safety. In 1987, JNR which was the largest contributor to the national deficit and accumulated corporate debt of 30 trillion yen was privatized as the company was dissolved into seven firms. Much of the debt was diverted to the JNR Settlement Corporation. The process saw recruitment suspended and redeployment practiced. The result of the privatization was a slight increase in the volume of traffic, as management pursued more positive operational policies and retrenchment of costs. The number of employees was reduced from 350,000 in 1984 to 200,000 in 1989, most of whom were absorbed in the expanding Japanese economy. Though many local lines were abolished, there was the maintenance of a traditional equitable fares formula, and the Transport ministry continued to regulate the fares within an integrated transport system in which private companies received public subsidies. However, there was a continuing tension in the effort to reconcile the public interest with efficiency; the share of passenger transport continued to decline; and further restructuring with the possibility of militancy lay ahead. In conclusion, rather than being seen as the abandonment of the transport system to market forces, JNR's reform should be interpreted as a Japanese style privatization where the concept of Public interest (in particular equity) was much thought of.

Nippon Telegraph and Telephone

As cotexulized by Nambu (1997), NTT was established in 1952 to construct the telecommunications infrastructure. Its mandate was to fulfill two objectives as quickly as possible: first, to address the backlog of demand for telephone access; and second, to construct a nationwide direct dialing system. Given these concrete objectives, NTT was efficient in an engineering sense. By the end of the 1970s, it had constructed a highly reliable and modem national network, and its research and development activities were highly sophisticated and were comparable to those of American Telephone and Telegraph (AT&T) in the United States. NTT's problems arose when new telecommunications technologies and services developed rapidly, especially in the United States. In the 1970s new competition in the telecommunications industry was on the horizon, and business customers were eager to reap its benefits, especially the low-cost technology for transmitting bulk data. But NTT was slow to adapt to these new demands from the business world and sought to forestall new competition. In addition to complaints about NTT's bureaucratic rigidities, firms sought new frontiers in the information industry and wanted to break the institutional barriers imposed by NTT. The breakup of AT&T was another impetus for deregulating the telecommunications industry. In 1985 the Telecommunications Business Law and NTT Corporation Law were enacted, and NTT became a private firm - NTT, Inc.

4.6.4 Method of privatization and government divestiture in Japan

In Fukui et al. (1992), privatization of Japan National Railway (JNR) took the final form of public stock offering. Privatization of NTT has been conducted through stock placements as explained by Yakano (1992).

4.6.5. Process of privatization in Japan

Kopicki, Thompson & King (1995) explain that privatization of JNR was preceded by the restructuring of JNR into seven separate companies – six regional passenger railways and one national freight railway. The reform process took ten years, from the time that it was recognized that radical restructuring was needed until the first of the JNR successor companies was sold to the public. Yakano (1992) illustrate that the second Provisional Commission on Administrative Reform (PCAR), a private consultative body established to advise the prime minister, played a major role in the privatization of NTTPC. It's deliberations among all relevant entities; the ruling Liberal Democratic Party (LDP), the Ministry of Finance (MOF), the Ministry of Posts and Telecommunications (MPT- the relevant supervisory authority), NTTPC, the Japan Telecommunications Workers' Union (JTWU- the labor union representing NTTPC workers), the Federation of Economic Organizations (FEO-Japan's major business organization), and the Ministry of International Trade and Industry (MITI) led to the fundamental restructuring of Japan's telecommunications system in April 1985. Despite the conflicting interests of the various entities, the final decision to privatize NTTPC- and thus to introduce competition into the telecommunications market was realized fairly quickly because of four reasons; First, despite their different interests in and view towards privatization, the relevant entities had no choice but to follow the top-down decision reached in deliberations at PCAR, which served as a direct advisory organ to the prime minister. Secondly, because PCAR's chairman was a private-sector executive who was widely known for his personal integrity, the committee was able to establish its independence from the influence of the government ministries, and thus to exhibit the objectivity necessary to engender public support. Thirdly, within NTPC itself, a CEO appointed from the private sector had already implemented managerial reforms prior to privatization, thus creating a corporate culture that needs privatization an inevitable necessity. Fourthly, the JTWU- virtually the only union involved in the decision-was eventually persuaded to support privatization because the growing consensus was that privatization would invalidate the restrictive controls over labor conditions that applied to public corporations.

4.6.6 The legal Environment of Privatization

The Japanese legal style is characterized by informality, opacity, flexibility, cooperation between regulators and the regulated and little involvement of either lawyers or courts (Kagan, 2000). The Japanese government is commonly argued for its continuing intervention across all the administrative system that is manifested in the form of legislation, where the laws permit ministries to exercise power economic and social sector (Mulgan, 2005). Some commentators have even gone so far as to question the extent to which Japan enjoys the rule of law at all. The current Constitution of Japan was promulgated on November 3, 1946 and came into effect on May 3, 1947. The Liberal Democratic Party (LDP), which has been the ruling party for most of the era after the Second World War, has discussed amending the Constitution. On April 27, 2012, around four and a half years after this privatization, the 180th session of the Diet passed and enacted “Act for Partial Revision of the Postal Service Privatization Act and others.” The amended legislation was promulgated on May 8, 2012.

Regarding the shares of Japan Post Holdings Co., Ltd., on November 30, 2011, the 179th session of the Diet passed and enacted “Act on Special Measures to Secure the Financial Resources to Implement the Restoration from the Great East Japan Earthquake.” Under this law, the Japanese government is obliged to dispose of its shares as soon as possible based on the results of studies into the method of disposal, while taking into consideration the management situation, earnings forecasts and other matters at Japan Post Holdings, in order to secure funds for redeeming reconstruction bonds.

4.6.7 Challenges of privatization in Japan

In the case of NTT, the Ministry of Ports and Telecommunications (MPT) worsened the financial position of NTT and its profitability was lower than the industry average because it is not allowed to adjust its rates or collect access charges. Other MPT policies also undercut investment incentives. According to Nambu (1977), MPT's regulatory policy was biased toward new carriers, and they were thus able to offer cheaper services. For instance, the ministry curbed price matching by NTT, Inc. and obligated the company to provide universal service, a requirement from which new entrants were exempt. Other MPT policies also had a deleterious effect. The MPT adopted the so called fully distributed cost method for rate setting as well as a demand and supply adjustment clause that strictly limits the number of firms in the industry, and entry or exit is impossible without the ministry's permission. The introduction of competition constrained NTT, Inc.'s financial viability, and its profitability had declined continuously since its privatization. The ministry did not change the telephone rate structure, and NTT, Inc. was forced to use the old tariff scheme. When the company's long-distance earnings began to suffer in the face of competition, the ministry did not allow it to raise its local telephone rate. In addition, the MPT made no arrangement for access charges (interconnection fees), so customers of the new common carriers only had to pay the local rate in addition to NTT's long-distance rate.

In the case of JNR, Fukui (1992) provided ten lessons about the experience. Three are particularly important. First, the huge debt the JNR Settlement Corporation inherited has not yet diminished, partly because of the recession. Second, regional differences exist between JR on the mainland and JR on the islands, primarily because Japan's economic structure is geographically biased. JR on the islands may never become financially independent and could remain as special companies that cannot raise capital in the market. Third, JR retained an excessive labor force, which could trigger cost increases. Good labor management relationships and motivational incentives will be essential for truly efficient organizations. Nambu (1997) also singled out the pension challenge. Pension refunding was another difficulty facing JR. The ratio of recipients to the members of JR mutual pension funds was extremely high, which created a critical situation since 1992.

4.6.8 Privatizations lessons from privatization in Japan which can help Kenya

According to Nambu (1997) the nine electric power companies are treated as local monopolies. They are regulated by the Ministry of International Trade and Industry and are subject to the following regulations: First, Tariffs must be cost based. Customers are required to pay the full cost of electrical service. Secondly, Electric companies must always supply electricity, meeting peak demand and providing universal service. Thirdly, Profits cannot exceed the fair rate of return, which is determined by the Electricity Business Law. Fourthly, Companies cannot diversify into unrelated fields, so as to prevent cross-subsidies that might be a source of unfair competition.

Japan's local monopoly system was an experiment in the market supply of electrical service. In discussions about reconstructing the prewar electricity supply system, the authorities agreed that a regional division was more efficient than a national monopoly and that vertical integration was necessary to provide stable and reliable service. Although each company is a local monopoly, it must face an objective evaluation of its economic performance based on a comparison of its performance with that of other local utilities, thus employing the so-called yardstick competition. Ito and Miyazone (1994) suggest that many efficiencies indicators-such as the thermal efficiency of steam power, the loss ratio of transmission, and the distribution or blackout times per customer-have converged in the past twenty years. If this phenomenon is interpreted as representing the existence of rivalry among electric utilities, the yardstick competition may be effective.

4.7 South Africa

The post-apartheid government inherited well over 300 state-owned enterprises. A total of 50 percent of South African fixed capital assets were in state hands when the Mandela government took office in 1994, while the private sector was dominated by a handful of closely held conglomerates operating in a loosely regulated and inherently anti-competitive setting. These enterprises were established primarily to strengthen import-substitution industries, which had started to grow during World War I, by providing infrastructure improvements and basic materials. Eventually, they were used as platform for "white" employment and social benefits as well as creating a support base among the white working class and Afrikaner business owners. These enterprises were incurring losses and the low efficiency of some of them was a source of continued criticism of the government.

4.7.1 Objectives of Privatization in South Africa

In South Africa, privatization and restructuring reform hugely focused on improving performance of entities or enterprises in their operations. This thinking was also informed by the need for South African governments to deal at a macro-level, and that is with their public spending and capital allocation. Consequently, the then National Party government laid down the macroeconomic ground rules to be initiated and observed in pursuance of a better economic order and a sustainable government. The goals of privatization in South Africa included to: raise revenue for the state, promote economic efficiency, reduce government interference in the economy, promote wider share ownership, provide the opportunity to introduce competition, subject state owned enterprise to market discipline and finally, to develop the national capital market (Megginson and Nitter, 2001).

4.7.2 History of Privatization in South Africa

The economic philosophical groundwork of South African government which included the thinking of privatization and restructuring in South Africa can be traced directly from the white paper on privatization and deregulation in the Republic of South Africa. The economic sanctions, together with the general worldwide economic slump that the government of South Africa was struggling with led to privatization of State-Owned Enterprises. Various definitions have been given to privatization and restructuring by a plethora of scholars, some of whom have coined up manifold meanings of restructuring and privatization concepts. Within the South Africa context, the then apartheid government described privatization and restructuring in their own way, and that is privatization denotes the systematic transfer of appropriate functions, activities or property from the public to the private sector, where services, production and consumption can be regulated more efficiently by the market and price mechanisms (White Paper, 1987).

The National Party of South Africa won the elections and consequently took over control of government in 1948 at a time the world was going through so many changes after the second world war in 1945. The world oil crisis of 1973, vigorous consumer and government spending as a result of easy bank credit and sharp wages increase for the blacks and high inflations which rose to the high of 14% in the early eighties jointly conspired and impacted negatively on South African government and its treasury in the 1980s (White Paper, 1987). The result was that the South African government had to review its participation in the national economy. These were taking place at a time many countries in the west were embracing neo liberalism and its policies which included cutting down on government spending and implementing deregulation and privatization and divestiture initiatives. The ruling South African National Party was then attracted to follow the western initiatives that included privatization which promised greater efficiency, effectiveness, competitiveness, and profitability of State-Owned Enterprise in South Africa. The period of National Party rule witnessed several policy reforms initiated to gain political support for the government and its political ideology of apartheid.

In 1985, privatization was accepted as part of the economic policy in South Africa for many of the same reasons that have made it a new economic creed almost worldwide. State corporations had been the major recipients of large foreign loans that were called in and cut off in 1985, leaving them with serious capital shortages. It was envisaged that sales of the corporations' assets could both ease the debt burden and provide the government with new revenue for much-needed social programmes. The global sanctions imposed on the South African apartheid government however made full privatization in South Africa impossible as few world class companies were interested to do business in South Africa. At the same time, the opposition which emanated from organized labour worked against government initiative to privatize or restructure state owned assets and enterprises (Mostert, 2002).

4.7.3 Privatization Undertaken in South Africa

The post-apartheid government of South Africa inherited over 300 state-owned enterprises. Out of the 300 SOEs, four of the firms accounted for 86% of aggregate turnover, 94% of total income, 77% of all employment, and 91% of the total assets of these SOEs. These four key enterprises as they are collectively described in the government's Policy Framework Paper, are in telecommunications (Telkom), energy (Eskom), transportation (Transnet), and defence (Denel). For purposes of further understanding, the subsequent paragraphs provide a brief profile of the dominant forms.

Transnet

Transnet was incorporated in 1990 and was the largest state-owned enterprise in South Africa by annual turnover and the number of employees. It dominated South Africa's transportation sector and controlled 13 companies involved in multimodal transport and allied services. Major challenges to the restructuring plans for Transnet include under-funded pension liabilities, outstanding debentures of R8.471 billion, and an additional liability of R3.442 billion in respect of medical aid costs for pensioners by 2002. (RSA 2000a). Spoornet was the largest division of Transnet in 2000 and comprised of: a general freight business (GFB); a heavy-haul coal line (Coallink); a dedicated heavy-haul iron ore line (Orex); an intercity passenger service (MLPS); the Blue Train luxury service (LuxRail); LinkRail, which handles branch lines; and Rail and Terminal Services (R&TS), which maintains and operates the network.

Telkom

Telkom was an incorporated public enterprise with 67% ownership by the government of South Africa, and 30% ownership by two strategic equity partners through an investment holding company, and an empowerment group, Ucingo Investments, holding the remaining 3% share by the year 2000 (RSA 2000a). Telkom held a monopoly over local and long-distance telecommunications services, exchanges, and public payphone services until May 2002. Telkom was also licensed to operate the public switched telephone network (PSTN) and the public switched data network (PSDN) for the period of exclusivity. It held a 50% stake in Vodacom. Vodacom is the larger of the two cellular phone companies which were operating in South Africa. Vodacom was also an Internet Service Provider (ISP) in the country. Telkom has a further Internet presence through Intekom, the then third largest ISP in South Africa. (RSA 2000a, 144)

Eskom

The dominant utility in the energy sector in 2000 was Eskom, whose operations were structured into three major groups: generation, transmission, and distribution. It supplied 95% of the country's electricity from a fuel base of 90% fossil, 7% nuclear, 1% hydro, and a small proportion of imported energy. In the transmission segment, Eskom was the “natural” monopolist, whereas distribution is fragmented. 40% of Eskom's sales were to local authorities that then redistributed to their captive customers. Sales to Botswana, Lesotho, Mozambique, Namibia, Swaziland, and Zimbabwe account for 2.4% of aggregate turnover in 2000. Eskom's total revenue was in 2000 distributed 39% from resale, 28% from industrial customers, 18% from mining, and 7% from both residential and commercial consumers.

However, except for the contracting out of certain government services, for example building and maintenance of roads and toll roads and the introduction of compensatory tariffs, the privatization drive lost some momentum by the beginning of the 1990s and was eventually put on hold during the period of constitutional negotiations. The initial attempt suffered from two major drawbacks. Many multinational enterprises were reluctant to buy South African enterprises because of international sanctions. More fundamentally, it met with stiff opposition from anti-apartheid organisations and trade unions led by Congress of South African Trade Union (COSATU). The African National Congress which was expected to come to power soon perceived it as a ploy to deny them control over the family jewel even after they achieve majority rule. The results were that of the five state institutions that were originally earmarked for privatization, only Iscor (a steel company) was eventually sold in 1989 for 3 billion Rand (Schwella, 2002).

Table 4.2 Privatizations in South Africa during the period 1997-2003

State Owned Enterprises	Date Sold	% Sold	Procced in Million Rands
SABC stations	Mar-97	100%	510.00
Telkom	May-97	30%	5,631.00
Sun-Air	Nov-97	100%	27.00
Viamax	May-98	30%	12.00
ACSA	Jun-98	20%	819.00
ACSA	Oct-99	4%	173.00
ACSA	Oct-99	1%	44.00
SAA	Jul-99	20%	1,400.00
Connex	Aug-99	100%	15.00
SASRIA	Feb-2000	N/A	7,100.00
M-Cell/ MTN	Jun-2000	6%	2,400.00
Transnet's Production House	Jul-2000	100%	11.00
Transnet's Chemical Services	Aug-2000	100%	3.00
Transnet's Transwerk Perway	Sep-2000	65%	19.00
Telkom (Ucingo)	Mar-2001	3%	565.00
SASRIA	Apr-2001	N/A	3,200.00
SAFCOL – KZN	Oct-2000	75%	100.00
SAFCOL – ECN	Oct-2000	75%	45.00
MTN	Jan-2002	20%	5,300.00
Turbomeca/Aerospace	Apr-2002	51%	30.00
MTN	Aug-2002	N/A	1,100.00
Apron Services	Nov-2002	51%	117.00
Aventura Kareekloof Aventuar Eiland	Jan-2003 Jan-2003	100% 100%	1.75 5.60
Aventura Heidelbergloof	Jan-2003	100%	6.50
Aventura Roodeplaat	Jan-2003	100%	16.20
SAFCOL Lourensford	Feb-2003	100%	21.50
MTN Special Dividend	Mar-2003	N/A	565.00
MTN Transaction	Mar-2003	N/A	94.00
CEF	Mar-2003	N/A	1,500.00
Eskom	Mar-2003	N/A	549.00
Telkom	Mar-2003	25%	4,100.00
Aventura	Jun-2003		101.00
SAFCOL	Dec-2003	N/A	50.00
TOTAL PROCEEDS			**35,631.55**

Source: South African Department of Public Enterprises

4.7.4 Methods of Privatization and Government Divestiture

The south African apartheid government pursued different methods of privatization which included: sale of public sector enterprises and assets; Partnerships; Leasing of business rights; Contracting out; and discontinuation of service or activity which was previously provided by the public sector (White Paper, 1987). The factors that influenced the choice of these methods of privatization in South Africa were: the history of the assets ownership; the financial and competitive position of the SOEs; the government's ideological view of markets and regulation; the past, present and potential future regulatory structure in the country; the need to pay off important interest groups in privatization; the government's ability to credibly commit itself to respect investors' property rights after divestiture; the capital market conditions and existing institutional framework for corporate governance in the country; the sophistication of potential investors; and the government's willingness to let foreigners own divested assets (Megginson and Netter, 2001).

4.7.5 Process of Privatization

In pursuance of a cautious privatization approach, the South African government set a criterion for privatization during the late 1980s. This criterion was a ring-fence to ensure that the process does not jeopardize key public interest concerns in sectors such as defense and security. However, there was a general agreement that non-core activities may be outsourced. Before 1994, the South African government prescribed guidelines, which informed an official privatization exercise. According to the South African government such guidelines had to be adhered to during the implementation of the privatization initiative. The guidelines included the requirements that: each case of privatization be considered individually and this may require that a public enterprise first must be more efficient and profitable in order to obtain the best benefits from privatization, but without trying artificially to make it more attractive to investors; the concentration of economic power and possible foreign control of strategic industries be avoided; privatization must be integrated with the total economic strategy for South Africa; privatization must be applied on a continuous basis in respect of both existing and contemplated future public sector activities; funds which become available to the state as a result of privatization measures must be applied judiciously and subject to strict requirements for capital or development projects (Whitepaper, 1987).

4.7.6 Legal Environment of Privatization

South African privatization programmes have largely been guided by sector-based government policies. For instance, the 1996 White Paper on National Transport Policy, which was followed in 1998 by the release of a strategy paper on transportation. One of the major goals underlying the policy and the strategy was to improve South Africa's competitiveness and that of its transport infrastructure and operations (RSA 2000a, 135).

The telecommunication sector was guided by 1996 White Paper on Telecommunications Policy. The outcome of this policy process was the Telecommunications Act (Act 103 of

1996), which set out the telecommunications policy for the subsequent six years. The most important structural elements of the Act comprise: a five-year exclusivity for the incumbent operator Telkom, against an obligation to roll out 2.81 million new lines over this period; two-thirds of the connections to occur in under-serviced areas and for priority customers; the establishment of an independent regulatory body – the South African Telecommunications Regulatory Authority (SATRA); and exploration of the possible licensing of a third mobile operator. In 2000, SATRA was merged with the IBA (Independent Broadcasting Authority) to form ICASA. The ostensible reason was to capture any potential regulatory synergy in digital convergence that would arise from the fusion of broadcasting, computing, and telecommunication (RSA 2000b).

The legislative and regulatory framework for the electricity sector was embodied in the 1998 White Paper on Energy Policy, and in the establishment of a National Electricity Regulator (NER) in 1995. The NER controlled the pricing, national services, and technical standards. The White Paper sets out both the broad policy objectives of the state and the national priorities in the energy sector. Among the priorities were increasing access to affordable energy services, improving energy governance, stimulating economic development, managing energy-related environmental impacts, and securing supply through diversity. Furthermore, the Paper supported a gradual step towards a competitive electricity market, the restructuring of Eskom into separate generation and transmission entities, and the development of the Southern African Power Pool. Specifically, the Paper states that the electricity distribution industry should be urgently restructured, competition should be introduced into the generation segment, and the transmission segment should be required to provide an open and non-discriminatory access to the system.

4.7.7 Challenges of Privatization

Arguably, privatization in South Africa had been slow, with few visible results and a general feeling among observers and donors that governments' commitment to the process was generally half-hearted. Consequently, most of the intended objectives have remained unrealized. The missing link appears to be the institutional framework. Privatization or restructuring got under way with no clearly defined ‘frames’ or ‘waves`. Various government departments were involved depending on the industry concerned. The lack of clarity about the different roles both within government and between government and state-owned enterprises and other stakeholders created significant bottlenecks.

4.7.8 Lessons Learnt from South Africa

South Africa has the most sophisticated free market economy on the African continent. With only 3 per cent of the surface area, she accounts for approximately 28 per cent of the continent's gross domestic product and 40 per cent of industrial output. She has developed institutions comparable to those in any part of the world regarding regulatory law and commercial practice. Property rights are generally well defined. The country's well-developed legal culture combines elements of several traditions. Much of the law about property, sales and contract can be traced to the Dutch-Roman law that the early European settlers brought with them in the seventeenth century. Company financial and intellectual property derives from English sources, a connection with the 19th Century development of large-scale undertakings related to mining (OECD, 2003). The financial, communications and transport infrastructure is well developed and modern. The stock exchange is among the world's ten largest. South African entrepreneurs and business professionals are generally highly educated, skilled and competitive. These are all essential features for privatization. Yet, privatization has been less successful relative to other regions in Africa.

4.8 Nigeria

Several studies have been conducted on the subject of privatization of public enterprises both in the developed countries and developing or underdeveloped countries. Adegbite (1991) examines the rationale for privatization in Nigeria. Obadan and Ayodele (1998) look at commercialization and privatization policy in Nigeria. Jerome's (1996) study was based on general appraisal of privatization in Africa. Despite the effort made, no single piece has satisfactorily put forward the politics, intrigues, realities and practical details of privatization in Nigeria to enhance all the lessons anyone might have wanted to learn from privatization in Nigeria.

Between 1950 and 1960, the nationalist governments in compliance with Fitzgerald Commission's recommendation established the Nigeria Colliery Department as a public corporation. Also, the Nigerian Ports Authority was created in 1954 while in 1955, the Nigerian Railways transformed to corporation from the railways department. Since the early 50s, the growth of public corporations had been remarkable. With the adoption of a federal set up in 1954, the number of the SOEs increased. It was proliferated with the subsequent creation of States in 1967. Notable in the development of state participation is the New

Nigeria Development Company Limited (NNDC) which started in 1949 as Northern Region Production Board. Another example in this category is the Odu'a Investment Company operating in the interest of the Western Nigeria. These organizations emerged in form of Marketing Boards taking care of such crops as cocoa, groundnuts, palm-kernels etc.

In Nigeria, there had been a cumulative dismal performance of SOEs which resulted in a "crisis of confidence". This was due to various problems which can be attributed to internal and external factors. The internal factors relate to inadequate and inappropriate investment decisions, adverse business environment characterized by weak capital base and control mechanism, poor system of accountability and the absence of any remarkable reward system. The external factors relate to unfavorable export/import prices, restricted access to external markets and funds, high rates of interest on foreign loans, etc. The reform of SOEs in Nigeria has, thus, focused on such critical aspects as financial and physical restructuring via divestiture with a market-oriented approach under the Structural Adjustment Programme (SAP) adopted in 1986.

There were about 590 public enterprises at the end of 2000, of which only 160 were involved in economic activities, generating goods and services. Over 5,000 board appointments are made to man these enterprises, with enormous patronage power given to high-level officials, such as the directors, managing directors, and boards. About $100 billion was spent by the Federal Government of Nigeria (FGN) to establish these public enterprises between 1973 and 1999. Unfortunately, their rate of return is less than 0.5%, while they employ just 420,000 workers, out of a total Nigerian population of nearly 170,000,000. These public enterprises, on average, consumed $3 billion annually in direct and indirect subsidies between 1992 and 1999, and they pose major stumbling blocks for obtaining debt relief for Nigeria. (Bureau of Public Enterprises of Nigeria Website-https://bpe.gov.ng/what-is-the-current-condition-of-nigerias-public-enterprises-08/10/2019).

4.8.1 Objectives of Privatization in Nigeria

The objectives of governments for embarking on privatization vary from country to country. They include the expansion of the role of the private sector to improve mobilization of savings for new investments, modernizing the economy through increased private investment, new technology and efficient management to stimulate growth. Others are to facilitate the development of the competitive environment, provide greater employment opportunities over time and reduce the cost of goods and services to consumers. The need to improve government's cash flow, enhance the efficiency of the SOEs, promote 'popular capitalism' and curb the power of labour unions in the public sector, redistribute incomes and rents within society and satisfy foreign donors who would like to see the government's role in the economy reduced are generally fingered as rationale for privatization.

The objectives, which the Federal Government of Nigeria's privatization programme is meant to achieve, are numerous and involve, as a basic component, the improvement of economic efficiency. Generally, the programme has four objectives: to achieve higher allocative and productive efficiency, leading to faster economic growth and development; to strengthen the role of the private sector in the economy through job creation and economic development; to improve the public sector's financial health by reducing the burden incurred by having to subsidize PEs; and, to free resources for use in sectors important to all Nigerians, such as education, health, housing, transportation, and other infrastructure development initiatives (Bureau of Public Enterprises of Nigeria Website-https://bpe.gov.ng/what-are-the-objectives-of-privatization- 08/10/2019).

4.8.2 History of Privatization in Nigeria

During the post-independence era, the dominant economic wisdom in Nigeria was for direct government intervention and control of the commanding heights in the economic sector through the establishment of PEs. That was justified mostly by the need to foster rapid industrialization against the backdrop of dearth of local entrepreneurial class and indigenous capital. To that end, the Federal Government of Nigeria invested over a $100 billion in establishing PEs, particularly between 1975 and 1995 in order to: balance or replace weak private sector; control commanding heights or strategic sectors of the economy; produce higher investment ratios; transfer technology, management and know-how; generate employment; spread of development across the geo-political Nigeria; and provide goods and services at lower costs to the people.

Experience worldwide has shown that Public Enterprises (PEs) have failed to live up to expectations. They consume a large proportion of national resources without commensurate performance and service delivery. More importantly, they fail to allocate these resources efficiently. In Nigeria for instance, the Public Enterprise (Pes) which were established with noble and egalitarian objectives, failed the country as they: created economic inefficiency and macroeconomic distortions; consistently incurred financial losses; absorbed disproportionate share of public funds; contributed to fiscal deficits and imbalances; facilitated and entrenched parasitism and corruption; Were unable to provide the much needed services they were established to do; and made macroeconomic management difficult. PEs, before the introduction of privatization, used to consume a large portion of national resources amounting to over $3 billion annually, by way of grants, subsidies, import duty waivers and tax exemptions. The huge burden that PEs impose on the economy had become untenable, unbearable and unsustainable, hence the justification for their privatization.

A 1991 survey by the defunct TCPC showed that there were about 600 PEs at the Federal level and some 900 smaller ones at states and local government levels. The estimated 1,500 PEs in Nigeria accounted for between 30-40% of fixed capital investments and the same proportion of formal sector employment. Since the survey, many more PEs have been established by the Federal, State and Local Governments. Whilst the oil boom lasted, no one complained of the waste and inefficiencies of PEs. It was only in the wake of the economic recession which began in 1981 that attention began to be focused on the activities of PEs. At the Federal level, the 1983 Presidential Commission on Parastatals examined the operation of PEs with a view to determining the basis for a new funding scheme, appropriate capital structure as well as incentive measures to enhance their productivity and general performance. The report of the Study Groups established by the Commission revealed that the PEs were infested with many problems.

As government could no longer continue to support the monumental waste and inefficiencies of PEs, the programmes of privatization and commercialization programme was developed by the Alhaji Shehu Shagari Administration in 1983 to address the country's peculiar socio–economic and political conditions but unfortunately, it was not implemented before the change of Government in December 1983. The military administration which succeeded the Alhaji Shehu Shagari Administration also examined the issue under a separate Study Group on PEs in October 1984.The Study Group confirmed the findings of the 1983 Presidential Commission on Parastatals but again before any action could be taken, there was a change of administration in August 1985.

Privatization in Nigeria actually began between 1986-7 when the FGN liquidated several agricultural commodity boards and various units of the Nigerian Livestock Production Company. But the programme was not fully entrenched until the establishment of the Technical Committee on Privatization and Commercialization (TCPC) and the promulgation of the Public Enterprises Privatization and Commercialization Decree No. 25 of 1988. Soon after its inauguration, the TCPC began the work of planning and analyzing the scope of its functions, establishing a Secretariat and infrastructural support around which it could operate efficiently, selecting suitable staff, making contacts with relevant ministries and departments to ensure that it did not inhibit their functions or work at cross purposes with them. The idea was to ensure a thorough exercise within the operational framework given by the Federal Military Government in a way that other African and third world countries could benefit from the Nigerian experience.

In order to accelerate the implementation of the privatization and commercialization programme, the TCPC adopted a multiple approach as follows: the use of Sub-Committees comprising of knowledgeable individuals in the society selected on their personal merits to undertake diagnostic studies of affected enterprises, covering technical, financial, organizational and management aspects; appointment of Technical Advisory Groups (TAGs) consisting of reputable financial institutions and teams of experts to undertake similar diagnostic studies; appointment of Financial Advisers (FAs) usually Merchant Banks or Accounting Firms with cognate experience and reputation to prepare detailed briefs on capital restructuring of affected enterprises; assignment of professional staff in the TCPC Secretariat to undertake diagnostic work on simple cases of privatization and commercialization and to prepare Information Memorandum for the consideration of the TCPC; appointment of other professionals such as Issuing Houses, Estate Valuers and Legal Practitioners to deal with the different aspects of the programme implementation.

The Sub-Committee approach was used for most cases of commercialization and in a few cases of privatization, especially where the enterprise involved was of strategic importance, multi-faceted or not slimly organized. The approach enabled the TCPC to achieve the twin objectives of tapping the best human resources that Nigeria could offer and facilitating the widest participation of Nigerians in the implementation of the programme. The TAG and FA's approaches were used for most cases of privatization, and a few cases of commercialization where the affected enterprises were very well organized, or slimly organized. The rationale for the TAG and FA's approach was manifold. First, it ensured timely execution of the privatization exercise by vesting responsibility in capital restructuring of affected enterprises in Merchant Banks (Lead Consultants). Secondly, it reduced the workload of the TCPC by minimizing the co-ordination of the work of separate consultants. Thirdly, the approach helped to encourage the development of the financial consultancy services market in Nigeria.

In all cases, the TCPC developed guidelines to ensure uniformity and comprehensiveness in the Sub-Committees, the TAGs and the FAs. Once the assignments of the Sub-Committees, the TAGs and FAs were completed, the stage was set for the implementation of their various recommendations. In the process, some 600 highly qualified Nigerians and over 200 professional advisers (Chartered Accountants, Solicitors, Estate Valuers, Engineers, Stockbrokers and Issuing Houses) were involved in the implementation of the programme in one way or the other. Indeed, the TCPC believes that no other programme in Nigeria had ever enjoyed broad based participation of highly qualified Nigerians like the programme. All the professional advisers and individuals were Nigerians, because as a deliberate policy, the TCPC decided that the programme should be used for training of local consultants.

The current privatization programme was reinvigorated in 1999 with the promulgation of the Public Enterprises (Privatization and Commercialization) Act No. 38 of 1999, which established the National Council on Privatization with the BPE as its Secretariat. The Public Enterprises (Privatization and Commercialization) Act No. 38 of 1999 provides the enabling legislation for the implementation of the privatization and commercialization programme. Part 1 of the First Schedule to the Act listed the PEs for partial privatization while Part 2 listed the PEs for full privatization. Part 1 of the Second Schedule of the Act listed the PEs for partial commercialization, while Part 2 listed the PEs for full commercialization. PEs for full commercialization are those PEs that are expected to operate profitably on a commercial basis and raise funds from the capital market without FGN guarantee. Such PEs are to adopt private sector procedures and processes in running their businesses. In order to ensure effective coordination and proper implementation of the programme, the enabling act also provides for the establishment of the National Council on Privatization (NCP). The NCP, which is chaired by the Vice President, is the apex body charged with the overall responsibility of formulating and approving policies on Privatization and Commercialization. It is equally the approving authority for all the actions and activities of the Bureau. The Bureau of Public Enterprises (BPE) is the Secretariat of the NCP and is charged with the overall responsibility of implementing the policies and decisions of Council.

4.8.3 Privatization Undertaken in Nigeria

Between 1989 and 1998, only 55 enterprises were sold using the following privatization strategies: Public Offer for Sale of Shares, Private Placement, Sale of Assets, Management Buy–Out (MBO)and Deferred Public Offer. The privatization programme focused on only the competitive sectors of the economy. Commercialization was also undertaken but it was not quite successful given the lack of political will to implement the salient features of the programme. Between 1994 and 1998, the programme went through a great lull. The then military administration attempted to lease or contract out the management of PEs instead of privatization.

4.8.4 Methods of Privatization and Government Divestiture

The Privatization Act gives the National Council on Privatization enough flexibility in deciding the appropriate method/strategy to be adopted in privatizing each enterprise. However, in choosing the strategy for each enterprise, the following are always taken into consideration: government policy; opportunities and constraints; and nature and operational state of the enterprise. Privatization programme is therefore wide, dynamic and whichever strategy adopted is superior to the hitherto prevailing situation whereby government owned, managed and controlled the PEs. However, in considering the strategy to be adopted, priority is always given to the most economically and socially efficient option in order to maximize the benefits accruable to the government, the citizens as well as the economy. The objectives, operational conceptualization and scope of the privatization commercialization programme was reexamined in order to correct some drawbacks due to omissions in the process of policy implementation. The TCPC came up with five methods of privatizing the affected enterprises in Nigeria. These are discussed here below:

Public offer of shares through the Nigerian stock Exchange (NSE).

To qualify for listing on the NSE, an enterprise must have a good record of profitability for 5 years and history of dividend payment of not less than 5 per cent for at least 3 years.

Private Placement of Shares

This was done principally to institutional investors, core groups with demonstrated management and/or technical skills. This was done in enterprises where government holding was small, and the majority shareholders could not be persuaded to make public offer of shares, even when the conditions for listing were fulfilled; it was also used where the full potentials of the enterprises were yet to be realized and there is need for it to be nurtured for a few years. A total of seven enterprises were privatized through this method.

Sale of Assets

Where the above two methods could be applied because of poor track records, liquidation of assets was done via sale of assets on piecemeal basis to public through public tender. A total of twenty-six enterprises were privatized this way. Many small and micro enterprises owned by River Basin Authorities were affected.

Management Buy Out (MBO)

This was done where it was possible for the entire enterprise or a substantial part was sold to workers who would organize and manage it in their own way.

Deferred Public Offer

This method was applied where less revenue would be generated than the real value of the enterprises. Thus, a willing buyer seller price was negotiated based on the re-evaluation of the enterprises' assets.

4.8.5 Process of Privatization

Traditionally, the reform and liberalization of any economy involves several major steps, some of which include formulating new policy; establishing a new legal and regulatory framework; structural changes to the sector and the institutional operatives. Privatization programme in Nigeria was designed and divided into three phases discussed in the subsequent paragraphs.

Phase I

This consisted of Banks, Oil Marketing and Cement Companies. This phase was executed through a combination of initial public offers and/or core investors' sale strategies to give a larger chunk of the Nigerian investing public the opportunity to own shares in the enterprises.

Phase II

This phase consisted of Hotels, Vehicle Assembly Plants, Fertilizer, Sugar, Paper, Steel, Media and Insurance companies. This phase was executed through a competitive asset sale, guided liquidation or core investors' sale strategy, depending on the peculiarity of each enterprise.

Phase III

This phase consists of Telecommunications, Aviation, Downstream Oil and Gas, Power and the Postal sectors. It is the current phase of the programme.

4.8.6 Legal Environment of Privatization

Constitutionally, the legal framework for a sensitive programme like privatization must be in conformity with the basic laws of a country. The Nigerian constitution does not contain any provision that specifically refers to privatization (Oshio and Stewart, 2006). However, the economic objectives outlined in Chapter II Section 16 of the Nigerian Constitution requires the state control the national economy in such a manner as to secure the maximum welfare, freedom and happiness of every citizen based on social justice and equality of status and opportunities. Subsection 2 (a), (b) and (c) state that the state shall direct policy towards ensuring: the promotion of planned and balance economic development; that the material resources of the nation are harnessed and distributed as best as possible to serve the common good; that the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in that hands of few individuals or of a group (Constitution of the Federal Republic of Nigeria, 1999).

The Nigerian government policy on privatization in Nigeria was concretized in the Structural Adjustment Programme (SAP) embarked upon in July 1986 during the administration of General Ibrahim Badamasi Babangida (Jerome, 1996). A major objective of SAP was to pursue deregulation and privatization leading to removal of subsidies, reduction in wage bills and the retrenchment of the public sector, ostensibly to downsize the state. To actualize this, the Federal Government of Nigeria in 1987, set up the Technical Committee on Privatization and Commercialization (TCPC), which was backed by Decree No. 25 of 1988. The privatization and commercialization Decree of 1988 set up the Technical Committee on Privatization and Commercialization (TCPC). TCPC was mandated to privatize three public enterprises and commercialize 34 others in 1993. The TCPC concluded its assignment and submitted a final report for privatizing 88 pout of the three enterprises listed in the Decree. Based on the recommendations of the TCPC, the Federal Military Government promulgated the Bureau of Public Enterprises Act of 1993, which repealed the 1988 Act and set up the Bureau of Public Enterprises (BPE) to implement the privatization programme in Nigeria.

The Government of General Sani Abacha (1993 -1998) also showed enthusiasm about privatization. Gen. Abacha sought to address the problems of the public enterprises, not by privatizing them or even commercializing them as provided in the Act of 1993, but by seeking to apply the flawed approach of intensifying political and bureaucratic control over them. Towards this end, his government enacted the Public Enterprises Regulatory Commission (PERC) Act of 1996, a law that curiously remains in the statute books without being implemented. Under the successive governments of Generals Abdullahi Abdusalam Abubakar (19898 – 1999) and Olusegu Obasanjo (1999 – 2008) privatization was favoured. It was in 1999, the Federal government enacted the public enterprises (Privatization and Commercialization) Act which created the National Council on privatization under the chairmanship of the Vice President Alhaji Atiku Abubakar.

The Act also established the Bureau of public enterprises as the secretariat of the national council on privatization. The Bureau was to function as follows: implementing of the council's policy on privatization and commercialization; preparing public enterprises approved by the council for privatization and commercialization; advising the Council on further public enterprises that may be privatized or commercialized; ensuring the update of accounts of all commercialized enterprises to be privatized; making recommendations to the council in appointment of consultants, advisers, investment bankers, issuing house, stockbrokers, solicitors, trustees, and other professionals required for the purpose of either privatization and commercialization exercise through effective post transactional performance monitoring the evaluation; and providing secretarial support to the Council.

4.8.7 Challenges of Privatization

One of the major obstacles that Council met when it commenced implementation of its mandate was the near absence of well-articulated policies in the key sectors of the economy. Consequently in 2000, Council established the following steering committees: Oil and Gas Sector Implementation Committee; Telecommunications Sector Reform Implementation Committee; Transport Sector Implementation Committee; Aviation Sector Reform Implementation Committee; Electric Power Sector Implementation Committee; Agriculture and Water Resources Implementation Committee; Hospitality/Tourism Implementation Committee; Industry/Manufacturing Sector Implementation Committee; Insurance Sector Reform Implementation Committee; Basic Metals Sector Implementation Committee; Solid Minerals Sector Implementation Committee.

The broad mandate of these committees included: Formulation of sector policies to promote competition, efficiency and transparency in the sector; Formulation of proposals for the attraction of private financing and investment in the sector; Overseeing the activities of the various government agencies, parastatals, and operators in the sector; Formulation of proposals for the restructuring and liberalization of the sector; Protection of the rights and interests of service providers and consumers; and Recommend the legal and regulatory framework. The work of these committees and the implementation of the privatization programme by the Bureau further revealed that there were several cross-cutting issues in all the sectors that needed to be addressed. Major amongst them was the collapse of the pension system in the country which was compounded by the inadequate legislation on pension. It also became glaring that to properly manage fiscal reforms, the absence of a proper mechanism for managing cross debts was a major hindrance. In addition, a liberalized economy would require legislation on competition. In Nigeria, no such legislation existed, which meant that there existed a clear potential for unfair trade practices with full liberalization of the economy. Accordingly, the NCP also set up the following committees: Steering Committee on Pension Reform; Steering Committee on Determination and Resolution of Cross Debts; and Steering Committee on Competition and Anti-trust Reform. All the Committees set up by the Council worked in accordance with their mandates and produced reports for Government. The Secretariat also collaborated with all stakeholders – the ministries, organized labour members of the National Assembly and the private sector in carrying out the reforms.

4.8.8 Lessons Learn from Nigeria

Literature review points to the fact that politics and politicization are very present in the privatization process. It is not only that privatization wears the inevitable and unholy garment of politics, but it weighs down and inhibits the realization of the economic goal of the idea of privatization. Importantly, however, is the fact that the politicization of privatization varies in proportion from continent to continent, and country to country, with the most dubiously politicised privatization taking place in Africa, and especially Nigeria. The key lesson from the case of Nigeria is that political patronage of privatization should be brought under control for meaningful and successful privatization. New forms of social and political exclusion could undermine the supposed economic advantage of privatization if not checked (Ugo and Costanzo, 2002).

4.9 Ghana

Ghanaian state participation in the commercial sector began during the colonial era. Ghana gained independence from Britain in 1957. Dr. Kwame Nkrumah's government in 1957 was geared towards a socialist development strategy under which all major sectors of the economy were owned by the State. It was only when Ghana started the Economic Recovery Programme (ERP) from 1987 that the gradual process of liberalization of the economy began to provide political space for private businesses. The period of the Structural Adjustment Programme (1983-1989) marked a shift from the paradigm where the State dominated the economy to one based on the principle that government should concentrate on providing vital public services and allow the private sector to lead the productive sector of the economy (Ghana's Official Handbook 2006).

The immediate post-colonial economy era in Ghana was characterized by high levels of government ownership of enterprises, high levels of economic regulation, and explicit suppression of financial markets and exchange. This trend continued for most parts of the 1960s, 1970s, and early 1980s when Ghana began to change course with the adoption of the Structural Adjustment Program. In the 1960s, the public sector accounted for as much as a fifth of total manufacturing output and 26 percent of gross domestic product (GDP) (Swanson and Wolde-Semait, 1988). The public sector was seen as a necessary tool for development by assisting in redistributing incomes, fostering regional development, creating employment opportunities, and as a source of revenue for the government. Ghana's public sector employment grew steadily from around 11,000 in 1960 to 241,000 in 1984, by which time it represented almost 28 percent of formal sector employment (World Bank, 1993).

A major policy shift took place in Ghana in 1980s from state-led growth strategy to emphasis on the private sector as the engine of growth. The economic paradigm shift did not occur overnight but over a period, and in the process generated considerable debate along the way. After years of general economic decline and the dismal performance of the state-owned enterprises (SOEs), Ghana began a major policy shift as part of the structural adjustment programme that began in the early 1980s. Most of these programmes included the transfer of state enterprises into the private sector. By 1990, due to steps to improve the efficiency of public enterprises, the removal of "ghost" workers from some payrolls, and the liquidation of some nonviable enterprises, employment dropped to just over 200,000. Employment was concentrated in 17 "core" enterprises which employed 78,000 people in the utilities, transport, petroleum, and agricultural sectors. In a comparison of financial data for 100 state-owned enterprises (SOEs) for the years 1979 and 1983, annual losses had increased fivefold from 91.8 million cedis to 550.9 million cedis and debt had more than tripled from 495.4 million to 1882.2 million cedis (Swanson and Wolde-Semait, 1988). In a separate survey of 100 enterprises between 1980 and 1982, it was shown that operating deficits had risen from 0.2 percent to 3.4 percent of GDP and were, in part, financed by subsidies equal to 9 percent of government expenditure (World Bank, 1993). By 1985 the public enterprise sector in Ghana was characterized by increasing operating losses, low productivity, rising debt, a volatile business environment, poor accountability, and insufficient investment. As the budgetary burden became too much to bear, public enterprise reform became an important element of the government's structural adjustment program. At that time, the lack of accountability for public enterprise sector performance was so pervasive that no one knew precisely the size of the sector.

4.9.1 Objectives of Privatization in Ghana

In Ghana, Governments saw SOEs as a means of taking the commanding heights of the economy. General Kutu Acheampong, the Head of State of Ghana during 1972-1978 had made pronouncements during the proceedings of the six international conference of Mount Clair College, New Jersey on May 4, 1992 to the effect that self-reliance was superior to classical notions of comparative advantage, specialization and international trade even though the same governments turned to international public assistance as a means of financing public investments .

4.9.2 History of Privatization in Ghana

The initial push to privatize State Owned Enterprises in Ghana appears to have come from the World Bank during 1995–96 period. The World Bank insisted on one privatization implementing agency for public enterprise reform and divestiture, which in their opinion should be outside a government ministry. Before then, the responsibility for developing the privatization program was initially vested in the State Enterprises Commission (SEC). This agency, established in 1965, was designated by the State Enterprises Commission Act, 1987 [PNDC Law 170], to be the lead agency in Ghana's government's attempts to reform the public enterprises. Accordingly, during 1986 and 1987, the SEC undertook the early work of identifying and classifying SOEs and determining reform and divestiture priorities. In 1988, due to slow progress on all fronts, including a lack of discernible evidence of real efforts to begin liquidating or selling any enterprises, privatization was broken off the State Enterprise Commission into a new unit called the Divestiture Implementation Committee (DIC). This was expected to free the SEC to concentrate on the then more critical job of reforming the major enterprises as well as allowing the DIC to focus on privatization. The DIC was, and remains to this day, responsible to the Office of the President. The role and functions of the DIC are set out in the Divestiture of State Interests (Implementation) Law, 1993 [PNDC Law 326] which states that the DIC's functions are "to plan, monitor, coordinate, and evaluate all divestitures, effectively communicate government policies and objectives for any divestiture, develop criteria for selection of enterprises to be divested and assume responsibility for preparing such enterprises for divestiture, making appropriate consultations, and ensuring consistency in procedures for evaluations, invitations for bids, negotiations of sales, and settlements of accounts. The DIC has a secretariat that is charged with the day-to-day management of the program including, but not limited to, receiving proposals, negotiating with investors and submitting negotiation results to the committee. The committee's recommendations are then submitted to the government for authorization." The DIC secretariat has throughout had few resources to undertake what is an ambitious program. For years it was well below its authorized staff complement. At the time of developing its accelerated divestiture program in 1995 (which began operations in 1996), the professional staff of the secretariat was comprised of the executive secretary, two financial analysts, a legal secretary, an assistant consultant, a public relations officer, an administrative officer, and three advisers. The number of professional staff has only marginally increased since then.

There are several significant features in the history of the management of the program. First, after several years of planning and preparatory work, the divestiture program was officially launched in 1988, although it took another five years before the DIC had a legal mandate to fulfill its role. The reasons for this are unclear; but the delay constrained the DIC's work because many SOEs argued (correctly) that the DIC has no legal basis to intervene in their affairs. Second, the DIC only "recommends" a privatization deal; it has never had the authority to "approve" a divestiture transaction. The DIC officially submits requests for approval of negotiated deals to the Office of the President. The decision-making process within the Office of the President is unclear. Approvals have been known to take as little as one week, although several months is the norm, and in a few cases the submissions have been held indefinitely. The issue here is the known potential delays that are a deterrent to investors. In the past, there have been a few occasions when the delay in approval has led to the successful bidder withdrawing, thus requiring the DIC to rebid the enterprise sale.

In 1997 the SEC prepared dossiers on all non-privatized SOEs in which the government held an equity interest. The resulting information formed the basis for decisions on the enterprises to pass to the DIC secretariat for divestiture. They also highlighted the constraints to divestiture. The SEC also reviewed the "subvented" institutions, that is, research organizations, semi-commercial units, regulatory bodies, and other entities that rely on government budget support. As a result, the institutions were classified into those that should be closed; those that should remain fully subvented; those that are essentially commercial in nature and should be privatized; those that are partially commercial, but will require some continuing government financial support; and those that should be contracted out to the private sector. Both these exercises provided a useful basis for planning the next phase of privatization in Ghana. Up to mid-1996 the DIC secretariat prepared a profile for each enterprise it put up for sale. The profile was in the form of a sales memorandum that provided basic information about the enterprise (for example, its activities, principal assets, products, markets, work force, and opportunities). When an enterprise had reasonably up to date financial statements, they were made available to potential bidders. The long time taken to finalize deals, however, clearly indicates that insufficient preparatory work was undertaken to identify issues that might delay conclusion of each transaction. No attempt was made to verify land title, which often became an issue when winning bidders commissioned their accountants and lawyers to undertake due diligence work. Since mid-1996 the DIC secretariat has contracted out work on all new divestitures to consultants.

Third, the DIC has not been responsible for all divestitures. All the larger transactions have been handled by other government agencies, notably Ashanti Goldfields Corporation, the state-owned banks (managed by the Financial Structural Adjustment Program (FINSAP) unit in the Ministry of Finance), and Ghana Telecoms (managed by the Ministry of Transport and Telecommunications). Earlier in the program, the privatization of some smaller enterprises such as the Ambassador Hotel, Continental Hotel, Star Hotel, and Labadi Beach Complex were also handled within the government. Mystery surrounds responsibility for the privatization of the Ghana Airways handling facility, but neither the DIC nor the Ministry of Finance was involved.

4.9.3 Privatization Undertaken in Ghana

At the beginning of the public enterprises reform project in 1988, Ghana had three hundred and twenty-nine (329) SOEs, second in Africa to Tanzania’s four hundred (400) Danquah, (1996). Privatization effectively started in Ghana around 1989 even though it begun in the early 1980’s. Since the beginning of the privatization program more than 200 transactions have been reported. Table 4.3 summarizes these on a year-by-year basis between the period 1989-1997.

Table 4.3: Privatization undertaken in Ghana between 1989 and 1997

Transactions	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**Total**
Public floatation's						9	2	3	1	15
Competitive share sales						1			1	2
Preemptive share sales		2	5	3	2		1	1		14
Non-Competitive share sales		4			2	4		1		11
Competitive Asset Sales		1		1	2	31	11	8	15	69
Non-Competitive Asset Sales		2	1	2	2	3	4	2	2	18
Competitive Joint Ventures					1	2			1	4
Non-Competitive Joint Ventures		3		2		1	1	3		10
Debt Equity Swap				1		1				2
Restitution						1	2	2	4	9
Leases		2				2				4
Liquidations	6	17	2	6	5	13	3	1	1	54
Management Contracts						1				1
Total Concluded	**6**	**31**	**8**	**15**	**14**	**69**	**24**	**21**	**25**	**213**
Failed deals			1	6	1	1				9
Negotiated but unsigned				2	3	2	1			8

Source: The International Bank for Reconstruction (2003)

4.9.4 Methods of Privatization and Government Divestiture

Sales of Assets

Until recently, the most common and preferred form of privatization in Ghana was through the sale of assets through competitive tender. However, the disposal by the government of major stakes in Ghana Oil Company Limited (GOIL) and the State Insurance Company through initial public offers (IPOs) in 2007 signaled a shift in government policy.

Initial Public Offers (IPOs)

IPOs provide an opportunity for public participation and are in line with the government's policy to encourage its citizens to invest and to acquire shares in these companies. The GOIL IPO was the first by a state-owned enterprise and was largely oversubscribed. The government sold 49 per cent of its shares in GOIL, the second largest oil marketing company in Ghana, through the IPO. It retains a 51 per cent controlling stake in the company. Similarly, the government disposed of 60 per cent of its stake in the State Insurance Company, Ghana's largest insurance company, through an IPO that was also vastly oversubscribed. Both IPOs attracted interest from institutional investors, in particular, banks and insurance companies, as well as from retail investors (United Nations, 2010).

Management Contract

The responsibility for the provision of services that were to be provided by the state-owned enterprise is passed on to a private provider. The ownership, however, remains with the state and all required capital investments continue to be provided by the state. The performance contract is signed with outsourced management.

Joint Venture

This takes the form of a partnership between an existing public enterprise and a private investor. Sometimes the government and a private investor established new organization and take over all assets or part of an existing SOE and transfer into the newly formed venture enterprise.

Lease

This occurs when, a private firm takes the responsibility of operating and maintaining the assets of a public owned firm. The government retains the ownership as well as responsibility for financing capital investments. Because the new operator has strong incentive to reduce cost and improve efficiency, government will benefit from the efficiency gains that arise as a result as well as dividends where relevant.

Liquidation:

This is the process of taking a business asset and turning them into cash, which may be used to pay off debt or to reap revenue. This normally happen when the organization is not in operation and the government decides to liquidate the organization.

Table 4.4: Table of methods of divestiture pursued by Ghana

Mode	90	91	92	93	94	95	96	97	98	99	00	01	02	Total
Sale of Assets	3	5	3	4	25	19	66	34	15	12	11	3	7	**207**
Sale of Shares	8	3	6	3	8	1	1	5	3	3	1	0	1	**43**
Joint Venture	0	1	2	0	7	1	3	1	0	0	0	0	0	**16**
Lease	2	0	0	0	2	0	0	1	0	1	0	0	0	**6**
Liquidation	21	3	2	3	7	0	1	0	2	2	0	0	0	**41**
Total	**34**	**12**	**13**	**10**	**49**	**21**	**71**	**41**	**21**	**18**	**12**	**3**	**8**	**313**

Source: Divestiture Implementation Committee (DIC) fact sheet (2003)

4.9.5 Process of Privatization

Several factors led to the preparation of the General Procedures for the Divestiture of State-Owned Enterprises in the second half of 1995. The DIC reported that it adopted these procedures for all transactions that commenced after April 1996. These procedures are very detailed and thorough and are a useful reference for other implementing agencies embarking on privatization. However, it is baffling that it took eight years for the DIC to introduce standard divestiture procedures that are available to interested parties. There was clearly a need for a consistent and open approach and to build on the experience gained. However, it appears that the introduction of the procedures was, at least to some extent, forced by criticisms in the press and elsewhere about transparency, as well as by the World Bank.

In Ghana, enterprises privatization goes through three important stages in preparation to privatization. The first stage is the conversion of statutory corporations to limited liability companies registered under the Companies Code, 1963. The second stage is the implementation of the privatization work undertaken by the SEC in keeping with the Act which set it up. The third and the last stage is the undertaking of the privatization work done by DIC secretariat.

The Statutory Corporations (Conversion to Companies) Act, 1993 [Act 461], was an enabling statute for the conversion of 27 commercial, statutory corporations and 5 state-owned banks to public companies henceforth subject to the Companies Code, 1963. Following conversion, all successor companies are shareholder-owned companies with their shares vested in the Minister of Finance in trust for the state. The Act, drafted by the SEC as part of the ongoing reforms it oversees, was an essential first step in the process of privatizing some of the major public enterprises. When the privatization program began in Ghana, many of these enterprises were considered "strategic" and were slated for restructuring, not privatization. This, in large part, explains why it took so many years to adopt conversion legislation to facilitate privatization.

The SEC is responsible for managing the portfolio of wholly state-owned commercial enterprises not scheduled for privatization. As such, the SEC manages the transition of the enterprises' present government ownership to private ownership. In this role, the SEC seeks to improve the financial discipline; exercise government's rights as a shareholder; ensure public accountability; ensure that all enterprises have a comprehensive corporate plan and an annual performance contract; and oversee the application of corporate governance rules as set out in the company regulations. These are important steps in preparing SOEs for privatization. It took the SEC several years to gain recognition of its role, and real progress was made in 1993-1197 period. When the SEC began its reform and divestiture work in 1986, it suffered from a lack of information on SOEs. Not only was there no data on SOE performance and financial position, no one knew the identity of many SOEs and the extent of government ownership. The SEC's work to ascertain this information and to begin to improve SOE sector performance has been hindered by some SOEs and government ministries who have failed to respond to the SEC's initiatives, and the SEC has not had the legal or political clout to remedy this. Hence, it took many years of effort, with either disinterest or outright opposition from some SOEs and their parent ministries, for the SEC to get a firm handle on the SOE sector. Today the SEC is in a much better position to advise the government on the preparedness of the individual enterprises for privatization and the most appropriate methods to apply.

The Ghanaian government always selects the SOE to be divested, on the basis of minimizing economic disruption, while building support for the divestiture program. Information and documentation is collected on each of state-owned enterprise on the list for divestiture. Once that has been done, decisions are made as to whether it will be divested as a whole or fragmented for the purposes of divestiture and the preferred mode of divestiture. From the Divestiture Implementation Committee brochure, 2003 fragmentation may be appropriate, where the state-owned enterprise comprises a number of district businesses or divisions. This mode of divestiture will usually be the sale to private sector investors of the

SOEs assets by competitive tender, but government may sometimes sell it assets directly to investors (Megginson, Nash, Netter, & Poulsen, 2004). Where the SOE already has some private sector shareholders, the government gives the first option to the private shareholders to buy the shares before other investors are considered. Sometimes the government sells the shares through the stock exchange. This happens when the government looks at the strategic importance of the SOE to the public and sometimes the agitation from the public also lead to this mode of privatization.

4.9.6 Legal Environment of Privatization

From Independence in 1957 through to December 1981, successive administrations have pursued different policy agenda respecting the role of the state in the economy. Often, they have appeared to be mainly concerned with reversing or negating the policy framework of a predecessor government. Ghana’s political history has left its mark on both the composition of the public enterprise sector and on the legal and institutional framework for SOE governance. The legacy remains an important part of the background, circumscribing well as the scope for divestiture. In Ghana, the term "divestiture" embraces both the privatization and liquidation of state-owned enterprises. These circumstances are the background to Ghana's decision to launch the Economic Recovery Programme (ERP) in 1983. The reform of the state enterprise sector is an important part of the national recovery effort, supported domestically and externally as an integral component of the ERP. In developing its Economic Recovery Programme in 1983, government recognised the need to undertake a comprehensive reform of state enterprises in Ghana. To assess the problems of the sector and prepare a reform programme, government and IDA agreed that a comprehensive diagnostic survey of the SOE sector should be undertaken. Using these studies as a basis, a government task force formulated a comprehensive SOE reform programme. In 1987, the SOE reform programme was formalized with the establishment of the present Commission by the State Enterprises Commission Law, 1987 (PNDCL 170) and the start of the Public Enterprise Project funded by IDA. At this time government held, whether directly or indirectly, a financial interest in more than 300 enterprises.

4.9.7 Challenges of Privatization

In the late 1980s and early 1990s there was strong opposition to privatization from SOE managers, employees, and trade unions. Many people saw privatization as a threat to jobs in the public enterprise sector and as a potential sellout of publicly owned assets to foreigners and to the Lebanese minority community in Ghana. A lack of public information about privatization and a lack of transparency surrounding many of the early divestiture transactions compounded the problem. The lack of transparency made the business community suspicious of the government's motives; that suspicion still exists today. The current World Bank technical assistance credit includes a public information component, but this, too, is slow in materializing. This is all the more surprising when a key lesson from Ghana's privatization experience is the need for public information and consensus building early in the process.

The amount of end-of-service benefits (ESB) has been a constant problem and was a major cause of delay early in the program (1987to 1990). The issue of high benefit levels—usually calculated as eight months of final salary for every completed year of service—arose because ESB had been raised as a pension-enhancing scheme following the collapse of the social security system. The high cost of ESB rendered restructuring of SOEs impossible and the SEC—and later the DIC secretariat—were faced with the prospect that many divestitures would result in a situation where the contingent cost of these benefits alone would exceed likely sale receipts. In 1990, in response to this dilemma, a cap was put on these benefits both to limit the cost and to make them uniform. At the same time, the government accepted full responsibility for settling these benefits.

Clear land title is a recurring issue. According to the DIC secretariat, up to mid-1997 privatization transactions reported as completed (approved and signed by the parties to the contracts) were finalized except for transfer of land title. The transfer of title was in all cases dealt with late. In some cases, it is still outstanding. The problem is that many SOEs did not have legal title to land they occupied, or they held legal title but lacked documentary evidence. This is also true of many SOEs not yet slated for privatization. Despite this persistent problem little appears to have been done to resolve it. Indeed, although the DIC secretariat has been aware of this issue all along, it left the consultants to encounter the problem when they come to prepare enterprises for divestiture. The problem arose mainly from the nature of state land acquisitions during the First Republic. In the spirit of the time, individuals and local communities were encouraged to give up land for development. Many responded by yielding land, believing that this was for the common good. However, no title documents were prepared to cover land that was acquired by the state, and no compensation was paid to the beneficial owners. Since the announcement of the divestiture of state farms and plantations, there have been calls to return the properties to those people or their successors. For several years now, the government has been examining how to reconcile traditional claims with the economic realities facing these properties. Again, this is an issue that seems to have dragged on for an unnecessarily long period.

Valuation has been a sensitive issue since Ghana's privatization program began. The government has expressed its resolve to obtain the best possible deals and securing a deal close to the expected sale value has been a major factor in the slowness of the program. For every SOE to be divested, the DIC secretariat commissions an independent valuation of the assets. Private sector specialists carry out this work. Each valuation provides the DIC secretariat with a guide to the value of the SOE's assets (on the basis adopted by the appraiser) and serves as an inventory of the assets. The valuation is said by the DIC secretariat to be used only as an indicative price and is not a reserve price. On this matter, the lesson of experience appears, at least in part, to have been learned. In the period up to 1991, some private investors reported that asset valuations had hampered possible privatization deals because the government refused to consider offers where prices reflected the earning capacity of the assets, but where they were well below the values based on depreciated replacement cost.

4.9.8 Lessons Learn from Ghana

Below is a summary of lessons we can draw from the Ghana's privatization experience:

1. The Ghanaians government's lukewarm commitment to reform and privatization brought in a period of slowdown in privatization program of Ghana. The inadequate resources for privatization referred to earlier, the delay in adopting legislation concerning the DIC secretariat's mandate, and the delay in processing and approving transactions are all regarded as evidence of a lack of commitment. Because of the political nature of privatization, it is important that a country's top leadership be involved and supportive to the process of privatization if success is to be realized.
2. Corporate governance in Ghana's SOE sector has been weak and was compounded by poor coordination and rivalries between government ministries with respect to SOE sector management. This made it difficult for SEC to obtain the necessary cooperation from SOE managers. The cooperation and consultation failure made DIC work difficult

as employees who developed concerns of job security because of privatization engaged in obstructive behaviours. As a result, asset inventories were incomplete, asset stripping occurred, and liabilities were hidden. Indeed, asset stripping has been a persistent problem in SOEs undergoing privatization or listed for divestiture. It is therefore important that all governments must take the issue of corporate governance seriously if privatization is to succeed.

3. Limited resources are one of the key constraints to privatization in developing countries While this may be true, it is not the whole story. The issue of employee end-of-service benefits has been a big problem in Ghana, problems over land title, and misconceptions arising from valuations of SOEs have been part of the problems in Ghana. It is therefore important that adequate resources be set aside to aid the process of privatization.

CHAPTER FIVE: SUMMARY AND RECCOMMENDATION

5.1 Introduction

From its triumphant entry into national economic policies in the 1970s, the esteem for privatization has significantly declined. Politicians, businesspeople, scholars and consultants alike have learnt to take a more balanced view of privatization. They have come to the realization that privatization must happen in a supportive institutional and policy framework if it is to live up to its potential. They have also come to share a better understanding of the sociopolitical consequences, especially regarding public opinion that privatization inevitably brings with it. For Kenya, knowing what other countries have done or are doing as far as privatization and divestiture are concerned is good for Kenya's Privatization Commission. This final chapter of the report is presenting conclusion and recommendations out of the comparative analysis done on nine countries picked from across the globe. The aim of this chapter of the report was to draw lessons which could be applicable in the Kenyan situation. This chapter has been presented in terms of summarized challenges and the accompanying recommendations for each challenge:

Table 5.1: Summary and Recommendations

S. No	Summary of challenges	Recommendations
1	Packaging or rebranding of previsualization	To reduce the negative impressions associated with privatization, many countries have rebranded the programme and therefore call it by different names. For instance, In Bolivia, the term 'capitalization' is used; in India, 'divestment' is used; in Vietnam, the term 'equitization' is used; in Sri Lanka, the term 'peopleization' is used; in China, 'ownership reform' is used; and in Mexico, 'disincorporation' is used (Gupta, 2007). Kenya can rebrand privatization to make it more acceptable to citizens.
2	Mixed and unclear privatization objectives of many governments	For privatization to achieve its objectives, the process of privatization must be all inclusive. It must balance out political, economic and social welfare objectives of all its stakeholders in its objectives, design and execution. Objectives for the privatization should be formulated and communicated to the general public to secure public buy in and avoid voidable opposition.
3	Unclear legal and institutional framework of privatization	Privatization must begin and continue with clear institutional and regulatory underpinnings. It is a process in which success depends on appropriate

		deregulation and reregulation of privatized firms, as well as the creation of stable institutions. The legal framework should establish, with a maximum degree of public disclosure, which entities are authorised to make privatization decisions and under what circumstances. Lack of proper institutional and regulatory framework is likely to put stakeholders in a worse situation than they were before privatization. The country's executive powers, framework legislation, case by case laws and parliamentary approvals of privatization must be carefully defined and studiously executed. This framework must include anti-trust regulation to ensure competition where feasible, and specialised regulation to oversee activities where an element of monopoly is likely to persist.
4	Justified decision to privatise and enterprise.	The decision to privatise or not to privatise an enterprise must be soberly and objectively made. Another decision to be made in privatizing is whether to keep the corporatized asset wholly or partly under public ownership. There must be clear guidelines towards these considerations if privatization must succeed.
5	Adequate preparation of an organization for privatization	Adjusting internal corporate practices, management and capital structure as part of the preparation for privatization. This is crucial in a privatization process.
6	Proper valuation	While some might argue that privatization based on competitive bidding will establish the value of the enterprise, there are several reasons why the state seller will want to establish proper value of the enterprise to be privatised.
7	Proper environmental audit	SOEs that are subject to standard environmental rules must, like any other company, carry heavy environmental liabilities due to potential polluting activities.
8	Unjustified privatizing methods	Every method chosen for privatization, whether trade sales, share offerings, management or employee buy outs must be objectively justified on a case by case basis. The choice of privatization methods is to be guided by the size of the enterprises to be sold, market conditions and the objectives of the privatization process. The governments should rely, to the greatest

		extent feasible, on competitive bidding in privatization. Trade sales should involve an auction between potential investors. In buyouts alternative bids to those of the corporate insiders should be sought. The enterprise to be privatised should be allowed to adjust their own capital structure. Strong governance mechanisms are therefore needed to ensure that SOE management continues to act in the interest of the government owner.
9	Poor corporate governance in privatization.	The credibility of the privatization process often depends on the quality of SOE's corporate governance. An important aspect is safeguarding enough board independence to enable SOE boards to protect the minority shareholders, including against further privatization measures that are not seen as being in their interest. It is the responsibility of the governments to ensure that managers and non-executive board members in SOEs are not able to influence, in their own interest, the privatization decision and privatization methods.
10	Competency of agencies or administrative units entrusted with privatization	The government needs to ensure that agencies or administrative unit(s) entrusted with privatising SOEs are competent, well-resourced and subject to high standards of accountability and transparency. It should also safeguard the efficiency of the privatization process.
11	Lack or poor privatization plans	Privatization plans would need to be made subject to an evaluation of the degree to which they are likely to fulfil the objectives and the expected costs of privatizing.
12	Procedural and professional engagement of external advisors.	The decision to engage external advisers should be based on an assessment of most efficient use of public resources. Governments should not contract external expertise for reasons of short-term savings or safeguarding themselves from responsibility. Sound contractual and legal framework must be established to safeguard the integrity of external advisors' involvement in the process. Specifically, conflicts of interest must be avoided. Advisors should be required to disclose any business relationship with third parties interested

		in the outcome of the privatization. If justified by the complexity and scale of privatization projects, advisory functions in different parts of the privatization process should be administered by different advisors. Processes must be established for the selection of the best and most cost-efficient advisors. In addition to existing public procurement rules, additional mechanisms for a transparent prequalification of potential advisors may have to be established.
13	Timing and sequencing of privatization.	Sequenced privatization should be considered where SOEs in question are large relative to capital markets, and where performance enhancements emanating from the listing of the company are likely to raise the value of subsequent offerings. Partial privatization should be considered where the state intends the SOE in question to continue operating in accordance with some public policy objectives. In sequenced privatization, the state has a responsibility to inform the public. Whether privatization is partial or sequenced, it is of important to ensure that the investors in the first tranches are fully informed of any public policy objectives that the SOE is expected to continue to pursue in the duration of the process.
14	Poor handling of Labour related privatization issues	While creating an environment of entitlement among civil servants and other public employees is not a good practice, contractual rights should continue to be honored to affected employees where the transfer of ownership affects their job security, wages and benefits.
15	Lack of or poor auditing and accountability of privatization process.	To maintain high level of transparency and accountability, privatization needs to be subject to independent oversight. Auditing should be well-resourced and independent from the public authorities engendering the privatization process and those carrying it out. Regular disclosure to parliament and the general public is of importance, though in countries with few privatizations, it may have, on cost efficiency grounds, to be replaced by ad hoc

		reporting. The authority charged with privatising, as well as the auditing body, should be held accountable, including to the legislative powers.
16	Piecemeal and disjointed pieces of privatization research which does not reveal to total picture of the impact of privatization.	Researchers need to look at privatization comprehensively to reveal its true impact on economies
17	Poor Support Mobilization	Privatization Commission should seek the help of development partners like World bank, which has broad toolkit to support privatization. The world Bank has multiple instruments which include WB Development Policy Operations (DPOs), WB Investment Project Finance (IPF), WB Analytics and Advisory Services (ASA), IFC Advisory, IFC Investment, and MIGA guarantees.
18	Expansion of the mandate of Privatization Commission	The recommendations of the Presidential Taskforce on Parastatal Reform be revisited. It proposed the formation of Government Investment Company (GIC) to handle both investment and divestment. This can be pursued through legislation.

5.2 Overall conclusion

An attempt to predict the future of our Kenyan economy from an analysis of the past global economic history places us deep into an economic puzzle of the year 2020. An analysis of global economic history produces more irony than insight, so much that it is easy to conclude that economic ideology that might have worked well in the past and in any country worked by accident and not by design. There are surely many economic surprises that are likely to spring up from different parts of the world now and in future as we see rising and diminishing tides of different economic policies. World economic history analysis however gives glimmering insight from United Kingdom that may be successfully explored to the benefit of Kenya as a country.

David Landes may be very correct in observing that the Europeans had a culture more conducive to economic growth. The embedding of bourgeois values of hard work, patience, honesty, rationality, curiosity, and learning into the British society might have been a defining factor in the economic rise of Britain (Landes, 1998). This might mean that the success or failure of an economic policy majorly depends on the discipline, conscientious, and hard work (culture) of the society, especially the workers. If this is the case, then it doesn't matter whether Kenya pursues public investment or privatization as an economic policy, it may only mean that Kenya needs to do one thing- that is work on a national culture that instill honesty, integrity and good governance. Our single biggest barrier to economic development could be the unhealthy social culture and not economic policies.

In conclusion, if Kenya can faithfully address the challenge of integrity and governance (culture), the mandate of Privatization Commission should be expanded to include a periodic reassessment of privatised enterprises and the decision to nationalize privatised SOEs as the situation may dictate after their assessment. And in that case Privatization Commission and the Ministry of Finance and Planning's Directorate of Portfolio Management (Department of Government Investment and Public Enterprises) should be merged into one.

5.3 Suggested Areas for further Research

A bench marking study should be undertaken on best performing nations when it comes to privatization and government divestiture. This will give deeper insights into the actual happenings in a privatization process. We would like to suggest that this be done on Australia

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