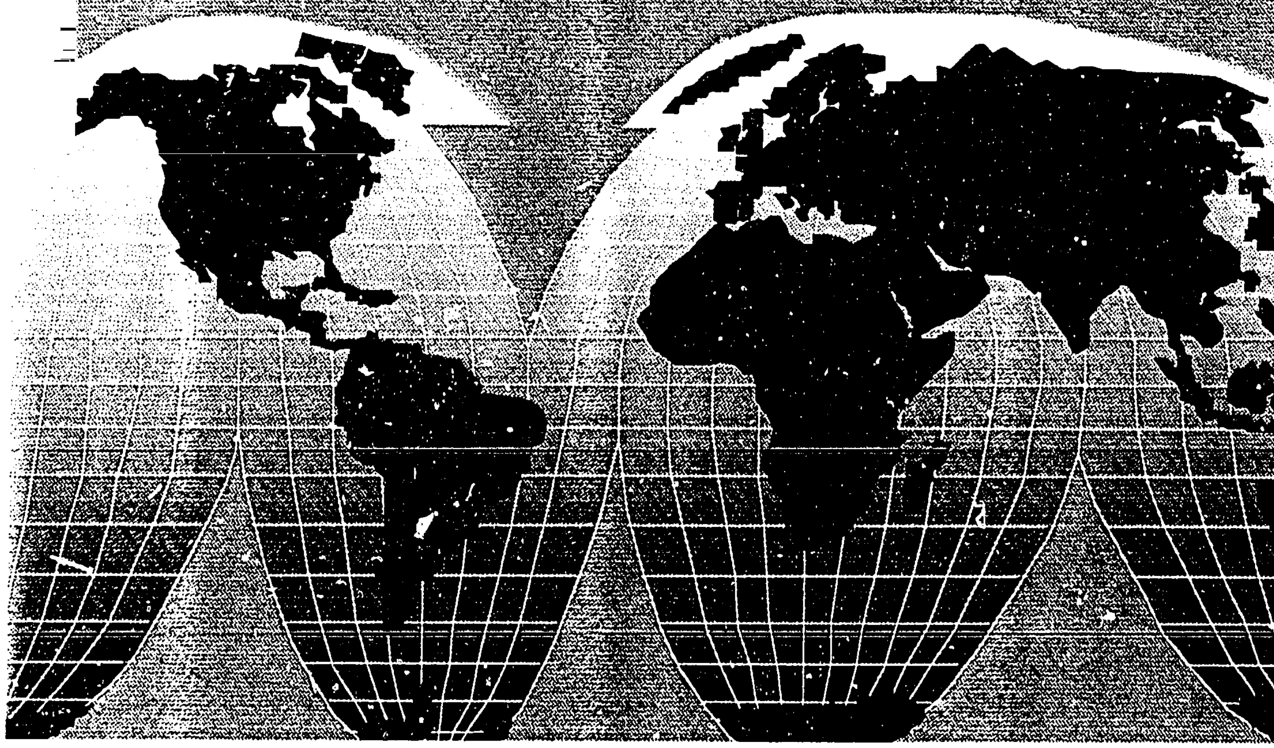
Trends in Privatization and Development



Price Waterhouse
International Privatization Group

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Preface

It took some time for privatization to gain widespread acceptance, but today the conversion of state-owned enterprises into private entities is a relatively common practice in economic reform and development. Over the past several years a wealth of information has become available to researchers and practitioners interested in privatization, but there are few sources that track worldwide activity and put the available data in their proper context. It is to meet this need that the International Privatization Group designed *Trends in Privatization and Development*, and we hope that the reader finds it to be a useful tool in exploring how privatization is being used in different countries to promote these goals.

The International Privatization Group (IPG) of Price Waterhouse was formed in January 1991 under a long-term contract with the U.S. Agency for International Development to provide privatization assistance worldwide. The goal of Price Waterhouse/IPG is to accelerate and improve the implementation of privatization programs by working in collaboration with governments, private enterprise, and donor agencies committed to promoting private sector efficiency.

The International Privatization Group maintains a database to monitor the development of privatization activities in the developing world and the Newly Independent States (NIS), on both the micro and macro levels. The database is organized by region -- Africa and the Middle East, Asia, Eastern Europe, and Latin America -- and includes economic and financial data on transactions which have occurred in each country, to the extent such information is available. To date, nearly 400 transactions occuring in 48 countries over the past two years are recorded in the database.

The information from the database was used to develop this study of the trends and developments in privatization around the world. Each regional section is summarized into an overview of privatization activity to give the reader an idea of the broad themes developing around the world. Following each regional overview is a country-by-country description of the privatization programs and related factors. A representative account of each country's planned and completed privatization transactions is also presented, using the best information available at the end of 1992. Each country section covers the following categories:

Government Commitment This section summarizes the government's commitment to the concept and the implementation of privatization. This is often the most important indicator of how successful a privatization program is likely to be.

Privatization Strategy This section covers in detail the specifications of each country's privatization plans. It identifies the responsible planning and implementation agencies, and discusses the specific laws and regulations which establish the procedures.

Investment Environment This section details the economic, regulatory, and legal framework in each country and their relationship to privatization activity. The financial environment is also examined to see what methods are applied to encourage the participation of private investors. This information is difficult to keep up to date because information is not always readily available and conditions change rapidly in developing countries.

Impact of Privatization Where information is available, this section will discuss results, actual and anticipated, from the privatization activity in each country.

Prospects for 1993 This section includes expected or planned changes in the privatization plans for each country in 1993, as well as transactions which have been announced for 1993.

Privatization Transactions and Announcements This section gives a listing of all known privatization transactions completed or underway during 1992, including all public information given on each transaction. Transactions presented in this section are grouped according to industry, and are also arranged chronologically to give the reader a better sense of how each privatization program unfolded. Due to incomplete disclosure and the poor availability of information in certain countries, the descriptions of some privatization transactions are incomplete.

Project Finance The final section covers the private provisions for public services including Build-Operate-Transfer (BOT) and Build-Own-Operate (BOO) methods for infrastructure finance, public utilities, contract and management leasing, and special financing methods for joint-venture arrangements.

The International Privatization Group draws on a number of periodicals and journals to update our database and keep our publications as accurate and comprehensive as possible. We would like to thank the editors of the following periodicals which served as important sources: *Africa Research Bulletin, Lagniappe Letter, Asia Money & Finance, Latin Finance, The Economist, Middle East Economic Digest, Euromoney, PlanEcon, Far Eastern Economic Review, Privatisation International, Finance and Development, The Wall Street Journal, Financial Times, The World Bank Economic Review*, and *International Privatization Update*.

Where possible, transactions have been converted to US dollars at market rates applicable to the time of the transaction. All currency figures denoted with "$" indicate U.S. dollars unless otherwise specified. The reader should note, however, that not all transactions involved were convertible to "hard currencies," and, indeed, a great many took place through voucher payments, debt-equity swaps, or other means of compensation. The dollar value of these transactions is often estimated and in some cases was not available. For this and several other reasons, privatization transactions measured in dollar volume are not always directly comparable across countries. We make our best effort to portray the scope and breadth of the trends emerging in privatization throughout the world.

We intend the *Trends in Privatization and Development* to be used by interested practitioners and researchers as a starting point for cross-country analysis of privatization programs in developing and emerging economies. Coverage of privatization activity is an on-going process at Price Waterhoue/International Privatization Group, and we welcome your comments and suggestions.

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Global Overview and Summary

Privatization no longer generates as much controversy as it once did. Over the past several years practitioners have gained experience and a number of lessons have been drawn from the application of privatization techniques under a variety of conditions. Privatization programs remain at the heart of the reforms in the former socialist countries of Eastern Europe and the Newly Independent States (NIS). Privatization is also used to promote the emerging financial markets of Latin America and the infrastructure projects of the dynamic Asian economies. In the Middle East and Africa a coherent privatization strategies are emerging in nations where the state has long maintained stringent control over economic activity.

The year 1992 saw a number of fascinating trends in the application of privatization to economic and private sector development. Rapid change took place in countries of the former socialist bloc as they embarked on privatization programs of an unprecedented scale. As in previous years, direct sale through public tender offers like those executed by the German Treuhandenstalt remained the most common method in the East European countries. In addition, the commencement of mass privatization programs in a number of these nations accelerated the pace of small and medium-sized transactions.

The Motive for Privatization

Most developing countries have turned to privatization as a "last resort", after years of economic and industrial deterioration typically witnessed among state enterprises. Although donor agencies commonly recommend privatization programs as components of economic adjustment programs, developing country governments are increasingly opting for privatization on their own initiative, having observed its successes elsewhere.

In Latin America, public approval of privatization was crucial to effective implementation. Argentina's highly successful and popular privatization program was an important factor in it's economic turnaround. The Brazilian program, on the other hand, suffered a setback when public confidence in it crumbled on the heels of President Ferdinand de Mellor Collar's impeachment.

Without a doubt, the former socialist countries in Eastern Europe and Central Asia have embarked on the most ambitious privatization programs ever. While mass privatization schemes in these countries have been largely successful in transferring control of state enterprises to private owners and managers, it remains to be seen whether this "Big Bang" approach will create a viable and dynamic private sector. It has been proven that privatization attracts foreign investment and contributes to the development of the financial sector, but never before has privatization been pursued on such a large scale with such an underdeveloped private sector.

Donor Assistance for Privatization

One of the major developments in 1992 was the unprecedented level of financial support for privatization activity funded by the more developed countries. The Russian program, for example, was given a boost at a critical moment of uncertainty by the promise of a $1.6 billion dollar support fund from the U.S. The newly-created European Bank for Reconstruction and Development (EBRD) financed a number of transactions in Poland and other Central European countries through the creation of several equity investment funds.

Asian countries are focusing on infrastructure finance to accommodate rapid economic and social change. The region is particularly focused on expanding its power generation and distribution capacity. In an important development, privatization efforts commenced in China with several high publicity initial public offerings (IPOs) on regional stock exchanges. China has also taken a large interest in investing in privatizations in Latin America, particularly Peru. Europe and the NIS are undergoing rapid transformation from the bottom up with rapid privatization of small and medium-sized assets taking place on a less centralized basis, including "spontaneous" privatization.

Even African countries, long characterized by pervasive government presence in "parastatal" economies, seem to be initiating change. Often the impetus for privatization comes from pressure from outside donors. However, Morocco and Zambia are two examples of countries whose policy-makers have chosen to privatize of their own accord. Even for these committed countries, progress came slowly in 1992, as they prepared the complicated legal and regulatory frameworks for successful programs.

The total volume of privatization activity is impossible to measure with precision. However, by our estimates, privatization in the developing world, the newly independent states, and other emerging economies exceeded last year's level of activity, measuring about $36-46 billion in 1992. Even excluding the enormous privatization which took place in East Germany at the hands of the German Treuhandenstalt, developing world transactions accounted for $22-32 billion. More important than the dollar volume, though, are the acceleration in the pace and increase in the scope of activity. Last year's high dollar volume was the result of large transactions in several countries.

Worldwide Privatization in Dollar Volume: 1992	
Africa and the Middle East	$1-2 billion
Asia	$4-6 billion
Eastern Europe and the N.I.S. Eastern Germany All Other	$18 billion $14 billion $4 billion
Latin America	$13-20 billion
Total Privatization in the Developing World Excluding Eastern Germany	$36-46 billion $22-32 billion

Sources: *International Privatization Update* Jan/Feb 1993, *Privatisation International* January 1993 and International Privatization Group estimates.

Africa and the Middle East Regional Overview

By Tyler Holt

Privatization and private sector development were relatively insignificant in Africa just a few years ago. However they are now a prominent part of the economic reform programs of most African countries, very often the mainstays of broader economic reform programs in developing countries. Adjustment programs, becoming more common in the region, usually stipulate some adherence to private sector development and public sector reform. Yet very few countries seemed able to move beyond the planning stages or even sustain successful programs once implemented. Countries in this region have so far approached privatization hesitantly, mostly as a revenue-enhancing measure or to relieve the budget of the strains of debts incurred by state-owned enterprises.

Progress

Of all the countries in the region, as few as five have established and maintained successful privatization programs capable of carrying out transactions on a sustained basis. These countries -- Côte d'Ivoire, Egypt, Ghana, Israel, and Nigeria -- are continuing programs of moderate success from previous years. Morocco, Egypt and Israel have probably been most successful in making the recent transition from the planning stage to implementation.

Morocco appears to be the new regional leader, retaining its strong commitment to privatization and completing the preliminary stages for a number of transactions during the year. With several experimental transactions in the cement and tourism-related sectors behind it, Morocco is now focusing on larger industrial enterprises and the creation of a viable capital market as the foundation of a dynamic private sector.

Beyond simple commitment, a number of other Sub-Saharan countries moved ahead as they developed the political will and technical capacity to commence privatization. In Zambia, for example, the administration of President Federick Chiluba replaced two decades of statist policies under Kenneth Kaunda, by agreeing to return to conventional IMF and World Bank policies. Zambia's development of its privatization program was a year-long process, yielding an ambitious schedule of hundreds of parastatals to be privatized in no less than eleven tranches.

Elsewhere in the region, progress was not so forthcoming. Kenya's impetus to reform seemed to stall as it resisted critical stabilization measures recommended by the IMF throughout the year. In Nigeria, domestic controversy and political opposition stymied the government's efforts to move ahead with its plans to privatize over 100 large state-owned enterprises, including several important industrial monopolies.

Despite a seemingly strong commitment to the concept of privatization, many of the other Sub-Saharan countries had difficulty sustaining an active program throughout the year. Tanzania, for example, initially moved forward politically with privatization but was unable to sustain the effort because of sharp declines in its already weak economy. The Seychelles has maintained a strong public sector and has shown no immediate intention to develop a privatization program even though it is a middle income country with access to capital through its tourist trade.

Privatization Transactions Completed in 1992		
Egypt	Cairo Meridien	September
	Hurghada Sheraton	September
Israel	Israel Chemicals	February
Kenya	Mount Kenya Textile Mills	February
	Housing Finance Corp. of Kenya	September
	Uchumi Supermarkets	September
Malawi	National Seed Company	NA
Morocco	Soders	December
Turkey	Ipragas	January
	Turk Automotive Industry	April
	Sekerbank	May
	Seker Sigorta	August
	Cukurova	August
	Kepaz	August
	Netas	September
	Meysu	September
	Gima	October
	Corum	December
	Sivas	December

Source: International Privatization Group.

Political stability is a precursor for the initiation and implementation of a privatization program. Governance issues are particularly prominent in the preparation stage, while meeting training and technical objectives become more important as the process nears the transaction stage. In Africa, a shortage of capital has been the primary problem, slowing the progress to economy-wide transaction implementation, a fact reflected in part by the distribution of countries on either end of the privatization process.

Process

Regional privatization in 1992 showed that profitable state-owned enterprises were sometimes sold as going concerns to yield quick fiscal benefits. Usually, funds generated from these transactions went to the reduction of public debt through debt-equity swaps or debt-buybacks, as in the Congo and Madagascar. Less successful parastatals were often liquidated outright, as restructuring or recapitalization was considered inviable in terms of the weakness of the local economies.

Valuation problems were exacerbated in most of these countries where neither the private sector nor the capital market are developed enough to suggest appropriate value ranges. Restrictions on foreign investment, although relaxed somewhat in 1992, still prevented international markets from becoming fully involved in privatization offerings. Several of the more developed countries, such as Nigeria and Côte d'Ivoire, sought to value going concerns relative to national sector-wide standard rates of return, often yielding over-priced share offerings.

Prospects

As in the other regions, governments in the Africa and the Middle East will need continuous financial and technical assistance to sustain high levels of commitment to their reform programs. Although these nations will need foreign aid, they displayed many encouraging signs of progress in 1992, such as the careful delineation of goals and strategies which will lay the groundwork for privatization in 1993. The development of a viable private sector, a stable financial sector, and a secure regulatory and legal framework of governance are all interrelated goals of development, and all will be critically important to sustaining successful privatization programs in the coming years.

Burundi

Government Commitment

The government of Burundi has expressed its commitment to disengage from commercial activities and has made privatization, restructuring of SOEs, and the strengthening of the private sector the cornerstones of its development strategy over the next few years. Under the direction of the World Bank, Burundi continued in 1992 with its program of privatization, restructuring, and liquidation, which is scheduled over the next three years to involve 40 state-owned companies worth $310 million.

Privatization Strategy

Created in 1987 to oversee the public enterprise sector, the Service Charge des Entreprises Publiques (SCEP), currently manages the privatization program, including valuations and public auctions. The SCEP presents sale proposals and selling documents to the Comite Interministeriel de Privatisation (CIP) -- a representative oversight committee from the major ministries -- which formally approves the sale.

Investment Environment

The privatization law of December 1991 established the privatization functions of SCEP and the CIP, which include committees responsible for establishing a minimum sale price, providing company information to prospective investors, developing sales, maintaining public awareness, and negotiating with potential investors. The law specifies precise benchmarks and guidelines which encourage transparency of the privatization process.

Prospects for 1993

Negotiations with prospective buyers are ongoing and bids will be received in February 1993. In addition to ONAPHA, the government has since divested its minority holdings in three other enterprises.

Privatization Announcements and Transactions

A team led by Price Waterhouse analyzed five enterprises slated for privatization in 1992 and selected the pharmaceutical company **ONAPHA** as the most appropriate candidate for a USAID-sponsored demonstration transaction. Support for the transaction was developed through extensive meetings with interested foreign assistance organizations, including the World Bank.

Cape Verde

Government Commitment

The Ministry of Finance and Planning was successful in 1992 in procuring a $4.2 million IDA credit from the World Bank to develop a privatization program, including funding for technical assistance, public relations, and institutional development.

Privatization efforts carried out in 1992 by the Public Enterprise Reform and Privatization (PERP) unit of the Ministry of Finance and Planning included a preliminary assessment of potential privatization candidates among Cape Verde's public enterprises and mixed companies.

The current government of Cape Verde announced its commitment to economic liberalization, identifying privatization as an important strategy. The liberalization program evolved from the First and Second Economic Development Plans which fell short of expectations and produced structural limitations in the financial institutions, labor law, and education.

Though it lacks a privatization plan, the government did request assistance from the U.S. Agency for International Development (USAID) in order to propose preliminary guidelines for a privatization strategy and to assess the impacts of labor displacement. USAID retained Price Waterhouse to conduct this initial assessment.

Privatization Strategy

After performing well throughout the early 1980s, the public enterprise sector began to deteriorate and became an increasing burden on the national economy. The government has expressed an interest in privatization as a reform measure to increase the operating efficiency of these firms and to eliminate the persistent budget deficits that some of the enterprises generate. More importantly, the government is pursuing privatization as a means of improving the private sector, by providing investment opportunities for foreign and domestic business interests.

Aside from liquidations and private sales, the government has considered management and employee buyouts of commercial enterprises, and contracting out for certain public services

Investment Environment

Cape Verde has been developing a legal framework for the private sector encompassing labor laws, investment codes, and bankruptcy regulations.

Foreign investment was encouraged by the government, including joint ventures with foreign corporations. Prices of most products have been gradually liberalized, to the point where only staple food products remain regulated. Price liberalization has been one component of the government's current effort to promote new investments in export-oriented activities and the creation of export-promotion zones.

The government is committed to a radical transformation of Cape Verde's financial sector. The reform of the banking sector and creation of a new insurance industry, if successful, will provide new investment and savings opportunities for business investors.

Prospects for 1993

Cape Verde has already had limited experience in public enterprise reform and divestiture. In 1989, **SCAPA**, a fishing enterprise, and **EMEC**, a civil works organization, were both liquidated, while shares in the state-owned shoe manufacturer **SOCAL** were sold to a Portuguese company.

The government was also involved late in the year with negotiations surrounding the privatization of the garment factory **MORABEZA**, the pharmaceutical firm **INPHARMA**, the state-owned fishing company **PESCAVE**, and in selling off minority shares in a number of other companies, including:

- Mixed companies in which the government has only a minority holding: **CERIS** (brewery and soft drinks), **CABETUR** (travel agency), **SODIGAZ** (oxygen and acetylene), **FAMA** (pasta), and **SITA** (paints).

- State-owned hotels **HOTELMAR** and **HOTEL ATLANTICO**. Price Waterhouse's International Privatization Group (PW/IPG) conducted a valuation of Hotelmar and reviewed investor proposals.

- State-owned manufacturing and service firms: **METALCAVE** (metal furniture and products), **ONAVE** (boat repair),and **ANV** (travel agency).

- Agro-industrial public enterprises: **FAP** (animal feed), **ENAVI** (poultry), and **JUSTINO LOPEZ** (agricultural enterprise).

The government is also considering selling its shares in **CONCHAVE**, a petroleum transportation enterprise, and **MACSOBIL**, a glass manufacturing plant. Two key firms, **EMPROFAC** (drug import) and **MOAVE** (grain milling) have also been listed as possible candidates, despite their consistent record of profitability. A number of other firms performing at losses, such as the ocean shipping enterprises **ARCA VERDE** and **CGTM**, are likely candidates for liquidation.

Côte d'Ivoire

Privatization and public sector reform are not new to Côte d'Ivoire. The country initiated its first parastatal reform program in 1980 making it one of the first in Africa. The main focus of the program emphasized parastatal reform, however, rather than on privatization specifically. The program advanced slowly and appeared to be conducted in an ad hoc fashion without any particular strategy, and was accused of favoring selected special interests. In 1990, the government inaugurated a new privatization program with the aim of reducing government holdings and alleviating the recurrent administrative and financial burden imposed by SOEs.

Government Commitment

Although strongly supported by the current administration, at the national level privatization has become a point of contention between government officials. Much of the posturing is related to the uncertainty which is preceding the 1995 Presidential elections, however, and continuing pressure from the World Bank and other donor agencies has kept the Ivorian commitment focused.

Privatization Strategy

The Committee for Privatization and Restructuring of the Parapublic Sector (PC), which reports to the Prime Minister's office, has the overall responsibility for implementing the program. The 1990 Privatization Policy paper identifies the following techniques for Ivorian Privatization: sale of government shares and assets, sale of component businesses, employee buyouts, mergers, joint ventures, asset leasing or liquidation, and management contracts.

Privatization in Côte d'Ivoire is designed to increase productivity and private sector participation, reduce prices, mobilize domestic savings, free up fiscal budget resources, and expand employment. Particular emphasis is being placed on creating the necessary policy environment for privatization to succeed, and on transparency. Once the decision is reached to proceed with a specific privatization, the names of the buyers, the prices paid, and, in the case of ESOPs and employee/management buy-outs, the share price and number of subscribers are publicized. This is done to avoid any appearance of secrecy and to involve the public. Along these same lines, the National Privatization Committee holds a regular program of conferences and promotional campaigns to publicize the government's privatization efforts and upcoming sales and attract potential buyers and investors.

Further distinguishing Côte d'Ivoire's privatization program is the fact that, as a matter of government policy, no SOEs are exempted from privatization for "strategic" or other considerations. Rather, the government emphasizes sales to individuals and share offerings as a way of expanding share ownership and through its publicity campaign, hopes to involve as many Ivoireans as possible in this process. To the extent that the public participates in share offerings, their livelihood and prosperity will be made more secure by the viability and prosperity of an increasingly competitive private sector.

The privatization program is divided into two stages. The first, initiated in 1990, covered 22 SOEs. Of these 22, 11 were majority owned by the government, and 11 were so-called Societe d'Economie Mixte (SEMs) in which the government owned between 10 and 50 percent. Following their successful privatization, a second stage targeting over 30 state-owned companies will begin in 1993.

Investment Environment

Although relatively mature in comparison to some other African countries undergoing privatization, the several factors in the overall investment environment limit the level of participation in the Ivorian privatization program. Although there are no formal restrictions on foreign ownership, the Investment Code still requires that each investment be judged on an individual basis, and that the government may stipulate the terms of any investment. The likely devaluation of the CFA franc gave additional pause to potential foreign investors, although its full convertibility should provide security once a realistic exchange rate is established.

Prospects for 1993

By early 1993, the PC intends to submit to the Prime Minister its divestiture strategy recommendations for the remaining Phase I enterprises:

PC Recommendations for Remaining Phase I Enterprises

Company Name	Sector	Government Ownership	Capital Millions of CFA
PalmIndustrie	Palm Oil	100%	34,000
Hotel Ivoire	Hotel	100%	8,250
Office des Semences	Seeds Production	100%	N/A
SAPH	Rubber	95%	13,884
SOGB	Rubber	60%	21,601
SIBP	Petroleum	50%	511
SHELL-CI	Petroleum	50%	1,800
SICABLE	Cables	35%	555
FILTISAC	Sack Production	25%	1,190
CAPRAL	Food Products	24%	3,600
IPS-CI	Industrial Promotion	15%	800
COSMIVOIRE	Cosmetics	13%	702
NOVALIM	Confectionary	12%	2,600

Source: International Privatization Group.

Impact of Privatization

The severity of the country's economic downturn has increased the pressure on the government to improve the efficiency of its public sector. Potentially large-scale employment layoffs at divested firms are still looming as the privatization process continues. However, the government plans to address employee concerns to mitigate any negative impacts.

Privatization Announcements and Transactions

In June, a 50% share in the resort **Village-Vacances Assinie-Assouinde**, already under management contract by Club Méditeranée, was sold through a private sale to Club Med for CFA 1.5 billion (about $5.5 million), half payable directly. The remaining 50% share is to be transferred to Club Med upon full payment of the agreed purchase price. Village-Vacances is a profitable firm seeking new investment of up to CFA 3.75 billion over the next five years from its new owner.

One of the state-owned publishers of schoolbooks, **Bureau Ivoirien des Nouvelles Editions Africaines (BINEA)** was privatized in December as a result of a tender offer. The government reduced its majority holding to 20%, selling to minority owner Groupe Hachette of France, which now owns 45% and management rights, and 35% to Ivorian shareholders. The sale price was established at CFA 630 million (about $2.2 million), of which CFA 350 million was paid directly.

Shares of the large and profitable electric utility **Compagnie Ivoirienne d'Electricité (CIE)** were to go on sale in late September 1992. Government and company officials reported that 24% of CIE, worth approximately 2.5 billion CFA ($11 million), would be sold to the domestic public through local banks. The initial share price was set at 5,000 CFA ($23). CIE is 51% French-owned -- by the construction firm Bouygues and the state-owned utility Electricité de France (EDF). This public share offer was to be the country's first since the public sector reforms were enacted in 1990. The Ivorian government also intended to transfer 5% of the company's equity to its employees and keep a twenty percent share. The government is targeting small investors and hopes to stimulate the Abidjan Stock Exchange (BVA) where more shares will be floated in late December.

Egypt

One of the few countries with a privatization track record, Egypt nonetheless is proceeding cautiously. Its primary focus in privatization is on the tourism and hotels sector.

Government Commitment

Egypt's ambitious privatization program, adopted as part of a comprehensive economic reform and stabilization agreement with the IMF, expects to eventually divest the government of nearly $45 billion in government assets. Judging from public statements made through the Public Enterprise Office (PEO) in the past year, the present administration under President Mubarak remains committed to privatization. The stated objectives of this process include raising funds to ease the fiscal deficit, promoting domestic savings through private ownership, developing a capital market to draw on for credit, and making further gains in public sector reform.

Privatization Strategy

Under the Public Enterprise Sector Law of 1991, most of the 50 SOEs were reorganized into 27 new independently-managed holding companies. The administration of the privatization process is the responsibility of the Public Enterprise Office (PEO), within the office of the Prime Minister. Though each holding company retains the actual legal ability to initiate privatization, the PEO provides a wide range of assistance including valuation, criteria for selection, and organization of each transaction. The PEO has experimented with several methods of privatization, but has not yet established a particular strategy.

Privatization Announcements and Transactions

Hotel chains and other tourism-related SOEs presently appear to be popular privatization candidates, with several large hotels transactions pending for early 1993.

In September, the **Cairo Meridien** and the **Hurghada Sheraton**, two luxury state-owned hotels, were sold through private offerings to individual investors from Saudi Arabia. The privatization of the **Cairo Sheraton**, the **Luxor Sheraton**, and the **Sheraton Floating Hotel**, all among Egypt's superior state-owned luxury hotels, was also announced in September. A state holding company, the Egyptian Organisation for Tourism and Hotels (Egoth), presently owns and operates these hotel operations.

According to the Minister of Tourism and Civil Aviation, 60% of the authorized shares in the hotels were to be floated on the Egyptian stock exchanges, while "anchor" investors would hold on to the remaining 40% of the shares. The World Bank financed the valuation of the hotels, which was carried out by Citibank and Coopers & Lybrand.

Israel

Privatization in Israel is becoming an important part of that country's economic reforms, gradually transferring state-owned assets and enterprises to domestic private interests.

Government Commitment

In a slight but significant ideological switch from its previous position, the new Labour government seems to show a stronger commitment to privatization. Israel's privatization program, directed through the Government Companies Authority, is presently focusing on 25 companies in which the government holds majority shares. Most of these companies are either natural monopolies or control a very large share of the market, so the privatization program encompasses restructuring and regulation efforts to ensure that services are provided on a competitive basis.

Strategy for Privatization

Privatization in Israel has taken place through both private and public transactions, though the government usually retained "Golden Shares," or controlling shares in strategic sectors. The government plans to divest itself of everything except natural monopolies and strategic sectors.

Investment Environment

Recent privatization transactions have unleashed investment opportunities of unprecedented scale to the private sector. These transactions have had the effect of greatly expanding the role of private savings and investment in the Israeli economy, and significantly enhancing the capital markets by increasing the number of companies listed on the Tel Aviv Stock Exchange.

Impact of Privatization

Israel's privatization objectives are to improve the efficiency of the private sector, promote economic growth, to generate revenues through each transaction, and to develop stable capital markets. Privatization is part of a broader reform effort to open up the sagging economy to the foreign investment needed to sustain Israel's high level of immigration.

Prospects for 1993

The government forecasted that it would generate approximately 2.5 billion shekels ($1 billion) in privatization revenues in 1993, after 1.1 billion shekels raised the year before ($450 million).

Privatization Announcements and Transactions

The first stage of the privatization of **Israel Chemicals** was accomplished with the flotation of 20% of its shares on February 25. A total of 226.6 million shares, representing 18.9% of the issued capital, was offered to the public at 2.4 shekels ($1) per share; another 15.2 million shares, or 1.4%, was sold at an approximate 50% discount to employees. The government moved ahead with the second stage of the privatization of Israel Chemicals, in a sale of 15% of the company to a strategic investor. A planned third stage, in which 37% will be sold to the public on the Tel Aviv and international stock exchanges, would complete the transaction, bringing the government's interest down to 28%.

In March, it was announced that a minimum stake of 51% would be sold in **Union Bank**, a state-owned bank. Bank Leumi owns the other 49%. The bank is valued at $100 million and recorded a profit of Shk 19.2 million ($8.4 million) in 1991.

The government announced in May that it would sell all holdings in the **Environmental Services Company** through a public offering. By November 1992, however, the government was considering a private tender.

Given the lack of progress so far, meeting the October 1993 deadline by which the government must divest itself of all majority shareholdings in Israel's four largest state-owned banks seems increasingly unlikely. In May 1992, the privatization through a tender offer of the state-owned **Mizrahi Bank** was announced. By October 1992, this transaction appeared to have been successfully completed, selling a 26% share to a private investor for about $100 million, with an option to purchase an additional 25% for $85 million. However, the completion of this transaction remained uncertain as of December, following the failure of the investor to obtain proper financing.

In November, the Israeli government announced its intentions to privatize its remaining 51% share in **Industrial Building** through a private tender in the coming 2-3 months. The government's share is valued at approximately $200 million. Forty-nine percent of this company's shares are already listed on the Tel Aviv Stock Exchange.

It was announced in December that 65% of the **Shekem Department Store** chain would be privatized by early 1993, for an expected $120 million. The transaction would most likely take place through a two-tier public offering on the Tel Aviv Stock Exchange. The offering, expected to raise about 300 million shekels ($120 million), would initially offer 20% equity and includes options for convertible bonds which would make a total of 65% of the firm's equity available to the private sector. The two-tier approach was selected to allow Shekem to restructure and improve its low return on a high asset base. Negotiations for management contracts also took place in the hopes that it might improve Shekem's long-term investment outlook, and its consequent market valuation.

Project Finance

In September of 1992, it was announced that **Municipal Waste Disposal** and **Light Rail** services might be financed through build-operate-transfer (BOT) techniques. The new Israeli government under Yitzhak Rabin is presently examining various supply and financing possibilities. There is the possibility of negotiations on the grant of $10 billion of US loan guarantees and also project finance for BOT schemes. The British Overseas Trade Group for Israel is sponsoring a team of technical experts to discuss financing options for light rail and municipal waste projects with the Ministry of Transport and Energy and mayors of major Israeli cities.

Kenya

Privatization and parastatal reform have been objectives of the Kenyan government since the early 1980s, and yet progress has been achieved only slowly and inconsistently. Kenya's impetus for privatization dwindled and its tumultuous relationship with the international donor community soured when electoral plans and other reforms were resisted.

Government Commitment

The government of Kenya has for some years indicated a sporadic interest in divestment of parastatals, though little substantive progress has been made despite its relatively advanced African economy. The National Leadership's traditional equivocal support for privatization has been replaced by a clear policy, in which "strategic" parastatals will be restructured for efficient public operation, while non-strategic parastatals will be sold using a variety of methods in order to obtain the best prices.

Unique to Africa's privatization experience is also the Kenyan government's apparent commitment to privatize a number of profitable operations. Indeed, the Kenyan treasury has expressed a reticence to privatize ailing institutions, at least at the initial stage, preferring to involve investors by offering the more attractive parastatals for sale.

Privatization Strategy

The privatization process in Kenya is overseen by the Parastatal Reform Program Committee (PRPC), which was created to oversee the restructuring of state-owned enterprises.

The World Bank recently signed an International Development Agency[1] loan for financing the restructuring of several "strategic" parastatals such as the **Kenya Post and Telecommunications Company**. For non-strategic parastatals, the government has promoted the policy of divesting companies through a wide array of methods, such as public offerings on the Nairobi Stock Exchange, private placements, management and employee buy-outs, sales to cooperatives, and public auction to individual buyers. Companies identified for privatization fall within the general areas of motor transport, hotels, food and beverage industries, printing, textiles, finance, investment, and insurance.

Kenya's July budget included specific plans to privatize 139 state-owned enterprises, with a detailed action plan and a list of objectives against which to measure success. Despite these plans, the PRPC has been criticized for its lack of progress in initiating any of the prerequisites.

Investment Environment

Kenya has a fragile capital market with low liquidity, and a weak stock exchange. Market capitalization in 1992 for the Nairobi Stock Exchange was only $0.6 billion and has remained at roughly this level since 1988.

[1] World Bank loans through the International Development Agency (IDA) window are available only to the least developed countries in the world, and are usually made at concessional terms.

Privatization Announcements and Transactions

A 51.43% share of **Mount Kenya Textile Mills** was sold in February to three debenture holders. The sale was part of the PRPC's restructuring plan to divest the government of twenty-two loss-making state-owned enterprises.

In late 1992, the first successful large privatizations were completed through public offerings on the Nairobi Stock Exchange. The Housing Finance Corporation of Kenya (HFCK) and Uchumi Supermarkets placed approximately $15 million worth of shares in three months. **Kenya Airways** is currently being prepared for a stock offering, which is estimated to occur sometime in 1993.

Morocco

The year 1992 was a year of transition for the Moroccan privatization program, as it moved out of the planning stage into implementation, laying the groundwork for a series of transactions in 1993.

Government Commitment

Privatization in Morocco takes place under the auspices of the Transfer Commission within the Ministry of Commerce, Industry and Privatization. The year 1992 marked a transition as privatization in Morocco passed from planning to implementation, though momentum had been gathering since Parliament passed its Privatization Law in 1989. The driving force behind the government's commitment to privatization is King Hassan II, and his policy of economic liberalism. The new Prime Minister has likewise stated his support for Morocco's privatization program. Privatization authorities revealed that transactions easily exceeded the revenue target of 1 billion Dirhams ($114 million) established by the 1992 Finance Law. The Finance Law projects divestiture revenues of 2 billion Dirhams ($225 million) for 1993, but this target will probably be exceeded as the pace of successful transactions picks up in the coming year.

Privatization Strategy

Morocco expects to privatize 74 state-owned enterprises and 37 hotels, representing almost $2 billion in equity over the next three years. Sales would be completed through private offerings, public auctions, or by equity offerings on Morocco's stock exchange, and foreign investment will be encouraged. The U.S. Agency for International Development provided Morocco with $6 million to help finance the privatization program, as the first tranche of a $25 million, three-year project. The Privatization Minister retains overall responsibility for each transaction and is aided by the Interministerial Transfer Commission.

According to the Privatization Law, state-owned enterprises may be privatized through financial market mechanisms, tenders, a combination of financial market instruments and tenders, or through private placement, though this last method has rarely been used. Tender offers are awarded to the highest bidders contingent on meeting technical requirements and other stipulations specific to each transaction. The Law also stipulates that shares of up to 10% may be reserved for employees, and that these shares may be purchased at discounts of up to 15%. Every transaction in 1992 did in fact retain partial equity for employee ownership.

Investment Environment

The investment climate has improved recently to welcome foreign participation in the privatization process. Foreigners can buy up to 100% of privatized firms. Transactions may stipulate tax incentives, investment treaties, and will benefit from the convertibility of the Moroccan dirham.

Though the tender process is open to foreign investors, it favors local buyers by restricting the bidding process for the first two months to Moroccan investors.

Trading volume on the Casablanca stock exchange was low throughout 1992 (less than $125 million), but efforts to improve its operation, including a new regulatory framework, an improved brokerage system, and quicker access to trading information, indicate that the stock exchange should play a larger role in privatization transactions in 1993.

Impact of Privatization

Unlike most other countries in this region, Morocco has a liberal economy, with a large private sector already present. Even though 40% of government firms will be affected by privatization, they represent only a small share of the total economy.

Labor displacement caused by the reform and privatization process is a major concern of the Moroccan government, but is not likely to present a major difficulty since most of the targeted firms are well managed and without serious over-staffing problems. Nonetheless, the Privatization Law authorizes the government to reserve shares.

Prospects for 1993

Several tender offers have been prepared for the first quarter of 1993, including the large inter-urban bus company **CTM-LN** (see below); several petro-gas distributors (**Shell, Total, Mobil, CMH, Dragon-Gaz, Petrom**); the textile firms **Cotef, Icoz,** and **Setafil**; three sugar mills (**SUBM, Suta, Sunat**); the chemical plant **SNEP**; **General Tire**; and seven more hotels.

Privatization Announcements and Transactions

The privatization of **CIOR**, a state-owned cement manufacturer, located in Oujda was announced in May. CIOR has about 660 employees, and reported 1991 sales of $100 million. Ministry of Privatization officials were seeking a foreign partner, and by December, they announced that they were ready to submit an international tender of 51%. Speculation about this transaction has included several large French groups as possible buyers. Following the privatization of this majority share, the government plans to sell the remaining shares in three tranches: 24% through the Casablanca stock exchange, 10% through a limited regional tender, and 1.22% to be reserved for CIOR's workers. The remaining equity of 13.78% is presently owned by the Islamic Development Bank, acting as a silent partner in this venture.

The privatization of **Chelco**, a state-owned textile firm which exports to the European market, was also announced in May. Other textile enterprises targeted for privatization were **Iboval, Icoz,** and **Vetnord**, all producers of clothing items for the European export market. Moroccan accounting firms were preparing audits and evaluations to present to the government.

In May, it was announced that tenders on the 27 farms being managed by **Comagri**, the state-owned agricultural management firm, were to be offered. By December, however, Comagri was liquidated after farmland reverted to the public domain and assets were sold off. Earlier efforts to privatize Comagri through private tender offers were abandoned when major financial and managerial difficulties were revealed.

In May, it was announced that **CTM-LN**, a large state-owned inter-urban bus company was to be privatized in the third quarter of 1992. The completion of this transaction remained pending at the end of the year, however, as the government took great care to conduct an accurate valuation prior to its planned public offering. Price Waterhouse's International Privatization Group carried out the valuation and the stock flotation.

The sale of the government's 35.73% stake in **Soders**, a yeast manufacturer located in Fez, had been put on hold since May. By October, however, the sale was again online, including a 33.34% stake to be sold through a public tender and the remaining 2.39% to be reserved for workers. Soders employs about 180 persons and reported sales of $9.6 million in 1991. The government held Dh23.1 million (about $2.8 million) in equity capital, through the state industrial development agency and a sugar refiner. On December 29, offers were closed and 35.6% was sold to Société Lesaffre of France, which already owned a 9.7% share of Soders. The remaining 64.4% was sold to private investors, after 5,520 shares out of a total 82,536 were held aside for employees.

Tenders were issued in November for five state-owned hotels, the **Tarik** and **Malabata** in Tangiers, the two **Transatlantiques** in Meknes and Casablanca, and the **Basma** in Casablanca. Interested investors included several groups from Morocco as well as other Arab countries interested in expanding into the Moroccan market.

Nigeria

Nigeria has the most developed privatization program in Africa. Moreover, the democratization process is proving to be a strong impetus for economic reform, with the government striving to fundamentally reform the public sector prior to turning power over to a popularly elected government. The status of this transition, however, remains uncertain as of the end of 1992, as the military government continually pushed back elections throughout the year.

Government Commitment

The success of Nigeria's divestiture program is largely attributable to the complete political support that was given by the government. The objectives of Nigeria's reform and privatization program are to: restructure the public sector to lessen the dominance of unproductive investment in that sector; restructure state-owned enterprises for privatization and commercialization in order to improve their economic performance; ensure positive returns in the public sector; encourage the development of the Nigerian capital market; create a favorable investment climate; and reduce the fiscal debt.

Privatization Strategy

A decree in 1988 established the Technical Committee on Privatisation and Commercialisation (TCPC) as the independent central organization which governs the privatization process. Membership of the TCPC is drawn from both the public and private sectors of the economy. The TCPC has adopted an approach through which it uses sub-committees to undertake diagnostic studies of state-owned enterprises, and hiring consultants with merchant bank or accounting experience to prepare detailed valuation reports.

The current program extends to almost every industry except defense, with a total of 110 state-owned enterprises currently targeted, 68 of which are to be fully privatized. Actual privatization has lagged behind the expectations of the TCPC, with delays exceeding one year on some of the more controversial transactions. Privatization authority may soon be transferred from the TCPC, which was to be disbanded at the end of 1992, to a new monitoring agency, the Bureau for Public Enterprise.

The pervasiveness of the government's privatization efforts is indicated by the fact that within three years of embarking upon privatization, 78 of the 92 enterprises cited in Decree No. 25 have been wholly or partially privatized. This has resulted in substantial revenues for the government and a growth in the Nigerian capital market from N8 billion to over N22 billion in three years.

SOEs to be retained by the government have been restructured with an emphasis on commercialization and increased autonomy. After commercialization, the firms remain related to the government through performance contracts, the latter requiring a business plan, statements of long-term objectives, objective performance criteria for management, negotiated levels of performance, and specific penalties and rewards for failing to meet negotiated levels or for exceeding them.

Reforms have been designed in such a way as to provide not only greater popular participation in industrial development but also to diversify ownership. Public share offer through the Lagos Stock Market has been the dominant method of privatization because of the government's concern for wider ownership and development of the capital market. Private sale of shares has been used when the TCPC felt that the state-owned asset was too small for the stock exchange. The direct sale of assets (liquidation) method has been used when the enterprise could not be floated because of poor track records.

Investment Environment

Nigeria's highly integrated approach to privatization has been very successful in strengthening the country's financial institutions, particularly the stock exchange, as well as local commercial and merchant banks. Local participation in share issues has been very encouraging, with over 400,000 shares in privatized companies being sold to Nigerian citizens to date. As of mid-year, however, only 19 companies had been listed by the TCPC, with a market value of about Naira 4 billion ($222 million). All together, there are about 150 companies listed, with total market capitalization of over Naira 15 billion ($1.4 billion).

Privatization Announcements and Transactions

The privatization of large monopolistic state-owned enterprises, steel mills, and vehicle assembly plants are expected pending acceptance of investors' bids. The **National Electric Power Authority (NEPA)** is to privatize its distribution network.

The planned sale of the government's 35% stake in **Volkswagen Nigeria (VON)** was aborted by the TCPC when the share price was set at Naira 75,000, valuing the government's share at only Naira 22.5 million on a total asset value of well over Naira 400 million.

The privatization of **Nigerian Railway Corporation (NRC)** was announced for July, following a recommendation from the TCPC. The privatization will likely involve the break up of NRC into three separate firms: Nigerian Railway Authority which will be responsible for passengers and cargo, Railway Engineering Services Limited which will be involved with manufacturing and repair, and Nigerian Rail Services which will provide maintenance of railway buildings.

The government sold 100% of the **Lagos Federal Palace Hotel** to Ikeja Hotels, a local concern, for $50 million.

Turkey

Despite criticism that Turkey's political environment has limited progress in privatization, several significant transactions were completed during the year in a wide array of sectors.

Government Commitment

Though most government-led divestitures were designed by Turkey's Public Partnership Administration (PPA) to offset Turkey's enormous budget deficit, opposition to foreign ownership is becoming more prevalent, as some ministers and heads of state-owned enterprises have protested that the government is rushing to privatize by selling off profitable firms. The coalition government was unable to provide a leadership role, and efforts to transfer privatization authority to a newly created independent body have been impeded by competing political interests.

Privatization Strategy

The current privatization strategy is based on the sale of the government's minority shares in numerous privately managed companies. Turkey has for the most part avoided dealing with its larger state-owned monopolies, preferring to make gradual and more politically acceptable transactions of smaller commercialized enterprises. Despite requests for complete restructuring of the public sector by the Economics Ministry and the World Bank, privatization transactions to date have been motivated largely by revenue-generating objectives. By this measure, at least, the PPA has been successful in using both private block sales and public tender offers, generating about $1.3 billion in over 200 partial equity transactions between 1986 (when it began privatizing) and 1991.

Investment Environment

Turnover on the Istanbul Stock Exchange (ISE) averaged $700 million per month in 1992, slightly ahead of last year's level, but slowed markedly in the last quarter. Market capitalization averaged $11 billion in 1992, falling in dollar value as the Turkish lira depreciated.

Prospects for 1993

Turkey's privatization target for 1993 is TL25,000 billion ($2.5 billion), more than three times the $790 million raised in 1992.

The government's efforts to sell off its 18% "golden share" in telecommunications manufacturer **Teletas** had been thwarted by management disagreements at the end of the year, although the eventual privatization of this enterprise seems inevitable.

Planned sales include a 15% stake in **Usas**, the state-owned airline catering company, a 22% share in Fiat's local assembly venture **Tofas**, and the government's remaining 21% share in **Netas**. The PPA is currently in discussion with Morgan Grenfell of the U.K. on the future of their privatization program.

Privatization Announcements and Transactions

In January, the remaining 51% stake in **Ipragas**, a state-owned gas company, was purchased by Prima Gaz, a publicly-held French company, for TL 350 billion (US$63.7 million). This sale was highly significant for Turkey as it represented its first complete divestiture of a large-scale enterprise.

In January, it was announced that a stake of 49% in **Caybank**, a state-owned bank, would be sold for Tl 315 billion ($57.36 million). Domestic and foreign investors will have the opportunity to purchase block shares in the bank.

Several state-owned insurance companies were selected in January for privatization, as well. A 40% stake in **Ray Insurance** was priced at $9.3 million, while a 13% stake in **Seker Insurance** was priced at Tl 7 billion ($1.27 million). Both domestic and foreign investors had the opportunity to purchase block shares in the two companies. In August, the Public Partnership Administration (PPA) sold **Seker Sigorta**, another state-owned insurance company, to the local Sert Holding for TL6.5 billion.

In January, it was announced that a stake of 17% of **Tat** would be sold for Tl 41 billion ($7.46 million).

Two Mediterranean-based state-owned power utilities, **Cukurova** and **Kepaz**, were sold by the PPA for more than double the minimum asking price to Rumeli Holding, a domestic investment group. Rumeli paid $81 million for 11.25% of Cukurova and $33 million for 25% of Kepez. Rumeli has been active in Turkey's privatization, buying into several state-owned cement companies and a television broadcasting station.

In April, the PPA sold state-owned **Turk Automotive Industry (TOE)** for TL70 billion ($12 million).

A 10% share in **Sekerbank** was sold in May to the sugar beet producers association.

The PPA also announced its fourth attempt to privatize the **Gima** food and retail chain, late in the year, though bankers expected little interest due to its complex share structure. Gima did eventually sell for TL 201 billion ($23 million), however, to a local hotel chain.

In July, it was announced that the state-owned cement firms **Adiyaman, Askale, Bartin, Corum, Denizil, Gaziantep, Iskenderum, Ladik Sivas, Sanliurfa,** and **Trabzon** were to be privatized. Offers were expected from two Turkish firms which control 30% of the cement market collectively, as well as Blue Circle of the UK, Hodlerbank of Switzerland, and Loma Negra of Argentina. Among the foreign groups interested was Société Français, which is part-owned by Italcementi of Italy and Lafarge Coppee. The privatization of these eleven cement companies was expected to raise between $350-400 million.

Corum and Sivas were finally sold to Yitibas, a local group, in December. Gaziantep and Trabzon were sold in December to Rumeli Holdings, a local group known for running Turkey's first private TV station. Denizil was also sold in December, to Modern Cimento for $70.1 million. In spite of a slowdown in the economy, the Turkish cement market is growing by 3% to 5% annually.

The PPA invited bids for **Netas**, the telecommunications firm which was already 31% foreign-owned. The PPA sold another 20% block to Northern Telecom of Canada for $23.5 million, which increased their ownership to a 51% majority share. After a small public offering, the government was left with a 21% share, which the PPA is considering floating on foreign exchanges.

The PPA also concluded the sale of 96% of Meysu, a state-owned fruit juice company, in September, to the local Unal Dogan group for TL 8.5 billion ($1.2 million).

Project Finance

In September, Turkey signed an agreement with a US consortium led by Trinity Partners International of Pennsylvania for a coal fired power plant to be located at Conkiri Orta, which is 130 miles from Ankara. The plant will be operated through a BOT arrangement and financed by private funds, and is expected to cost $500 million.

Zambia

Zambia's government is in the process of implementing fundamental economic changes after a long history of highly statist and interventionist policies. Historically, Zambians have been opposed to heavy private sector involvement in commercial activity, pursuing a vigorous nationalization and interventionist policy in the face of a general collapse of its economy and industrial sectors.

Early in the year, however, the government agreed to dramatic policy changes on the heels of the inauguration of President Chilbua. A set of Policy Framework Papers prepared with the IMF and the World Bank commits Zambia to macroeconomic stabilization and preparation of conditions conducive to private sector growth. Privatization of almost all parastatals, which at present contribute about 85% of the nation's GDP, is a key part of this reform strategy.

Government Commitment

The stated objectives of the Zambian Privatisation Agency (ZPA) are to shift the government's role in business from manager to regulator, to reduce subsidies, grants, and concessions made to parastatals, to generate revenues in the divestiture of parastatals, and to raise the overall operating efficiency of the Zambian economy, of which 80% of the GDP is generated in the parastatal sector. Almost every parastatal operates in a complete or near monopolisitic industrial structure.

The Office of the President under President Chiluba has repeatedly stated its firm belief in privatization as an important method of economic reform, and fully endorses the strategy of the Zambian Privatisation Agency (ZPA). Ideological opposition to privatization is not particularly strong in Zambia, except for the general reluctance surrounding the privatization of the copper industry in the Copperbelt region.

Privatization Strategy

The ZPA, which operates under the Ministry of Commerce, Trade, and Industry, initially concentrated on 20 small firms for the first tranche of privatization. These firms were to be sold off through share offerings and public tender offers, however, none of these transactions were completed by the end of the year. Eleven of the firms were under negotiation, and the government plans to continue with a second tranche of 29 parastatals.

The general strategy of these first few tranches will be to concentrate on simpler transactions to gain experience and achieve success at an early stage. Most of the parastatals offered in these early tranches will be small retail firms and corporations in which minority shares are already held by private investors. More complex transactions of larger industrial enterprises will follow once the ZPA has acquired sufficient technical expertise and the investment environment can absorb such sales.

The privatization of Tranche One companies proceeded very slowly in 1992, leading to several bid withdrawals. Bids for the companies participating in this tranche were received by the ZPA in November and December, and a shortlist of three was selected for each parastatal, although no sale was concluded by the end of the year.

Investment Environment

The ZPA is relying on high levels of foreign investment to boost the success of Zambian privatization, as there is an extremely small pool of domestic business investors. Of probable controversy is the participation of several large South African conglomerates which have shown interest in expanding into Zambian industry.

The pace of the ZPA's ambitious plans for privatization has been slowed by the lack of a stock market or any well developed investment fund through which individual investors can acquire shares in parastatals. The inadequate level of credit available through the Privatisation Trust Fund, which was designed to provide credit for domestic investors acquiring shares in parastatals, is one such example.

The Chiluba administration has stated its commitment to broadening of Zambia's capital markets by endorsing among other things the establishment of a stock exchange in Lusaka and the introduction of merchant banking, investment trusts, and mutual funds. The government also plans to establish a tight control on fiscal spending, to promote lower inflation and positive real interest rates.

Prospects for 1993

The Zambian government announced in December its intentions to eventually privatize the **Zambia Consolidated Copper Mines (ZCCM)**, although the terms and method of the transaction remain unclear. The World Bank is presently preparing a privatization study of ZCCM, which should resolve, among other things, whether the state-owned firm will be sold as a single unit or broken up. The Zambian government currently favors the latter option, believing it would contribute to a competitive market. ZCCM is the single most strategically important state-owned enterprise in Zambia, operating a number of large copper mines, related processing plants, and transportation networks, particularly in the northern Copperbelt region. ZCCM exports account for 90% of Zambia's hard currency foreign exchange.

In addition to the ZCCM restructuring, most of Zambia's large parastatals have been selected for privatization in the earlier tranches, although not one transaction was completed by the end of the year. Companies included in the first tranche were: **AFE, Crushed Stone Sales, Consolidated Tyre Services, Eagle Travel, Mwinilunga Canneries, Nkwaza Manufacturing Company, Poultry Processing Company, Zambia Clay Industries, Auto Care, Cleanwell Dry Cleaners, Coolwell Systems, General Pharmaceuticals, Monarch Zambia, National Drum & Can Company, Norgroup Plastics, Prime Marble Products, Zambia Maltings, Zambia Ceramics, Zambia Concrete,** and **Zuva Zambia Ltd.** In addition to these pending transactions, the ZPA has already listed over 100 other parastatals in a total of 11 tranches.

Large Parastatals Scheduled for Privatization by the ZPA in 1993				
Parastatal (Tranche)	**Industry**	**Turnover (millions)**	**Capital (millions)**	**Employment**
Zambia Sugar Company (2)	Food Processing	$9.4	$16.6	8408
Zambia National Commercial Bank (4)	Finance	$10.7	$5.1	2269
Zambia State Insurance (6)	Finance	$9.4	$12.5	1369
Nitrogen Chemicals (4)	Agriculture	$12.9	$7.2	1483
National Milling Co. (2)	Food Processing	$10.9	$12.2	1310
Zambia Breweries (3)	Food Processing	$16.5	$3.5	1570
Kafue Textiles (2)	Textile	$3.0	$1.5	2409
Zambia Airways Corp. (11)	Transport	$26.3	$21.4	1873
United Bus Company (6)	Transport	$4.0	$1.8	1733
National Hotels Development Corp. (4)	Hotels	$3.8	$2.6	1208
Consumer Buying Corp. (3)	Trading	$14.3	$2.2	1683
BP Zambia (10)	Energy	$41.2	$17.4	516

Source: International Privatization Group.

Other Countries

Cameroon

The Rehabilitation Mission was established in 1987 to advise on the divestiture of SOEs as part of the government's renewed enterprise divestiture program. A recent evaluation of the program indicated that the initial bankruptcies and loss of employment are likely to remain short-termed, offset by evidence of growing economies of scale, improved efficiency, and increased international competitiveness. Successful implementation of privatization and enterprise-restructuring is encouraged by the conditional release of programmed funds from the multilateral development banks, which intends to finance employment-generating projects and transition adjustment funds to help displaced workers.

Cameroon's government recognizes the need for reduction of the parastatal sector, but the fear of losing political support for reform programs has limited actual privatization progress. President Biya has often argued for the need to increase domestic investment capital to carry out successful privatization, for example, but has rebuffed repeated efforts of local business interests to acquire control of several state banks and the national airline.

Though foreign private investment is nominally encouraged by a 1990 investment code, in practice it is still restricted by a network of administrative guidelines designed to protect state industries. Administrative procedures apply on all transactions greater than 500,000 CFA francs (about $1800), except for remittances for profit, dividend, and royalty repatriation, which can be freely transferred.

Tight lending practices, a weak financial system, and a currency arrangement connected to the CFA franc zone have all restricted the supply of credit to the private sector.

Gambia

The major development in the Gambia in 1992 was the privatization of the Gambia Commercial and Development Bank, which, when completed, will effectively eliminate the influence of the Cooperative Union and Gambia Produce Marketing Board on the Bank's lending decisions. While the government has thus far shown some reluctance in divesting full control of the Bank, the Gambia Produce Marketing Board has been methodically divesting its operations in trading, hotels, and manufacturing, as well as in several agricultural activities (e.g. ground-nut agro-processing).

Valuation of the Gambia Produce Marketing Board was carried out by the International Privatization Group at Price Waterhouse in 1992, followed by the development of an information memorandum and a solicitation for bids.

The government also prepared the Marketing Board, Port Authority, and Utilities Corporation for privatization by managing the enterprise under performance contract with the intention of encouraging restructuring and improving profitability.

Ghana

The scope of Ghana's privatization program continued to expand in 1992, with the government making elaborate plans to privatize some 180 state-owned enterprises.

The institution responsible for privatization is the Divestiture Implementation Committee (DIC). Once registered with the Divestiture Secretariat, a buyer is given an entry permit to a SOE to conduct due diligence and appraisal of the assets. A prospectus of the company is also prepared detailing the history and operations of the business. Buyers are required to submit competing business plans in addition to the offer price.

Since the program started in mid-1989, more than 60 enterprises have been liquidated or sold, mostly on an asset sale basis. Recently, major multinationals such as Lever Brothers have been permitted to repurchase the state's shares in their joint-venture operations.

The DIC is actively encouraging new sources of foreign investment through solicitations in the international media.

The state is currently privatizing companies in the food and beverage, building and wood products, and hotel sectors. It has also announced a joint venture of its diamond-mining operations with Inco, the Canadian group, and Lazare Kaplan, the New York based diamond polishing and trading company.

Guinea

Guinea is committed to privatization and has one of the most ambitious programs in West Africa. After years of steadfastly pursuing a highly interventionist economic policy, characterized by widespread nationalization and hostility to foreign and private investment, the present Guinean government is vigorously pursuing privatization with support from the U.S. Agency for International Development and the World Bank.

Enterprises identified for privatization are in the industries of motor transport, hotels, food and beverage, printing, textiles, banking, and insurance. Only a handful, however, have been successfully transferred to the private sector, while most were directly liquidated.

Guinea has also made significant progress in reducing subsidies to its public enterprises and has realized a modest amount from asset sales. The government is concerned with labor displacement caused by privatization, and is working closely with the U.S. Agency for International Development to develop a set of economic policies and programs to address these dislocations.

Kuwait

Once the stock market in Kuwait improves, it is expected that shares will be offered to the local public. The government hopes that the company will benefit from the technology and managerial skills which will be offered by British firms.

The privatization of the state-owned **Kuwait Airlines** was announced in June. British firms, including British Airways, were to act as advisers as well as playing an investment role.

It was also announced in June that 77 local petrol stations, all owned by the state firm, Kuwait National Petroleum Corporation, will be sold by public flotation in early 1993. The sale is expected to be limited to Kuwaiti individuals and Kuwaiti companies. The Gulf Investment Corporation (GIC), an investment bank based in Kuwait has been chosen to provide privatization advise to the government. The GIC is owned by Saudi Arabia and five other Gulf states. It will go through a committee which will be supervised by the Ministry of Finance. The committee will describe the objectives and policies of privatization and rank activities to be privatized.

Kuwait Telecom, the state-owned telecommunications company, was also among the firms to be privatized. According to reports, British Telecom is to participate in the privatization process. A Kuwait-based investment bank, the Gulf Investment Corporation (GIC) is to advise the government on privatization of the firm. The assets of the telecommunications firm are estimated to be about $ 1 billion.

Malawi

Malawi has a privatization program which is supported by a $15 million Economic Support Fund (ESF) from the U.S. Agency for International Development. These funds have proven instrumental in hastening the divestiture process and the government's commitment to privatization.

The government of Malawi announced in 1986 its intention to privatize and restructure the assets of the Agricultural Development and Marketing Corporation (ADMARC).

The **National Seed Company** was sold to Cargill International, with the Commonwealth Development Corporation (CDC) as a minority shareholder. A truck manufacturing concern was also successfully sold to private investors, and various tea and macadamia nut estates were sold to the CDC.

Mali

An active privatization program in Mali posted some notable successes in 1992. The national airline was successfully liquidated, including the sale of its gate slots in Paris, and will be replaced by a new private airline. The government also indicated its interest in selling a major textile factory; however, due to obsolete equipment of Chinese origin, the enterprise has been unable to attract favorable bids except from the People's Republic of China.

Senegal

Senegal's interest in privatization dates back to 1987 when it announced the plans for the divestiture of about 25 enterprises. Unlike other Francophone African countries, however, Senegal's progress in the implementation of transactions has been very limited. This is due in large part to the country's underdeveloped capital markets and its subsequent need to compete for foreign capital with nearby Côte d'Ivoire. The U.S. Agency for International Development and a variety of other donor agencies are providing extensive technical assistance in developing a secondary securities market and deepening existing capital markets.

The government instituted (with World Bank assistance) a revised privatization program in 1989, which continued to operate through 1992. The U.S. Agency for International Development provided assistance for the sales of some thirty firms and for the liquidation of ten others. These public enterprises were in the pharmaceutical, real estate, construction, agro-industry, and hotel industries, making up 12% of the entire state-owned sector.

Swaziland

The Swazi government has maintained a sustained commitment to economic development through a free market, resulting in an average economic growth of 4% per year over the last decade. Privatization is being considered as an instrument of enterprise reform, but the government did not create any lasting privatization structures in 1992.

A major impetus for reform stems from the government's continued concern about its lack of information and control over public enterprises. As a result, the government enacted legislation in July 1990 within the Ministry of Finance to create a Public Enterprise Unit (PEU) which would be responsible for overseeing SOE performance, with a view toward eventual privatization.

Tanzania

The Tanzanian government officially committed to a policy of restructuring and privatizing SOEs and was in the process of preparing an implementation paper and a formal privatization strategy. Relative to other countries, Tanzania's long legacy of statist development policies resulted in an unusually underdeveloped private sector and virtually non-existent domestic financial and capital markets. The severity of Tanzania's continuing economic downturn in 1992, however, prevented the government from allocating sufficient resources to this effort, and the drive to begin privatization stalled in midyear.

In the public sector, many of the parastatal oversight functions and structures overlap rather than complement each other. Complicating the preparation of enterprises for privatization is the lack of SOE financial discipline, sporadic asset inventories, and poor accounting practices, especially of inter-enterprise obligations. The lack of internal auditing is worsened by prevalent cases of fraud and theft.

Uganda

Privatization in Uganda has gathered considerable momentum since the government's categorization of public enterprises in 1988, taking the first step toward parastatal reform and privatization.

As in Tanzania, the political will to privatize is clearly evident. However, the preparation of targeted enterprises was slowed substantially by the wariness of international and institutional investors, the heavy indebtedness of the SOEs, and the illiquidity of Uganda's capital markets. Efforts to restructure and to move toward privatization are being severely hampered by slow private sector activity and a pronounced shortage of managerial capacity. As a result, progress through the privatization process is likely to remain slow.

The government launched its Public Enterprise Project in 1989 to preside over the privatization process and prepare strategy studies. These studies subsequently led to a Cabinet Paper in 1990 which formed the basis of the government's National Privatization Strategy.

Under this strategy, divestiture candidates were divided into those in which the government would retain 100% ownership, those in which it would participate as majority shareholder, and those which would be fully divested or liquidated. These categories were determined by criteria such as the strategic importance of each firm to provide certain consumer goods, importance of the firms as earners of foreign exchange, and strategic importance to the government. Careful attention was also devoted to the international competitiveness of each enterprise and the potential for increased efficiency and resource utilization.

The government's growing commitment to privatization has been demonstrated by the passage of the Expropriated Properties Act, which returned properties nationalized in 1972 to former owners, and by the promulgation of a new Investment Code. These laws have laid the foundation for a major privatization drive which is expected to begin soon.

Zimbabwe

The government of Zimbabwe is initiating economic liberalization, and indicated in 1992 that a privatization strategy would be an important component of its reform plans. Despite Zimbabwe's diversified industrial base, relatively broad export base, and relatively developed capital market, the economy currently has high unemployment and inflation exacerbated by a prolonged drought. As of the end of 1992, however, the government had not developed a privatization strategy, although it was assessing the prospects.

Nonetheless, the government came under increased pressure to sell its enterprises, which are costing taxpayers $160 million, or 5% of the national budget, annually. The World Bank also encouraged the government to proceed with a privatization program as part of Zimbabwe's overall economic liberalization effort. The ruling party in the parliament, ZANU-PF, put increasing pressure on President Robert Mugabe to begin the process with a preliminary sale of 20 parastatals. The parastatal most likely to be sold first is the **Posts and Telecommunications Corporation (PTC)**, an inefficient operation unlikely to draw much interest from foreign investors. Other parastatals are concentrated in the electricity, steel, and food distribution sectors.

Asia Regional Overview

By Christopher Eimas

Progress

The nations in the Asian region have made significant progress toward achieving their privatization goals and are now beginning to privatize larger state-owned enterprises (SOEs) and public utilities. Privatization activity, measured in dollar volume, increased 70% from its 1991 level.[2] In many countries, however, advancement toward privatization objectives was slower than expected.

There is an increased emphasis on infrastructure privatization as power generation facilities, rail lines, roads, airports, and sea ports are now candidates for private sector involvement. Asian governments have made plans to privatize their large parastatals, but have encountered difficulties in executing their designs. These SOEs, usually government monopolies in sectors such as petrochemicals, air transport, or steel, enjoy a domestic market with few competitors, but the rigors of international competition necessitates their privatization.

The major development in the region was China's decision to privatize several SOEs through public offers on foreign stock exchanges. Additionally, state governments in China were directed to list local agencies suitable for privatization. These are China's first serious steps toward large scale privatization.

Malaysia's privatization efforts continued successfully in 1992. The stock exchange in Kuala Lumpur increased its capitalization and its listings. A large number of state-owned enterprises were sold in industries such as automobile manufacturing and pharmaceuticals for a total of 5 major transactions. Malaysia also authorized an ambitious privatization program to be implemented over the next six years. Sri Lanka's privatization initiative yielded positive results as well. Nearly 50 SOEs have been transferred from the government to the private sector. Sri Lanka also had success in its efforts to attract foreign capital as foreign investment increased by 75% in 1992.

A majority share in Maruti Udyog, an Indian automobile firm, was purchased by Suzuki of Japan for $20.2 million. The transaction was made possible by a change in India's laws regarding the equity foreigners may hold in domestic firms. There were also several significant developments in Indonesia as Telkom, the state-owned telecommunication company was privatized, and privatization was proposed for Garuda Indonesia Air, the state air carrier.

Taiwan authorized an enormous $303 billion six-year plan designed to develop the country's infrastructure. The program includes an initiative that will involve the private sector in infrastructure development. The government also conducted studies on the feasibility of privatization in certain sectors, but did not initiate the privatization process.

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2 "Privatizations Exceed $53 Billion in Value in 1992," *The International Privatization Update*, January/February 1993, p. 9.

Although nations like Pakistan and the Philippines have ambitious plans, the process of privatization in these countries continues to move slowly. Labor concerns and a lack of capital have hindered privatization efforts in Pakistan, while infrastructural difficulties in the Philippines diverted the government's attention away from economic reform. Privatization is new to Thailand and Vietnam and their governments have not developed longstanding commitment to the process. In Thailand, SOEs account for a large portion of government revenues and in Vietnam officials are most concerned with attracting capital, in the form of aid and investment, from foreign sources.

Process

Privatization through public offering was the most common method of privatization in the region. In addition to domestic offers, Asian countries opened their stock markets to foreign investors as well. Due to the underdevelopment and subsequent lack of capitalization in the region's stock markets, nations have turned to foreign sources in order to attract the capital necessary for privatization. Measures have been taken to make foreign investment easier and more profitable. India indicated that it would no longer limit foreign ownership of domestic firms to 40%, and Pakistan legalized full foreign ownership. Sri Lanka, China, Indonesia, the Philippines, and Vietnam have also taken steps to increase foreign investment. These efforts to increase foreign investment are beginning to aid in the development of local capital markets. Stock markets in Hong Kong, Kuala Lumpur, Jakarta, Shanghai, Karachi, and Columbo have started to grow and flourish.

Countries like the Philippines and Vietnam used methods such as sealed auctions and corporatization (respectively) in their privatization programs. China, Malaysia, and several other nations in the region also made use of build-operate-transfer (BOT) and build-operate-own (BOO) schemes in order to finance infrastructure projects.

Finally, labor issues have continued to play a role in shaping privatization strategy. Employees of SOEs are often concerned about the potential job loss caused by the elimination of redundant positions in privatized firms. The governments of the region have made concerted attempts to address these concerns in their privatization plans. Examples of programs that guarantee worker jobs and/or retraining can be found in Pakistan and Malaysia. Taiwan, the Philippines, and Sri Lanka all of which make extensive use of employee ownership initiatives, such as employee stock ownership programs (ESOPs).

Prospects

The prospects for privatization in Asia are good. Asian countries continued to make ambitious plans in 1992, but also encountered difficulties like the diversion of financial assistance to Eastern Europe and the former Soviet Republics. In the Philippines, the government's privatization efforts took a back seat as it dealt with a power shortage that caused numerous brownouts and paralyzed the economy. Though the political violence expected to accompany the 1992 Philippine presidential race never materialized, the threat of turmoil also hindered efforts at economic reform. Thailand fell victim to political unrest with the killing of pro-democracy demonstrators during the spring. The strife caused uneasiness in the domestic and international business community and slowed economic liberalization efforts.

In the years to come, Asian privatization will be funded by nations in the region such as Japan, Hong Kong, Taiwan, and Korea. These countries will be the leading investors in China, Vietnam, Indonesia, and the Philippines. The political will to continue privatization remains strong, but Asian governments have entered a more difficult stage as they attempt to privatize larger parastatals and infrastructure development. Though progress will continue, it will be at a reduced pace.

The Peoples Republic of China

In 1992 privatization became an integral part of China's economic reform program. To execute the new economic initiative the Chinese government established the State Commission for Economic Reforms. The commission oversees the implementation of economic policy, including the privatization plan.

Government Commitment

The Chinese government demonstrated its commitment to privatization by announcing its intention to list a number of large state-owned enterprises on the Hong Kong Stock Exchange. Government policy is creating an environment that is conducive to the privatization process. In addition, the national government has instructed state authorities to select local agencies for privatization.

Privatization Strategy

The State Commission for Economic Reforms has adopted a two-step approach to privatization. First, SOEs will be transformed into limited liability "joint-stock companies" with authority to issue shares. The second step will allow selected joint-stock companies to raise capital from local and foreign investors. China's "open-door" strategy, a combination of economic reforms and liberalization, has encouraged foreign investors to invest more in the country. China is striving to create a more efficient market economy through measures such as the privatization of state-owned enterprises through offerings on the Hong Kong and New York Stock Exchanges. Under an agreement between Chinese and Hong Kong regulators, nine large Chinese state-owned enterprises will place shares on the HKSE in 1993. These transactions will raise an estimated $2 billion.

Investment Environment

China has recently begun to allow private ownership, and has started to implement other reforms designed to encourage the development of the private sector. The Chinese Security Regulation Commission was formed as part of a national regulatory body to govern the securities market, . The government is actively involved in the formulation of security market regulation. One obstacle is the translation of the Chinese accounting system into internationally accepted form. Other difficulties include standardizing the treatment of equity accounts, foreign exchange translation and valuation.

In addition to domestic offerings, the government has made class B shares available to foreign investors. Domestic and international stock offerings have both generated high demand and each of the local stock exchanges, Shanghai and Shenzhen, have responded well to expanded privatization activities. As a result, the number of companies listed on these exchanges increased to 38 and is expected to grow. The total capitalization of the two markets was $18.3 billion at the end of 1992. Institutional and individual investors expressed enthusiasm regarding investment on Chinese stock markets, and most new issues were fully subscribed.

Impact of Privatization

Privatization and new reforms have helped make China one of the fastest growing economies in the world. Economic growth has averaged 7-10% in recent years and reached 12% in 1992.

Prospects for 1993

It is expected that China will continue to receive substantial direct foreign investment which will help sustain its high growth rate. Capitalization and privatization activities are expected to expand during 1993 as more companies are listed on the Hong Kong, Shanghai and Shenzhen Stock Exchanges. A number of government owned companies from provinces other than Shanghai and Shenzhen are also candidates for privatization. In addition to firms from the industrial sector, companies from the retail, services, real estate, and construction sectors will also be floated in public offerings. Among the enterprises to be privatized are **Shanghai Bicycle Co.**, a number of shipyards, breweries, steel, and petrochemical companies. **Shanghai Vacuum Co.** and **Shanghai Wingsung Stationery** will be completely privatized in 1993.

Privatization Announcements and Transactions

In the automobile industry, **Brilliance China Automotive** (BCA) was slated for an initial public offering on the New York Stock Exchange in September. The initial offering of a 14.5% stake in BCA, a Chinese SOE incorporated in Bermuda, raised $70-80 million through 5 million shares priced between $14 and $16 each. In 1991, BCA had a net income of $8.4 million on $114.4 million in sales. Proceeds from the sale were to be used for new equipment and to increase the domestic content of its vehicles.

A number of firms from a variety of other industries were also privatized during 1992. In January, **Shanghai Vacuum Co.** became the second enterprise to issue stock to foreigners, following a similar move by China Southern Glass Company in December of 1991. One million shares were offered for 100 yuan ($18.52) each.

In the chemical industry, **Shanghai Chlor-Alkali Chemical**, one of China's main industrial chemical producers, was privatized in June. The Shanghai Chlor-Alkali transaction was China's largest privatization of 1992. The issue was expected to raise a total of approximately Rmb 1.72 billion ($264 million). A total of 24 million B shares (28.9% of the enlarged capital) were to be offered internationally at Rmb 52.50 ($7.99) a share, while 8.6 million A shares (10.4% of the capital) were offered locally at Rmb 54 ($8.21). The state will hold about 60% of the shares. The managing institution for the privatization is Shanghai Shenyin Securities and the international managers for the $192 million B share offer are N M Rothschild and Smith New York Securities.

In July, shares of China's state-owned **Shanghai Wingsung Stationery** were placed on the Shanghai Securities Exchange and on international markets, raising Rmb 220 million ($40 million). Shares were made available in two tiers, domestic "A" shareholders were offered 14.8% and foreign "B" shareholders were offered a 30.8% stake. The over-subscribed issue was underwritten by Shenyin and Rothschild.

In the textiles industry **Shanghai Knitting Mill**, a knitting mill that was nationalized in 1949, handed back to its original owners, the Hsu family. The family also owns Far Eastern Textiles, one of Taiwan's biggest textile companies. This was the first time a nationalized factory had been returned to owners living in Taiwan.

Meanwhile, in the manufacturing sector, **Shanghai Tire and Rubber**, the largest tire manufacturer in China, was privatized through a public offering. The July transaction included a total of 17 million "B" shares issued at a price of $11.40 each to raise $194 million. SBCI Asia was the manager for the international issue.

Project Finance

There was also considerable activity in the infrastructure and public utilities sector. The Hong Kong company New World Development (NWD) concluded a $97.5 million loan agreement in March with China's state-owned **Guangzhou Freeway Company** to fund construction and operation of a road system in southern China. The loan facility carries an eight-year repayment period and an interest rate of LIBOR + 1%. The loan agreement has been temporarily delayed due to uncertainties over the United States' renewal of China's Most Favored Nation (MFN) trading status. The total project cost is estimated at $200 million, and NWD will be involved in the operation of the road for 33 years. NWD also negotiated with Guangzhou authorities to build the second phase of a 600 megawatt Zhujiang thermal power plant at an estimated cost of $295 million. NWD is currently involved in a joint venture with state-owned Jhuaneng International Electricity Development for Phase I of the power plant. Each of the two companies has a $39 million investment in the project.

China's 1992 Public Offerings		
Company	**Date**	**Proceeds**
Shanghai Vacuum Company	1/92	$72 m
Shanghai Chlor-Alkali Chemical	6/92	$264 m
Shanghai Wingsung Stationery	7/92	$40 m
Shanghai Tire and Rubber	8/92	$194 m
Brilliance China Automotive	9/92	$70-80 m

Source: International Privatization Group.

India

Indian officials are eager to commence economic reform and have implemented several important measures in 1992. There were a number of significant privatization announcements and transactions, with the most notable developments taking place in the steel and petrochemical industries.

Government Commitment

The government of Prime Minister Narasimha Rao announced that it is prepared to make broad-based structural changes in the economy. Anxious to begin liberalization, India scheduled 34 major state-owned enterprises for privatization.

Privatization Strategy

Initially, the government adopted an indirect bidding system to privatize SOEs, but later switched to public offerings to ensure greater transparency.

Investment Environment

The Indian regulatory environment accommodates both privatization and direct foreign investment. Foreign firms, once restricted to a 40% stake in Indian companies, have received permission to hold a majority share in domestic companies. The response from investors has been only lukewarm, however.

Impact of Privatization

Unfortunately, the economic liberalization program has not yet produced tangible benefits. The government has raised less than half of what it expected and has had trouble cutting the fiscal deficit. Privatization has helped reduce the debt with revenues raised from the sale of state-owned enterprises.

Prospects for 1993

Among the various firms being prepared for privatization in 1993 are **Eicher Motors, Panna, Premier Automobile, Ravva,** and **Tata Engineering and Locomotives. Maruti Udyog,** an automobile firm that was partially privatized in 1992, will sell its remaining equity.

Privatization Announcements and Transactions

The Suzuki purchase of **Maruti Udyog** is part of India's new de-licensing program in its automobile industry. In July 1991, India began allowing foreign equity participation in most industries, permitted a partial conversion of the rupee, and also removed most industrial licensing. Foreign equity in firms to be privatized is still limited to 51%, however. In a September private offering, Suzuki increased its 40% share in Maruti Udyog, the leading car maker in India, by an additional 10%. Suzuki was to pay 269 rupees per share ($9.22) for 2.2 million shares based on Maruti's net worth and earnings capacity. The sale price was 591.8 million rupees ($20.2 million).

In September, the Indian government offered 20.5% of the shares in eight Public Sector Undertakings (PSUs) to companies, financial institutions, and individual investors. The transaction was carried out through sealed tenders which were opened in October. The eight state-owned firms from the Indian petrochemical and metallurgical industries listed in the following table.

India's Petrochemical and Metallurgical Tender Privatizations	
Company	**Shares Offered**
Bharat Petroleum	2.5 m
Hindustan Machine Tools	3.9 m
Hindustan Petroleum	3.2 m
Hindustan Zinc	20.0 m
National Aluminum Company	64.4 m
Neyveli Lignite Corporation	71.7 m
Rashtriya Chemicals and Fertilizers	27.5 m
Steel Authority of India	199.2 m

Source: "India launches second phase of Sales," *Privatization International*, October 1992, p.1.

Indonesia

Indonesia continues to make slow progress despite pursuing its privatization objectives more aggressively than in 1991. Although the capitalization of Indonesia's stock market is expected to increase with a rise in foreign investment, no large scale privatizations are visible on the horizon.

Government Commitment

The Indonesian government is firmly committed to privatization and announced an ambitious plan to privatize 52 SOEs through public offerings. Bureaucratic resistance has decreased significantly and the government is encouraging the private sector to play a larger role in infrastructure development projects.

Privatization Strategy

The Indonesian government's strategy is to privatize by industry rather than by enterprise. The government is attempting to make SOEs more efficient without relinquishing its control. Indonesian officials have indicated that they will allow the private management of strategic resources as long as the resources are controlled by the state.

Investment Environment

Indonesian financial markets are small and unsophisticated, and the government currently places a limit of 30% on the amount of capital state firms float on the Jakarta Stock Exchange (JSE). Since it began functioning as a true bourse in 1989, the JSE has run into a series of regulatory and settlement problems. Two important developments were the abolition of non-bank financial institutions and the privatization of seven state banks. A number of other regulations regarding swap and offshore borrowing have also been put in place. The Indonesian bond market is not well developed and is used predominantly by state-owned enterprises. The capitalization of the JSE was $13 billion, and there were 155 registered companies at the end of 1992.

Impact of Privatization

Though privatization has had little visible impact on the Indonesian economy, it has helped create more business opportunities and has improved the environment for foreign entrepreneurs.

Prospects for 1993

In the next few years no major transactions are anticipated. Some of the companies being considered for privatization include **Garuda Airlines, Jakarta Stock Exchange, Seman Greslik, Telecom Satellite,** and several television stations.

Privatization Announcements and Transactions

In July, the government announced that it intended to privatize **Telkom,** the state-owned telecommunication company, through a limited $350 million public offering.

During August it was announced that **Garuda Indonesia Airlines,** the state-owned airline, was being considered for privatization. Garuda Indonesia was to float a portion of its shares on the Jakarta Stock Exchange or in international money markets in order to raise approximately $500 million to finance a $4 billion program of aircraft acquisitions.

Finally, the government of Indonesia announced in October that the **Jakarta Stock Exchange** would be privatized. Under the privatization scheme, the current 281 registered securities houses will become shareholders. The shareholders will provide initial paid-up capital of $3.8 million. Price Waterhouse's International Privatization Group is advising.

Project Finance

In April, Indonesia's **Perusahaan Umum Listrik Nagara** (PLN) and a Swiss-Swedish consortium were to begin construction of a power station. The contract is for $684 million and is only the second Indonesian power project to enlist private sector financing and operation. This transaction is one of several steps Indonesia is now taking to increase capacity to meet an anticipated 17% growth in demand for power over the next ten years.

Malaysia

Malaysian privatization continued unabated in 1992. With one of the most comprehensive privatization initiatives in the developing world, Malaysia is in the forefront of privatization in Asia.

Government Commitment

The Malaysian government plans to increase the pace of the privatization process and established the Privatization Task Force (PTF) to execute its economic program.

Privatization Strategy

The PTF is involved in planning, developing, implementing and monitoring Malaysian privatization efforts. The government has an ambitious plan to divest 246 Government-Owned Enterprises (GOEs) by the year 2000, raising M$16.3 billion ($6.4 billion). As a part of its program, the government is encouraging foreign investment and private sector involvement in economic development. Over the next four years 147 GOEs are to be privatized under the Privatization Action Plan, involving assets totaling M$6.4 billion ($2.5 billion). Thirty-seven of these enterprises are involved in manufacturing, 29 are in agriculture, 17 are in services, and 10 are in the financial sector. The planned methods include BOT, contracting out, leasing government property, and selling state assets. The objective of privatization is to relieve the government's financial and administrative burden.

Investment Environment

There were complaints that the Malaysian financial regulatory system was disorganized and corrupt. In response, the government made plans to establish a Securities and Exchange Commission as the sole regulator for financial markets by the end of 1992.

Investors responded positively to share listings on the Kuala Lumpur Stock Exchange (KLSE), which was expanded to increase its absorptive capacity. At the end of 1991 the KLSE had a market capitalization of $94 billion with 366 companies listed.

Impact of Privatization

The privatization process has contributed to high GDP growth, and has also been credited with providing economic stability.

Prospects for 1993

Twenty-eight SOEs have been identified for privatization in 1993. Twenty other entities have also been selected for restructuring prior to privatization. Among the major firms targeted are **Airport Management, Department of Aviation, Klang Airport Authority, Malayan Railways, Postal Services Department, Telekom Malaysia, and Tenaga Nasional.**

Privatization Announcements and Transactions

In January, **Malayan Railway**, the state-owned railway system was corporatized, an action designed to ready the firm for privatization.

The government announced in April that the management of 20 domestic and eight international airports are to be privatized as the services they provide will be performed by private contractors. In September, a bill was passed to corporatize the **Department of Civil Aviation** as a step toward privatization.

The Malaysian government also announced, in September, its plan to sell the **Brook Shipyard** in Kuchin, the dockyards of **Penang, Johor, Kuantan in Lumut**, and the **Port of Bintulu** in Sarvak through public offerings. The government's objective is to have the private sector operating the country's seaports and airports by the year 2000.

The privatization of the **Klang Port Authority (KPA)** was initially put on hold, following a dispute between the Port Authority and Klang Port Management (KPM), the consortium of Malaysian companies purchasing. The problem involved the valuation of the company's assets, which the Port Authority put at M$200 ($78.8 million), whereas KPM estimated at M$100 ($39.4 million). Coopers & Lybrand was called in to conduct an independent valuation, and in December the Malaysian government handed over the management of Port Klang to KPM for M$143 million.

The Malaysian Government reduced its direct shareholding in the telecommunications company **Telekom Malaysia** from 78% to 75% following the placement of 60 million shares with foreign investors. The shares were sold to US, European, Japanese and other Asian institutional investors in an April offering.

In May, a report was issued by a select executive committee arguing in favor of contracting out for services provided by the government's **Postal Services Department**.

The government owned automaker **Proton** was also sold in May. On the first day of trading the shares commanded M$1.60 ($0.62) premium on their offer price. The public offering raised M$ 748 million ($288 million) and increased Proton's capitalization to M$3.3 billion ($1.3 billion), making it one of the blue chip stocks on the KLSE.

There was a significant amount of privatization activity in Malaysia during the month of September. The government revealed that **HBI**, an iron plant subsidiary of Sabah Gas Industries (SGI), had been selected for privatization. Three steel producers, ASM, Southern Iron & Steel Works, and Malayawata Steel are expected to form a consortium and then take over the government's stake in the HBI. Southern Iron & Steel Works and Malaysia Steel have close ties to the government, and ASM is the most experienced steel maker in Malaysia. Though HBI has an annual capacity of 570,000 metric tonnes of steel, it is currently unprofitable and has a large debt. It is expected that the project will be accompanied by loans and tax incentives provided by the government in order to make it a more attractive investment.

Malaysian Technology Development Corporation (MTDC), a state-owned venture capital and industrial technology company, was to be privatized through a private offering. A 70% stake of MTDC is to be offered to banks, research institutes and other private sector entities, while the Trade Ministry will retain the remaining 30%. The transaction is expected to raise M$140 million ($55.2 million). MTC supplies venture capital to local entrepreneurs in high-tech fields, provides convertible debt financing, fee-based consulting services, and loan guarantees for start-ups.

According to a Malaysian government announcement, **Klang Container Terminal** was to seek listing on the Kuala Lumpur Stock Exchange during the month of September.

The government also announced its intention to privatize the **National Film Board**.

The privatization of **Petronas Dagangan** (PD), the oil/energy retailing and distribution subsidiary of state-owned Petronas was promulgated. PD's stock was to be floated on Kuala Lumpur Stock Exchange during the later part of the year.

The final announcement in September was the privatization of **RTM**, the state-owned radio and TV network.

In October the government revealed plans to relinquish control of several research institutes, including the **Rubber Research Institute** (RRI), the **Standards Institute** (Sirim), the **Palm Oil Research Institute** (Porim), the **Chemistry Department**, and the **Malaysia Agriculture Research & Development Institute** (Mardi).

United Engineers Malaysia (UEM) purchased government pharmaceutical and medical stores for approximately M$140 million ($60 million) in November.

Tenaga Nasional, the country's incorporated electricity board, announced its plans to float a minority share on the national stock exchange. The government placed restrictions on foreign participation. Tenaga Nasional's assets were valued at $4.81 billion, with a total debt of $2.43 billion.

Project Finance

The government of Malaysia announced, in October, that it would create a M$265 million ($102.7 million) financing package for the country's first water privatization project. The privatization will involve two tranches - Tranche A is a M$220 million ($85.3 million) term loan with a maturity of 10 years while Tranche B is a M$45 million ($17.4 million) guarantee facility for 10 years. Tranche B contains a M$35 million ($13.8 million) performance portion and a $3.9 million maintenance guarantee. Permata Merchant Bank will act as the agent bank and Public Bank has agreed to underwrite the package and is lead manager of the project. Indosuez Asia is the financial adviser.

Malaysian New Public Offers: 1992		
Company	**Date**	**Value**
Proton (automobile manufacturing)	3/92	$288 m
Tenaga Nasional (power utility)	3/92	$1185 m
Klang Container Terminal (port)	10/92	$60 m
Malaysian New Private Offers: 1992		
HBI (iron works)	10/92	$32 m
Government pharmaceuticals	11/92	$54 m

Source: "Major sales of state firms completed in 1992," *Privatization International*, January 1993, p. 21.

Pakistan

The government of Pakistan is committed to privatization, but has encountered obstacles in implementing its privatization program.

Government Commitment

Privatization is a major part of Pakistan's economic reform program which includes deregulation and foreign exchange liberalization. A Privatization Commission was set up in January 1991 to identify and manage the divestiture of SOEs.

Privatization Strategy

Three specific methods that the Pakistani government applied in 1992 were bid invitation, open auction, and share offerings to employee and management groups. Bid invitation is the favored method in Pakistan.

Investment Environment

In order to maintain the confidence of depositors the country's central bank, the State Bank of Pakistan, was granted regulatory jurisdiction over all investment banks and housing finance companies. Pakistan now permits full foreign ownership of domestic firms, provides easier access to foreign exchange, and grants investors numerous tax holidays. Unfortunately, the financial sector continues to suffer. The collapse of Pakistan-based Bank of Credit and Commerce International has left a nefarious legacy, and the banking community was also constrained by an Islamic court ruling which banned the collection of interest.

The Karachi Stock Exchange (KSE), on the other hand, has responded positively to government reforms. The KSE is an active market and had a capitalization of $8 billion on over 600 companies listed at the end of 1992. After rapid equity growth, the government decided to allow foreign investors to buy Pakistani shares directly. A number of foreign securities management companies are expected to open offices in Pakistan independently, or through joint ventures, in the near future. In addition to the KSE, Pakistani equities may also be listed on the Lahore stock market and the newly-founded Islamabad Stock Exchange.

Impact of Privatization

The government's economic reform program has yielded positive results. The liberalization program and privatization initiative contributed to economic growth of almost 6.5% in 1992.

Prospects for 1993

The government is expected to achieve its 1993 privatization targets when four state monopolies, **Pakistan Telecommunications, The Water & Power Development Authority, Pakistan Railways**, and **Sui Northern Gas Pipelines**, are scheduled for complete privatization.

Privatization Announcements and Transactions

In March, the government of Pakistan announced the partial privatization of **Karachi Electric Supply Corp.** (KESC). The state owned 93% of the electric utility, and International Resources Group Ltd. was to assemble the strategic plan for the enterprise's privatization. Initially, one of its power plants was to be sold, followed by the distribution grid. Complete divestiture will follow in five or six years. Seven percent of KESC's stock was already being traded on the KSE.

The privatization of a second power utility was also promulgated in March. The **Water & Power Development Authority** (WAPDA) System is a state-owned 7,100 megawatt (MW) water plant and International Resources Group Ltd. is advising on its privatization. The plan approved by the Pakistani government involved a gradual sell-off of the firm's individual components that will be completed in five years. The initial WAPDA sale involves an 892 MW oil-fired power plant in Jasmoro, in Sind province. Private power proposals have also been invited to install approximately 10,000 MW of hydro-, coal-, and oil-fired stations by 1999. It is estimated that this project will cost $16 billion.

In the meantime, there was substantial activity in the chemical industry. The employees of **Exxon Chemicals Pakistan** purchased 27.8% of their company in July. The employees were assisted by a consortium of buyers who also purchased stakes in the company: the International Finance Corporation (IFC) (15%), The Commonwealth Development Corporation (10%), the Asian Finance and Investment Corporation (7.5%), and a group of Pakistani investors. The remaining 25% of the company is owned by citizens of Pakistan (14.7%).

In October, the Pakistan Privatization Commission (PPC) invited international and local companies to participate in open bidding for the purchase of **Nowshera Chemicals**, a state-owned subsidiary of Federal Chemicals & Ceramics Corp. Ltd., located in Karachi. Another subsidiary, **Kurram Chemicals**, was sold in March to Upjohn. A third subsidiary, **Pak Dyes and Chemicals Ltd.**, was sold in November to Haji Said, a local company, for Rs 270 ($10.86) per share.

The PPC also announced a domestic and international public auction of **Hazara Phosphate Fertilizer Ltd.** (HPF). A state-owned chemical plant, HPF is a subsidiary of Pakistan's National Fertilizer Corp.. The plant, based on AZF Chimie technology, was worth $12 million, but was sold to an ex-federal minister at $ 0.38 per share for a total of $6 million in November.

In September, the government announced that it had asked Bear Stern and Coopers & Lybrand to assist in the privatization of **Pakistan Telecommunications Company**. The government planned to seek financing from the domestic and international markets. The state-owned telecommunications firm is considered one of the country's best managed utilities. It made a profit of $300 million on sales of $512.4 million in 1991. Several foreign telecommunication companies, including AT&T of the US, Cable & Wire of Britain, OTC Australia and L.M. Ericssen of Sweden opened negotiations with the Pakistani government. Initially, the proposal to sell Pakistan Telecom was opposed by the military for strategic reasons. The government, however, has provided funds which will allow the military to set up a telephone network of its own. The government said it would like to sell 51% of Pakistan Telecommunications with the remaining 49% split between the government and employees. The new owners will be granted a domestic monopoly for a specified period of time.

Sui Northern Gas Pipelines (SNGPL), the state-owned energy firm, placed 80 million dollars worth of shares on sale at the KSE. Not all the shares were sold, however, and the government considered lowering the price per share from $2.16. Sui Gas has a monopoly over the supply of gas to northern Pakistan. The company plans to offer a 40% stake to British Gas, Novacorp of Canada and Sofragas of France. In September, the government offered about 1/3 of the shares in SNGPL to the public. The shares were sold at $1.62 each but only 20% of the 52 million shares were purchased. The total value of the flotation was about $16.85 million.

In November, it was announced that **Pakistan Railways** will be privatized in phases. Pieces of the operation were sold off as the purchase of the entire rail network was unlikely to have attracted a single investor. Passenger ticketing and cargo transportation have been purchased by private investors.

Project Finance

An agreement for the **Hub River** power project in Pakistan was signed in September after 4 years of negotiation. The project, worth $1.7 billion, is to supply 1,292 megawatts from an oil-fired station. The World Bank private sector development fund was to fund 1/3 of the work while private sector sources planned to finance the rest. The project is a build-own-operate (BOO) scheme which will sell its output to the state-owned Water & Power Development Authority.

Philippines

The Philippine government experienced difficulties while pursuing its privatization goals during 1992, and fell short of its desired objectives.

Government Commitment

The government established the Committee on Privatization (COP) in 1986 to create disposition entities (DEs) to handle the divestiture of Government Owned or Controlled Corporations (GOCCs) and their assets. To date the COP has designated 14 DEs, including the Asset Privatization Trust, to perform the technical tasks involved with privatization. Out of 125 targeted state-owned institutions, 75 have been privatized, representing a total of P28 billion ($1.1 billion) in assets. Though the Philippine government is busy implementing its liberalization and infrastructural development program, the privatization initiative has entered a difficult stage.

Privatization Strategy

The government's first step, taken in the late eighties, was to identify the Government Owned or Controlled Corporations (GOCCs) which accounted for the largest portion of the budget deficit and the public sector's increasing foreign debt. The original register of GOCCs is under revision, and the enterprises on the forthcoming list will be part of the government's five year privatization program.

The transfer of assets to the private sector has been accomplished using such methods as public offerings and negotiated sales. BOT schemes are being considered for the construction of infrastructure projects like utilities and rail lines. Several power generation projects already underway, such as the 900 megawatt (MW) Hopewell facility, are BOT projects.

Investment Environment

As for capital markets, the Philippine stock exchanges performed well, climbing 31% in the two quarters following the election of President Fidel Ramos. Foreign exchange reserves peaked at $5.4 billion and direct foreign investment increased at a reasonable pace. Plans to automate stock trading and for the establishment of a Central Depositary System and Clearing House are to be implemented in the near future. The two stock exchanges, located in Manila and Makati, agreed to merge at the end of 1992 to form the Philippine Stock Exchange (PSE). The PSE had a total market capitalization of $13.8 billion and 170 registered companies.

Impact of Privatization

The positive effects of privatization have been overshadowed by the recurring shortage and the worldwide economic slowdown. The government has had some success, however, in increasing revenue by emphasizing cash transactions and has also reduced the subsidization of many state-owned assets and corporations. In addition, foreign investment in Filipino privatization transactions is steadily increasing, bringing an inflow of foreign exchange.

Prospects for 1993

The Philippines are expected to attract more foreign investment due to increased privatization efforts and a relatively stable political climate. Apart from strong privatization efforts, significant economic progress is not expected in 1993. More GOCCs are to be privatized in the coming years now that many government assets have been sold. The following firms have been targeted for privatization in 1993: **Petron, National Steel Company, Paper Industries Corporation of the Philippines (PICOP), Interbank, Manila Hotel,** and **Philippine Shipyard and Engineering Company (Philseco).**

Privatization Announcements and Transactions

The largest Filipino privatization to date took place in the transportation sector as the Philippine government sold 67% of **Philippine Airlines** in February for $369.7 million. The SOE was purchased by a consortium headed by AB Capital & Investment Corporation and Bank of Commerce which consisted of 12 member firms and individuals. The two principle members are the Soriano and Cojuangco business families. The government retained a 13% share, the Government Service Insurance System held 15%, the National Development Company held 5%, and 5% was reserved for sale to employees. The winning bid was 15% higher than the government's base price of $313.3 million. The government insisted that $147 million be paid in cash, and accepted the rest as discounted debt paper. The government assumed $520 million of the airlines debt prior to the sale.

Later, in November, the government announced that the **Philippine National Railroad** (PNR), the state-owned railroad will be privatized over the next few years. The operation of the railroad will be transferred to private hands within two years. Several companies, including South Korea's Daewoo Corp. and companies from Canada, Japan, and Indonesia are interested in purchasing the company. PNR suffered a loss of 125.95 million pesos ($5.03 million) on revenues of 150.38 million pesos ($6.01 million). The company's assets were valued at 4.12 billion pesos ($164.97 million) and its at liabilities 3.73 billion pesos ($149.23 million) in 1991.

In May, the government indicated its intention to privatize the **Philippine Long Distance Telephone Co.** (PLDT). The government was to sell a major portion of PLDT's shares or shares in a new subsidiary to a large US or European telecommunications company. PLDT's stock is traded on the Manila and New York Stock Exchange. PLDT was seeking to enhance its equity position in order to undertake a P18 billion ($706 million) expansion program. The transaction was delayed, however, due to disagreement among Filipino political leaders.

Meanwhile, it was announced in March that 21% of the government's equity in **Philippines National Bank** (PNB), considered to be one of the country's "blue chip" stocks, would go on sale. The shares were to have been floated on the Manila stock exchange later in the year. In September, an announcement was made that the Philippine government planned to offer another 12% of PNB.

The government also announced the sale of a majority stake in **Philippines Duty Free** (PDF) in September. The auction for the firm was expected to raise $41.9 million, but the sale was terminated for political reasons.

It was announced in September that the subsidiaries of the **Philippines National Oil Company** (PNOC) would be put up for sale. As a first step, its shipyard, Philippine Dockyard and Engineering Corporation, was auctioned off in November. The International Privatization Group of Price Waterhouse assisted with the transaction. Later in 1992 PNOC sent out invitations for bids. Forty-one foreign and domestic groups responded to the offer.

Project Finance

There were two significant transactions in the public utilities sector in 1992. First, in January, the **National Power Company** of the Philippines signed an agreement with the Hong Kong firm Hopewell Holdings for the financing, construction, development, and operation of a 350 megawatt (MW) coal-fired powerplant. Hopewell Holdings will operate the power station, to be located on Pagbilao Grande Island. After 25 years, ownership will revert to the government of the Philippines. Hopewell will contribute $200 million of the estimated total cost of $850 million. The rest of the BOT deal was to be funded by the World Bank and the Asian Development Bank.

In a public offering that closed in December, the **Manila Electric Company** was fully privatized. The shares were sold in two tranches. The "A" shares, priced at $4.30, were available only in the Philippines and the "B" shares, sold at $4.60 each, were available domestically and on international markets. Foreigners were restricted to 40% of the 21.62 million floated shares. As of 1991, the company's assets were valued at $950 million. Net income was $33 million in 1990. About a fifth of the expected proceeds from the public offering ($96 million) was expected to go to the government to pay off old corporate debts.

Sri Lanka

The Sri Lankan government has made substantial progress toward its ambitious privatization objectives.

Government Commitment

Sri Lanka is committed to the privatization of all enterprises performing commercial functions including manufacturing, trade, and infrastructural utilities. Almost 50 state-owned enterprises have been privatized up to 51%, or are at various stages of privatization. The government has restricted privatization activities in some areas such as security-related sectors and in real estate.

Privatization Strategy

The government's emphasis in 1992 was on the privatization of small-scale industrial companies. The privatization program involves soliciting management bids from both foreign and domestic investors, then restricting the bidding process to local groups. The original plan to sell the tea estates was eliminated due to political opposition. Instead, management responsibilities will be taken over by contractors. Interest in Sri Lanka's stock market has been fueled by the government's privatization initiative, which allows 10% of any privatized company's equity to go to its workers *gratis*.

Investment Environment

The Sri Lankan government offers foreigners tax holidays, constitutional guarantees, dividend repatriation, and a double taxation treaty network. As a result foreign investment has increased 500% over the past 3 years. Late in the year the Sri Lankan government abandoned high taxes on foreign share holders to further stimulate investor interest.

USAID recently helped the government introduce a Central Depository System which revolutionized the Columbo Stock Exchange's (CSE) post trade procedures. This state-of-the-art computerized share registration system will help make the CSE more liquid. More than sixty growth funds have registered on the CSE and are investing in the market. Stock market turn-over has grown from $5.5 million in 1989 to $121 million. Interest among foreign investors has been sparked by the relaxation of restrictions on market transactions by foreigners. At the end of 1992 Columbo Stock Exchange had 178 registered companies listed with a total market capitalization of $1.4 billion.

Impact of Privatization

Privatization and economic reform helped create a current account surplus of $ 71.8 million.

Privatization Announcements and Transactions

In May the government announced that it had plans to privatize the management of its tea estates since they have been making significant losses. It is estimated that 22 private companies were selected to manage 449 of the tea estates, starting in June. The other 53 estates are in weak financial condition and would not attract contractor interest. Tea, which contributes more than $500 million annually, is the largest source of foreign exchange for Sri Lanka. The estates have been run by two state-owned companies that incurred $83.3 million in debt to government banks from 1980 to 1991.

Taiwan

Taiwan has allocated a substantial sum for its economic liberalization and development plan. Only a portion of this budget is to be used for privatization, however. The government has taken important steps in identifying privatization objectives and guidelines, and must now implement its plan.

Government Commitment

The privatization program is part of Taiwan's six-year, $303 billion infrastructure development plan. The Taiwanese government established a Privatization Task Force, led by the Council for Economic Planning and Development, to implement the privatization plan and to improve the domestic securities markets.

Privatization Strategy

The government has drafted a regulatory framework for privatization of state-owned enterprises. In addition, the government conducted a number of feasibility studies on the privatization of activities that normally required heavy state involvement. Proceeds from privatization sell-offs will help fund national development. The government also wishes to protect the interests of the employees of the privatized corporations. Under current legislation, employees will be retained for a period of at least five years, or will be compensated for benefit loss. A statute of Employee Stock Ownership has also been passed to encourage employee participation in privatization.

Investment Environment

The government has promulgated the Statute for Privatization of Government-Owned Enterprises (GOEs) to provide legal guidelines for the privatization process. A number of by-laws have also been passed to define the privatization process more clearly.

The government targeted Taiwan's capital market for increasing regulation, and financial markets have changed dramatically as a result. Foreign investors can license banks in the Taiwanese financial sector, and the auction system for government bonds is also open to foreigners. Financial markets are not completely open to foreigners, however, as banking licenses are granted to a select group of international brokers, making it difficult to move foreign exchange in and out of the country. Since the domestic market does not have enough absorptive capacity, some privatization will be done through the issue of Global Deposit Receipts (GDRs). Taiwan is attracting investment from foreign investors through the GDRs which can be traded over-the-counter in international financial centers.

Impact of Privatization

Taiwan's privatization initiative helped make 1992 a year of strong economic performance. Gross Domestic Product grew by 6.7%, and due to government encouragement and financial market reforms, private sector investment increased by 16%.

Prospects for 1993

The prospects for privatization are good. Following the relatively successful **China Steel** transaction, the government is considering the privatization of some of its other large corporations. Privatization may take place by public offering, private placement, bidding, or sale by direct negotiation. The government recently announced its decision to press ahead with the privatization of China Steel, by selling and additional 16% of the company. Other firms that will begin the privatization process in 1993 are listed below.

Expected Transactions: 1993		
Company	**Shares**	**Value**
BES Engineering	NA	$235 m
China Petrochemical Development	293.1 m	$136 m
China Shipbuilding	508.6 m	$294 m
Chiao Tung Bank	200 m	$345 m
Chung Kuo Insurance	22 m	$47 m
Farmers Bank of China	100 m	$135 m
Taiwan Fertilizer Company	NA	NA
Taiwan Machinery Manufacturing	385.1 m	$668 m
Taiwan Power Company	NA	NA
Taiwan Salt Works	NA	NA
Taiwan Sugar Corporation	NA	NA

Source: Mark Clifford, "Private grief," *Far Eastern Economic Review*, 4 Mar. 1993, pp. 38-39.

Privatization Announcements and Transactions

In January, 162.66 million shares (17.7%) of the **International Commercial Bank of China**, held by the Executive Yuan Development Fund, were sold in a public offering at NT$74.77 ($3) per share.

A third tranche in **China Steel** was made available through a public offering in May and June. A total of 1.04 billion shares were offered at NT$21.14 ($0.85) per share (domestic price) and $18.2 per depository receipt. The company's first public offer was in April 1989, and it was followed by a stock offering in April 1989. This tranche, however, was Taiwan's first international offer. The offering encountered difficulties after shares were offered domestically in May. Under Taiwan's share-issuing rules, local investors were not required to put money down until June. Foreign investors, who received their first offer in June, worried that the domestic issue would be undersubscribed. Their reaction drove the price of the overseas issue down, prompting domestic investors to back out. As a result, only 38% of the offering was taken up. Later, after the expiration of a 90-day waiting period, international subscribers sold their shares back into the local market because they were disappointed with the stock's poor performance.

Shares in **Yang Ming Marine** were sold in an initial public offering. Seventy-five million shares were offered at NT$16 ($0.64) per share. The issue was oversubscribed 62 times.

Taiwan's 1992 Privatization Transactions			
Company	**Issue Date**	**% Equity Offered**	**Value**
International Commercial Bank of China	1/92	17.7	$330 m
Yang Ming Marine	2/92	11.4	$47 m
China Steel	6/92	12.9	$884 m

Source: Mark Clifford, "Private grief," *Far Eastern Economic Review*, 4 Mar. 1993, pp. 38-39.

Thailand

Privatization is not an important component of the Thai government's economic program as SOEs provide a significant portion of government revenue. Nonetheless, certain enterprises are being privatized.

Government Commitment

Although privatization does not play a major role in the government's plan for economic reforms, guidelines have been published by The National Economic and Social Development Board, indicating that private sector participation should be increased. It recommends four ways privatization could be implemented, including share flotation, concessional awards, joint ventures and deregulation.

Privatization Strategy

The Thai government focuses on infrastructure development rather than on privatization, and as a result no clear-cut privatization policy exists. Most SOEs in Thailand are very profitable and are an important source of revenue for the government. The government is seeking private sector involvement in its plan to develop the country's infrastructure and would like private investment in transportation, power generation and transmission, ports, and telecommunications.

Investment Environment

The Thai government is planning to create an independent body to regulate the Stock Exchange of Thailand (SET). Thai authorities have created a comprehensive plan to expand the stock market through privatization, and are also implementing a number of regulations regarding post-trading settlement, corporate take-overs, options, and over-the-counter trading. The government is planning to establish another exchange for over-the-counter trading. The SET has expanded substantially over the last few years as market capitalization reached $58.3 billion and 300 companies were listed at the end of 1992.

Prospects for 1993

The economy is expected to return to normal in 1993 after last year's political crisis. Private investment and government spending on infrastructure development are expected to increase, and economists believe that Thai economy could grow at the rate of 8%.

Privatization Announcements and Transactions

In March, the Thai government was to offer 7% of **Thai Airlines** in a public offering on the Bangkok Stock Market, in the largest Thai privatization to date. The public offering was expected to raise $238 million when trading on the stock exchange opened in May. Forty million shares were to be reserved for the general public and 15 million for sale to foreign investors.

Vietnam

Like Thailand, Vietnam does not have an ambitious privatization initiative. Instead, the government is more concerned with remedying the effects of longstanding US trade sanctions. However, the government is making plans to privatize a number of SOEs in the near future.

Government Commitment

Currently the Vietnamese government does not have an aggressive privatization policy, as it is more involved in attracting direct foreign investment after the American trade embargo is lifted. The government is counting on help from Japan and the US in the form of credit and aid packages. Vietnam needs this aid to develop its dilapidated infrastructure, which remains a cause of concern for foreign investors.

Privatization Strategy

The government's preferred strategy is corporatization, the process of converting SOEs from government agencies into government owned corporations, as a prelude to privatization. This preliminary technique was adopted due to political opposition to full fledged privatization. A pilot acquisition program has been initiated by the Ministry of Finance, involving partial conversion of seven relatively well-managed SOEs into share-holding companies. These companies may be allowed to sell their shares to domestic and international investors at a later date.

Investment Environment

Efforts are currently underway to improve the investment climate, and constitutional amendments are being made to streamline the privatization process. A Foreign Investment Code is in place that allows foreigners to own up to 100% of an enterprise. In order to start a joint venture, however, a foreign investor is required to take a minimum of 30% equity. Foreign investors have shown little enthusiasm for investment in Vietnam, however, as poor infrastructure and a lack of foreign exchange discourage foreign investment.

Impact of Privatization

Vietnam's privatization program is young and did not have significant economic impact in 1992.

Prospects for 1993

Currently there are nine enterprises which are being prepared for privatization including **Animal Feed Processing, Thang Cong Textile, Binh Minh Plastic, Labour Safety, Bien Hoa Wool, Kien An-Haiphong Agriculture and Forestry, Haiphong Glass Insulator, Hanoi Electrical Transformer, Duy Xuyen Textile Starch**, and **Tam Ky Stationery**. Economic reforms are expected to continue in 1993 and will likely attract foreign investment especially from Japan and the United States.

Privatization Announcements and Transactions

It was announced in September that **Legamex**, the garment factory located in Ho Chi Minh City, would be the first state-owned enterprise to be sold to foreign investors. Even though the company earned profits of $15,600 in the first six months of 1991, it is burdened with debt, owing foreign and domestic creditors over $14 million. Four foreign firms were optimistic enough about the future of Legamex to sign contracts for shares before the government approved the sale to foreigners. The proposed sale of Legamex shares to foreigners is a departure from traditional government policy. To raise additional capital, Legamex was to be restructured into three separate companies: **Legatex Shareholding Company**, **Lega Shareholding Company**, and **Legamex State Company**. Legatex was to sell 170,000 shares for $4.3 million. Chiap Hua Overseas Development Co. (CHOD), a trading and investment firm based in Hong Kong, planned to purchase 35% of the shares. Deutsche Investitions Und Entwicklungs Gesellschaft (DIUEG), a German Development firm, and Habitex, a garment firm from Belgium, were each to buy a 10% stake. About 41% was to remain with Legamex and 4% is slated for sale to company employees. Lega Shareholding planned to sell shares worth $592,000. A 45.7% stake would be purchased by Bicar, a Hong Kong trading company which markets Legamex products. Employees would purchase another 5% and the remaining 49.3% would be retained by state-owned Legamex.

Proposed Privatization of Legamex Textiles

Company	Distribution of Equity
Lega Shareholding Company	45.7% to Bicar of Hong Kong 5% to employees 49.3% retained by Legamex
Legatex Shareholding Company	35% to CHOD of Hong Kong 10% to DIUEG of Germany 10% to Habitex of Belgium 4% to employees 41% retained by Legamex
Legamex State Company (State-owned)	Holds 49.3% of Legatex and 41% of Lega Shareholding

Source: International Privatization Group.

Also in September, the government announced that it was considering the privatization of **Thong Nhat Match Factory**, a state-owned enterprise located in Hanoi. The privatization project is facing opposition from employees who believe that the new board of directors will import new equipment and lay off workers. The factory made a profit of Dong 850 million ($75,000) in 1991. There was disagreement over the firm's value and over which party would receive the revenues from the enterprise's sale.

Eastern Europe Regional Overview

By Tyler Holt

Progress

Privatization in Eastern Europe and the Newly Independent States (NIS) of the former Soviet Union led the rest of the developing world, both in innovative approach and overall volume of transactions. Regional privatization activity generated approximately $18.0 billion in transactions, including nearly $12.0 billion handled by Germany's Treuhandanstalt alone. Programs in Czechoslovakia (now the independent Czech and Slovak Republics), Hungary, and Poland progressed the furthest in 1992, having privatized between one-quarter and one-half of their economies by the end of the year. Other countries, including Russia and some of the Newly Independent States, were well along at the year's end toward initiating the process.

Despite the apparent successes, however, the momentum achieved in 1991 abated in 1992, as governments struggled to sustain unpopular policies amidst severe economic conditions. Advocating strategies of economic liberalization, most governments experienced hyperinflation conditions and severe currency devaluations. Without the unprecedented levels of technical and financial assistance through the World Bank, the IMF, and from most of the G-7 countries, it is highly unlikely that privatization efforts would have been sustained in the region.

Process

The conventional methods of privatization, in which transactions are sold outright through private tenders or public bids, were best exemplified by the German Treuhandenstalt, which has already privatized or liquidated one-half of the SOEs by dollar value of the former East Germany. The Estonian Privatization Authority strove to duplicate the success of German privatization by adopting the Treuhand model of tendering offers, but achieved far less success. Hungary was able to sustain its very ambitious pace of privatization, mostly through direct sales, but only by relying on heavy foreign participation. Ironically, Hungary began to consider implementing a voucher program of its own at year's end, while the newly-independent Slovak Republic scrapped theirs, opting to return to more conventional means of privatization.

Voucher Programs and Mass Privatization

Perhaps the most innovative development in privatization in the last year involved the multitude of nascent voucher systems for mass privatization, enacted in the Czech Republic, Poland, Hungary, and Russia. Earlier stages of similar programs also exist in Romania and Ukraine. Over one thousand enterprises were included in Czechoslovakia's mass privatization program, representing about 90% of total equity shares offered by the country in 1992. Russia's mass privatization program, enacted late in the year, is even larger, though not as far along as those in Poland and the Czech Republic.

The immediate benefit of mass privatization is that it provides liquidity to a population that has little financial resources. It may also circumvent, at least temporarily, the need to establish share prices for each individual enterprise, since ownership is usually dispersed in the initial stage of the program. These programs, once implemented, also have the potential to achieve rapid transformation of the public enterprise sector.

Efficiency gains made through mass privatization schemes are elusive, though, as management often remains unchanged. There is little incentive for restructuring because mutual fund managers exercise little control over the actual operation of the former state-owned enterprises. Lastly, mass privatization programs are complex to design and regulate, requiring brand new institutional frameworks to manage the process, and educate the participants.

Prospects

Eastern Europe should again pursue dynamic and innovative privatization programs in 1993, as many other countries such as Romania and Bulgaria have been encouraged by the region's experiences in mass privatization, and plan to introduce voucher systems of their own. Several of the other Newly Independent States such as Uzbekistan and Kyrghyzstan have also indicated their interest in initiating a privatization program in 1993, possibly starting a mass privatization scheme of their own by the end of the year.

The critical factor, though, remains the health of these economies. Investment conditions have remained uncertain as economies continue their freefall. The ability of the governments to sustain reform efforts, and of investors in the foreign and domestic private sectors to participate in the privatization process, require a minimum level of confidence in the economy.

Eastern European Privatization Strategies			
Country	**Primary Strategy**	**Secondary Strategy**	**Progress**
Bulgaria	Sectoral	Proposed Mass Privatization	Very limited progress
Czechoslovakia	Voucher	Direct Sale	Highly successful
Estonia	Direct Sale	Small Assets	Proceeding with difficulty
Hungary	Direct Sale	Voucher program in the works	Highly successful
Latvia	Public Auction	Direct Sale	Uneven progress
Lithuania	Voucher	Direct Sale	Highly successful
Poland	Direct Sale	Voucher program in the works	Heavy activity
Romania	Voucher	Direct Sale	Slow progress
Russia	Voucher	Public Auction	Rapid privatization
Ukraine	Public Auction	Voucher	Early stages of privatization

Source: International Privatization Group.

Bulgaria

An uncertain political and economic environment hampered progress in the Bulgarian privatization program. The collapse of Bulgaria's government in the fall brought free market reform to a sudden halt, giving pause to investors in the Bulgarian economy. It remains to be seen whether the new reforms, enacted late in the year, will take hold.

Government Commitment

Bulgaria overhauled its State Privatization Agency late in 1992 by appointing a supervisory council of 265 officials in eleven regional offices.

Privatization Strategy

Among the state-owned enterprises targeted for privatization are eleven worth over Lev 10 million ($353,631). The government intends to pay off all public enterprise debts with a Lev 5 billion fund. Bulgaria intends to follow a sectoral privatization strategy similar to Poland's 1991 program, including pharmaceuticals, cement, tourism, petroleum, and paper industries.

Sales can be initiated by the Government, the State Privatization Agency, municipalities, enterprises, or prospective investors. Most sales have so far taken place through the transformation of state-owned enterprises into joint stock companies. Twenty percent shares of all privatized companies will be retained in a national mutual fund, while a further 20% will be set aside for employees who may purchase at discounts of up to 50%.

Investment Environment

A completely restructured privatization law was passed by the National Assembly in April 1992 supporting a broad, multi-track approach. Bulgaria finally established a legal framework for foreign investors late in the year, guaranteeing repatriation of investment returns and conceding some tax obligations. The Assembly also passed laws creating a new banking system.

The Bulgarian currency, lev, was sharply devalued (about 90% in value) in an effort to find a market exchange rate. Complete convertibility was still being sought by the Bulgarian Central Bank, but the currency did float freely for most of 1992.

Prospects for 1993

Political instability prevented privatization and other economic reforms from taking place on a large scale in 1992. If the Bulgarian government can successfully implement its new reforms, the coming year will see accelerated small-scale privatization and the initial stages of a mass privatization program. With Bulgaria's legal guidelines again established, foreign investors are expected to return in time and play a much greater role than last year. Unemployment rose significantly in 1992 as the Bulgarian economy continued its transition to a liberal, free-market system, so labor issues will likely become more important in the government's privatization plans.

It was announced in August that a 49% share in the Bulgarian state-owned airline, **Balkan Air**, would be privatized through a sale to foreign investors early in 1993, following its valuation by Western business consultants. The government also announced that **Balkancar**, a state-owned manufacturer of forklifts, would be sold by 1995.

Beyond these two large transactions, the government is also planning the privatization of six cement firms, and a sectoral review of the pharmaceutical industry.

Impact of Privatization

Bulgaria's economy is among the worst in Eastern Europe, suffering four years of continuous economic deterioration. The task of privatization will prove daunting, as the private sector accounts for only 5% of the total economy. The recent political setbacks not withstanding, Bulgaria has made strong efforts to adopt all recommended reform and stabilization measures to improve the economy.

Czechoslovakia

Privatization in what was Czechoslovakia proceeded quite successfully in 1992 despite that country's political breakup at the end of the year. Implementation of the new programs in the two new republics stalled at the end of the year, however, as legal complications arose concerning ownership of state property, and competing jurisdiction of the two new governments.

Government Commitment

The impetus for privatization stems mainly from the objective of Finance Minister Vaclav Klaus to market-oriented economic reforms. In addition to privatization, Minister Klaus advocates price liberalization, elimination of subsidies, tight monetary and fiscal policies, and a liberal trade and foreign exchange system. Yet progress has been impeded by accusations that the privatization program privatization was exacerbating unemployment and inflation, as has been the case in Poland.

Privatization Strategy

The Czech scheme focuses on mass privatization, but has reserved some larger transactions for foreign investors. Incomplete information on many state-owned enterprises has hampered the valuation process. Approximately 8.5 million Czech and Slovak citizens were expected to participate in the privatization of nearly 1500 SOEs, but it seemed likely that by the time of the political splitup at the end of the year, Slovaks would have only marginal participation in the Czech mass privatization. The Czech voucher program, originally set to begin on May 18, was delayed when demand for vouchers exceeded government expectations.

Figures released by the Czech Ministry of Privatization in mid-year 1992 indicated that of proposals delivered to the Ministry, direct sales of state-owned enterprises still were the most common method of privatization, with almost half of all privatization projects being carried out in this manner. The Ministry also began commercialization of state-owned enterprises into joint-stock companies, to be privatized through its voucher program. A recent sampling of over one thousand approved projects showed that the Ministry was concentrating mostly on the commercialization of joint-stock companies and the transfer of equity into pension and investment funds.

The Slovak Republic (Slovakia) eventually drew up its divestiture plans for each industry, electing to retain control of several strategic sectors. By the end of the year, it seemed as if the Slovak government intended to place greater emphasis on conducting direct sales than on their voucher privatization plans, and would also give careful consideration to the overall economic benefits of each transaction. Roughly 30% of the Slovak state-owned companies are in such poor shape that they will likely be liquidated.

Investment Environment

The Slovak government has considered offering tax holidays to encourage foreign participation in the privatization process. In any case, it plans to continue implementing a liberal, competitive market framework conducive to a market economy, as did the government of the federated Czechoslovakia. Both republics had a value-added tax of 23% and uniform corporate tax rates of 45%, but with the separation of the federation at the end of the year, these appeared likely to change. Both new republics have adopted laws regulating securities trading.

Foreign investment, which exceeded $2.8 billion in 1992, was double the 1991 level, but over 90% of these revenues flowed to the Czech Republic. New investment in the Slovakian economy actually slid in the past year due to a poor investment image among Western companies. Foreign investors participated almost entirely in large joint-ventures or direct sales of state-owned enterprises such as the Skoda transaction, preferring to avoid the coupon privatization program. A survey conducted for the UNDP revealed that only 1% of the total equity offered through the coupon program involved foreign participation.

Securities laws governing the two stock markets in Prague and Bratislava were established and trading was expected to begin in shares of companies which participated in the first wave of privatization by 1993. A liquid market of professionally managed investment funds has developed from the demands of the 70% of the 8.5 million citizens of the CSFR who participated in the voucher program. Nominal voucher prices were US$35, but their real value has been estimated at over US$1000 based on the total book value of all state-owned assets targeted for privatization, so demand has been high.

Prospects for 1993

The voucher programs of both the Czech Republic and the Slovak Republic allowed investors to obtain ownership in state-owned companies from either country. Economic expansion is expected to continue in the Czech Republic, where foreign investors have been encouraged by a stable investment environment and a relatively modern and industrialized economy. New investment in physical plant is expected to occur place at a faster rate than in any other Eastern European country.

Progress in the less industrialized Slovakia will be somewhat slower, but greater concessions to foreign investors may provide the sufficient incentive for privatization transactions to continue. The prospects for currency parity between then two new states is unlikely, as the Czech Republic will likely outpace Slovakia for some time. Slovakia announced at the end of the year that it would discontinue its voucher program, opting for "rapid privatization through more conventional means."

Building upon the success of the Skoda privatization, the Czech Republic will continue privatizing state enterprises in the auto industry, as well as pursuing transactions in chemicals, food processing and tobacco, and cement industries. State farms accounting for 25% of Czechoslovakia's output, will be privatized through large-scale, private transactions, as soon as government subsidies are resolved.

Impact of Privatization

Privatization has been pursued as a means of promoting an active, small-scale entrepreneurial private sector. Privatization of larger state-owned enterprises has in some cases created monopolistic conditions, creating the need for a regulatory structure. By the end of 1992, about half of the combined economies of the CSFR were in the private sector.

Privatization Announcements and Transactions

In January **Mlada Fronta Dines**, the best-selling daily newspaper in Czechoslovakia, was partially acquired by the Hersant Group, publisher of the Paris-based daily Le Figaro. Hersant spent $22 million to buy a 48% stake in the Czechoslovak paper.

In January, **Skoda** entered into a joint-venture with Volkswagon of Germany. Volkswagon, which purchased a 31% share in the Czech car manufacturer, agreed to increase its share to 70% by 1995, and has already invested DM 60 million ($40m) in the past year, and plans to seek another $1.2 billion in loans to finance further investments. The remaining 30% share in Skoda will likely be offered to investors through a government-controlled mutual fund which would pay dividends, but prohibit voting rights.

Volkswagon also entered into a joint-venture agreement with **Bratislavske Automobile Zavody (BAZ)** in January. Volkswagon bought an 80% stake in the Slovak venture for $556.9 million (DM880m).

In April the Czech regional government agreed to the $250 million joint venture between Daimler Benz AG and the Czech truck manufacturers **Avia** and **Liaz**. The ownership structure of the venture would give Mercedes Benz 31%, Avia 49% and Liaz 20%. Mercedes would invest a total of DM450 over the next six years into the venture. A similar joint venture was also approved between **Tatra**, the state-owned manufacturer of heavy trucks, and **Iveco**, the truck subsidiary of Fiat of Italy. Iveco paid $20 million to acquire 51% of the new joint venture. In a separate transaction, Renault of France purchased a 30% share in **Karosa** for $222 million, making it one of the largest direct sale transaction in Eastern Europe's privatization.

In January, a forty percent stake in Czechoslovakia's oldest bank, **Zivnovstenska Bank** was sold to Berlin Handels-und Frankfurter Bank (BHF) of Germany for Kcs1.4 billion ($50 million). An additional 12% share was being acquired by the International Finance Corporation (IFC), while the remaining 48% equity was to be offered to the public. BHF plans on developing a full range of banking services through Zivnovstenska's operations.

Vssepbecna Uverpva Banka AS, the largest bank in Slovakia, negotiated in May with French and German banks, seeking major investment by a foreign partner. The State would retain 45% of VUB's shares while 52% would be offered and 3% would be set aside for restitution of property confiscated under Communism.

In September, 37% of the equity in **Cesky Sporitelna**, the Czech Saving bank, was privatized through the direct transfer to voucher holders. In the same month, 53% of the equity in **Komercni Banka**, the largest commercial bank in the Czech Republic, was privatized through a direct transfer to voucher holders.

The Czechoslovak government approved in March a bid by Dow Europe for the **Sokolov Chemical Works.** Dow plans to make an initial investment and purchase of shares totaling $25 million for a 36% share in Sokolov. The U.S. company will put $154 million worth of investments over three years, eventually acquiring 94% of the company. Arthur Little advised on the transaction.

The French chemical group Rhone-Poulenc formed a joint venture in May with the Slovak company **Chemlon**, the largest producer of artificial fibers in Eastern Europe. Rhone-Poulenc will initially acquire 52% off Chemlon for Fr500 million ($92 million) and plans to increase their share to 60%.

In November, a 51% share in the state-owned chemical plant **Ferox Decin** was sold to Air Products, a US manufacturer and distributor of technical gases. Another 43% had been set aside for coupon privatization, of which 38% had already been sold. New ownership of Ferox Decin will produce and sell equipment for the chemical, pharmaceutical, and food industries, expecting to increase production 15% by next year, and to double output in five years.

A joint venture was formed in January between Nestle, the Swiss-based food maker, and BSN, the French biscuit manufacturer, to acquire a 43% share of **Cokoladovny**, Czechoslovakia's largest food producer, for a price of $95.5 million. The 2 companies will invest $114.8 m in Cokoladovny over the next four years, of which $81.4 m will be used to increase their share first to 53% and then to 57% by 1996. The European Bank for Reconstruction and Development (EBRD) is acquiring 15% of Cokoladovny for $32.2 m.

Kyje, a soft-drink facility, was privatized in March, when Australian Coca-Cola Amatil Ltd. purchased the company for $6 million. Coca-Cola Amatil has agreed to invest $82 million into the plant, including the acquisition price. The Kyje plant will be incorporated into Amatil's Czech subsidiary CCA Praha.

Also in March, the US cigarette manufacturer Phillip Morris bought an initial 30% of **Tabak,** the Czech cigarette manufacturer, for $104.4 million, and offered an equal amount to buy an additional 30% at a later stage. The US company will pay, in cash and capital investment, a total of $395.8 million.

The privatization of **Maj**, a store in Prague, was announced in May. K-Mart, the U.S. department store chain, will get a 67% share of Maj, and 97% of five **Prior** stores in major Czechoslovak cities. K-Mart invested $37.5 million for the stores and plans to invest another $8.3 million to upgrade products in the stores. It will also export approximately $15 million worth of Czechoslovak goods to the United States.

Prague Breweries was privatized in November and is now 52% owned by five investment funds. Management holds 5% equity, employees own 10%, and an additional 10% will be held in the Czech National Property Fund. Only 3% of the company will be held by private investors.

A forty percent share of **Ceske Budejovice (South Bohemian) Paper Mills** of the Czech Republic was sold to Duropack Vienna at the end of the year, with an option for the Austrian firm to acquire a 51% majority share. The Czech paper mill, which has an annual capacity of 55,000 tonnes of corrugated paperboard and a forty percent market share in the former

Czechoslovakia, specializes in transport packaging.

A consortium lead by Air France paid $60 million for a 40% stake in **Ceskeslovenske Aerolinie** (CSA). Each member of the consortium will contribute $20 million in cash to the deal. Air France will pay about $6 million is cash and provide the remaining $14 million through the transfer of engineering, maintenance, and catering.

In August it was announced that the **MEZ Modelnice** manufacturing firm of Czechoslovakia would enter into a joint venture with Siemens of Germany to manufacture electric motors, pending approval from the Czech Ministry of Industry.

In November, the Czech Republic's National Property Fund sold **Povltavske Tukove Zavody (PTZ)** to Unilever, the Anglo-Dutch conglomerate, for approximately $10 million. Unilever plans to invest another $15 million over the next two years to modernize operations. PTZ, a producer of household oils and soaps, currently employs about 400 near Prague, and had a turnover of nearly $20 million in 1991. Unilever will likely broaden PTZ's product range, to include among others increased capacity to produce margarine. Unilever claims that the Czech market for margarine is about 40,000 tons per year and growing.

In November the Norwegian company Rieber and Sons purchased an additional 30% of the **Vitana** food processing plant from the Czechoslovakian National Property Fund, bringing their total share to 97%. The purchase price was Kcs 380 million ($13.6 million) for the 97% share, with 67% down and the rest payable over the next two years. Rieber plans to invest Kcs 445 million ($16 million) over the next five years and to increase the foundation capital by about Kcs 50 million ($1.8 million). Dividend payments will not be made until the end of 1994.

Estonia

Government Commitment

Encouraged early on by the experiences of the German privatization agency Treuhandanstalt, Estonia sought to use the German model in creating its privatization authority. The Estonian Privatization Agency (EERE) first indicated its intentions to sell twenty of the country's largest state-owned enterprises to foreign investors. Yet implementation of this program proceeded with great difficulty, failing to achieve a single hard-currency transaction before the year's end. The twenty large, state-owned enterprises currently targeted include hotel chains, textile plants, chemical companies, and toy manufacturers, and account for nearly 25% of the country's industrial output.

Privatization Strategy

The Estonian Privatization Authority announced the first round of competitive bidding to privatize 38 state-owned enterprises, all large firms employing between 300 and 10,000 workers. Potential buyers were evaluated on the price of their bids as well as their plans for investment. All proposals were required to have at least 59% backing in bank guarantees.

Aside from the Estonian Privatization Agency, which is responsible for the transfer of all large SOEs, Estonia also has a Department of State Property which primarily carries out property privatization, and the Ministry of Reform which is responsible for coordinating the country's privatization programs. The functional responsibilities of carrying out privatization may be merged, however, falling under the auspices of the Estonian Privatization Agency.

Small-scale privatization was first introduced with the Law on Privatization of State-Owned Service, Retail Trade and Public Catering Services in December 1990, which was amended in May of 1992. Privatization of larger enterprises gained full momentum in August of 1992, however, following the passage of the Supreme Council Resolution which first permitted the sale of specific enterprises.

Small privatization in Estonia first began in 1990 with the trade and services sectors, limited to small shops and distribution centers. Transactions were carried out in a limited, direct fashion, from each municipality to its respective residents, employing both auctions and share sales. Almost 80% of these transactions involved the sale of at least a partial share offered to employees and management. Since the May 1992 amendment to the Law on Privatization, small privatization now officially covers all SOEs valued at less then 600,000 kroon (about $47,000), and takes place through a more formal public bidding system.

Large privatization is gaining momentum, following several pilot sales which required case-by-case parliamentary approval. Under the present strategy, the EPA selects several SOEs which are then sold through a public bidding process, considering both price and employment and investment plans.

Investment Environment

The Estonian parliament legalized the privatization of state-owned properties, and intends to include parcels in future transactions, pending legal difficulties surrounding the reprivatization of deeded lands held in trust by the government.

The Estonian economy converted from the Soviet rouble to a fully convertible national currency, the kroon, on June 20th, 1992. The kroon was pegged at 8 to the deutsch mark (about 12.8 kroon=$1), and remained at this level through the remainder of the year. Full repatriation of earnings and profits was also legalized, strengthening the regional link between the Estonian and German economies.

Prospects for 1993

Continued reform and expansion of its privatization program should assist Estonian economic growth in the coming year. Investors are likely to remain mostly Scandinavian and Germany, who see the relatively small Estonian market as a foothold into the potentially enormous Russian market. The twenty large, state-owned enterprises currently targeted include hotel chains, textile plants, chemical companies, and toy manufacturers, and account for nearly 25% of the country's industrial output.

A nation-wide voucher scheme has been discussed in Estonia for some time, and some regions have already begun distribution of coupons for specific sectoral privatizations.

In December, the Estonian Privatization Agency announced that 38 enterprises had been selected from seven industrial sectors of the Estonian economy, collectively employing about 26,000 people. All bids were to be submitted by December 22, and were to be 59% backed by bank guarantees. Bids for the following companies were awarded based on price and the number of jobs affected:

Kalev, a state-owned food-processing enterprise;
Kombinaat Kreenholmi Manufaktuur;
The Viljandi plant of **Leiva-ja Makaronitoostus**, a state-owned bread and confectionery enterprise;
Kommunaar, Mistra, Noorus, Parnu Linakombinaat, the Elva, Tartu, Otepaa, and Misso plants of **Sangar, Sindi Tekstiilivabrik, Sulev, Suva, Vabrik Keila**, state-owned textile enterprises;
Parnu Kalakombinaat, Sailis, state-owned food-processing enterprises;
Tallinna Vineerji-ja Mooblikombinaat and the Puka and Valga plants of **Valga Moobel**, state-owned furniture manufacturing enterprises;

Privatization Announcements and Transactions

While most 1992 transactions were pending at the end of the year, Estonia did complete several sales of minority shares in small factories, shops, and outlets including: 35% of **Eosti Piim-Est Milk Ltd.** for $38 million to Arla-Valio, 30% of **Tallinn Margarine Factory** to Unilever, 60% of **Saku**, a brewery, to Baltic Beverage Holding, 35% of **Kunda Cement Works** to Atias Cement, and 49% of **Eosti Tele**, a telecommunications firm, to Televerket/Tele-Finland.

Greece

Government Commitment

Though the New Democracy Party launched its privatization program in 1990 with the objective of reducing the size of the public sector, progress has been limited. Pressure from the European Commission did seem to give impetus to greater activity in 1992, however, as the Industrial Reconstruction Organisation (IRO) accomplished over Dr 120 billion (about $650 million) in transactions.

Strategy for Privatization

Direct sales usually conducted through public auction, by the Industrial Reconstruction Organisation (IRO) have been the common method for the larger, commercial state-owned enterprises. Many other government-controlled companies embarked on their own transactions, however, amounting to an indirect sale of assets led by each firm itself. Transactions in the banking sector, with divestitures from the National Bank of Greece, the Commercial Bank, and the Agricultural Bank, have led with this method.

Due to the limited liquidity in the Greek stock exchange system, the government prefers to float limited shares, usually 14%, while offering a larger amount to private investors directly through tender offers. In most cases, the government will retain a 51% share in the state-owned enterprise, although it may elect to sell management rights to investors.

Investment Environment

Lackluster performance on the Athens Stock Exchange inhibited its role in the government's privatization plans. Turnover for the 129 companies listed averaged only $133 million per month, down 35% from 1991, on total market capitalization of about $12 billion.

Prospects for 1993

The government established a 1993 target of Dr 350 billion ($1.6 billion) in privatization receipts.

The government is planning to sell two large state-owned oil refineries which together account for 40% of the country's refining capacity. Foreign bidding for a 35% share in the **Hellenic Telecommunications Organization** has also been competitive, and the successful privatization of this firm sometime in 1993 is likely.

Details were released in November on the planned two-stage privatization of telecommunications company **OTE** in 1993. An equity share of 35% and management rights would first be offered foreign investment consortiums, to be followed later in the year by a 14% public offer on the Athens Stock Exchange, leaving the government with a controlling 51% minority share.

The government was also seeking a strategic partner to take up to a 35% stake in **CSFB**, hoping to raise over Dr 200 billion on this transaction alone.

Privatization Announcements and Transactions

The major transaction of the year was the March sale of a 70% stake in **Heracles Cement**, Europe's biggest exporter of cement, to a joint venture between the Italian group Calcestruzzi and the National Bank of Greece, for Dr 124 billion (about $600 million).

Government plans to sell up to 49% of **Olympic Airways** before the year's end were delayed, due to the company's enormous debt burden and need for complicated financial restructuring.

Hungary

Hungary has enjoyed relatively better success than its neighbors in making the transition from a socialist economy, becoming one of the principal investment locations for Western participation. It had a moderate degree of success with "spontaneous" privatization, in which employees of SOEs initiate the process. In an effort to formalize the procedure, however, the government initiated mid-way through 1992 a program under which approximately 300 smaller firms would be "self-privatized", and trends toward decentralization of the privatization process continued throughout the year.

Government Commitment

The Hungarian government estimates that in terms of book value, almost 25% of all state-owned assets were privatized in 1992. The government's goals are to privatize another 35-40% of state-owned business assets by 1994, and to complete the privatization of the banking sector by 1997.

Privatization Strategy

Until recently, the government's approach was aimed at generating as much revenue as possible, selling assets in single blocks for the highest bids, most often to foreign investors. The procedure operated much like German privatization under the Treuhandanstalt, working on a case-by-case basis through a competitive bidding process. This approach was quite successful, insofar as it generated HUF 80-90 billion (about $1 billion) in revenues in 1992 alone. Only at the end of the year did the SPA begin to consider management buy-outs in order to encourage domestic investors, and implementing a mass privatization program.

The State Property Agency (SPA) has indicated that it intends to decentralize operations by hiring consultants who will screen investors and manage large deals. Nearly 1 million Hungarians applied to participate in the coupon program, which permits investors to buy on the new stock exchange, with credit made available through the government. SPA supervises the "transformation" of SOEs into joint-stock companies which are often privatized through directly negotiated sales primarily to foreign investors. Valuation of SOEs is carried out by independent auditors.

Hungary's Pre-Privatization Law of 1990 calls for the privatization of approximately 10,000 small food and retail shops directly to the domestic market. This effort has been an on-going process and is likely to continue for several years.

Investment Environment

Commercial bank lending and deposit rates are market-determined. Foreign ownership is mostly unrestricted, permitting full ownership of Hungarian assets and full repatriation of profits. Hungary manages its supply of hard currency, essentially limiting foreign exchange convertibility to purchases of industrial imports, although full convertibility of is expected soon.

The government plans a wide distribution of ownership through twenty stock floatation planned for 1993. The new Securities Market Law regulates the rights and obligations of securities traders in the participation of an emerging stock exchange and securities market.

Impacts of Privatization

A recent government survey revealed that 20-25% of privatized companies which had accepted foreign investment had become more efficient. The government has estimated that private sector output accounts for one-third of GDP. Privatization transactions generated over $1 billion in revenues in 1992.

Prospects for 1993

Hungary has had one of the more positive experiences in making the transition to a market economy, and expects to show modest GDP growth in 1993. Its attraction of foreign investment capital has been a positive force in its successful privatization program, and continued success is expected for 1993. However, a significant portion of productive assets will remain publicly-held in the near-term, as many independently managed state enterprises will be transformed into joint-stock companies to be at least partially owned by the SPA. The government will also retain majority control of several strategic firms through the State Asset Management Corporation. Hungary has specific plans to reduce state-owned equity in all commercial banks to 25% by 1997, and privatization guidelines estimate that over $500 million in revenues will be generated in the next year.

The privatization of **Hungarian Telecommunications Company (HTC)** was announced in May. The sale, which will be Hungary's largest privatization, is scheduled for early to mid 1993, and will be followed by a public offering of around 30%. The government is being advised on this transaction by N.M. Rothschild.

Privatization Announcements and Transactions

A joint venture between the MVMT Hungarian Electricity Board, Tractabel of Belgium, and the Lowlands Hydrocarbon Projection Company was announced in January.

In March, a controlling 51% stake in the **Budapest Distilling Company** of Hungary was purchased by Mautner Markhof of Austria, for an undisclosed amount.

In March a 75% share of **Allami-Biztosito (AB)**, the state-owned insurance company, was purchased by Aegon, the second largest Dutch insurance group.

A 21% ownership stake in **Domus** furniture stores and a 51% majority stake in **Kontur** were purchased in March by Fotex, a private Hungarian start-up company.

In May the SPA offered its 60% of equity in **Aroma Trade**, a wholesaler and retailer of foodstuff, consumer goods, clothing, and chemicals, for FT241.59 million. The remaining shares are held by local councils (10%), employees (10%) and compensation coupons (20%).

An 87% share in Hungary's **Satoraljaujhely Tobacco Factory** was acquired by R.J. Reynolds of the U.S. in July for an undisclosed amount. Reynolds is expected to invest approximately $15 million in plant development. The factory is the last of four Hungarian tobacco factories to be privatized, and produces goods for the Hungarian and CIS markets.

The Swiss-based food company Nestle, which has been active in initiating new ventures in Eastern Europe, purchased 97% of **Intercsokolade**, a sugar firm, for $36 million.

The partial privatization of **Malev**, the Hungarian state airlines, occurred late in the year, when a 49% stake was sold to the private sector. Alitalia of Italy, which acquired 30%, and Simest, which acquired a further 5%, paid $77 million for their joint share. Employees and domestic individual investors acquired 14%, while the Hungarian government retained its 51% majority share.

In September, the SPA announced that it would sell off minority shares in **Middle Transdanubian Gas Distribution (KOGAZ), North Transdanubian Gas Distribution (EGAZ), South Lowlands Gas Distribution (DEGAZ), South Transdanubian Gas Distribution (DDGAZ)**, and the country's five state-owned gas distribution companies. The State Property Agency indicated that it planned to retain 51% controlling shares. N.M. Rothschild, adviser of the sales, reported that the divestitures attracted interest from foreign investors including most of the major West European gas distribution companies.

In October, it was announced that BP Oil Hungary would purchase seven oil retail outlets from the Hungarian state oil company, **MOL**. These seven outlets are among eleven MOL outlets that have sold BP products since 1972. BP Oil Hungary has stated that it plans to build four more petrol stations which will become operational by the end of the year.

A 33.7% share in agricultural machinery manufacturer **Turk Traktor** was sold for TL56.75 billion in October.

The Hungarian State Property Agency approved the **Gyor Sopron Benfurt Railway (Gyesev)** in October. The state retained a 43% share in the venture, private investors took a five percent stake, and the remainder was sold to Austrian investors. The Hungarian government plans to invest around Ft 900 million, and may increase its shares in 1994. The main train line will run approximately 140 kilometers, and a secondary line will be 60 kilometers.

In October it was announced that Alcoa, the American aluminum producer, would purchase a 50.1% share in a new joint venture, **Alcoa-Kofem**, with Hungalu, Hungary's aluminum monopoly. Alcoa agreed to an initial investment of $165 million, followed by another $146 million over the next five years. In a separate transaction, the SPA sold 80% of the state-owned steel manufacturer **Dimag** to Nrevometal/Soyuzruda for $119.5 million.

In October, the Hungarian State Property Agency privatized 147 of the 330 **Kozert** food shops which were previously owned by Hungarian state-owned companies. In this transaction, nine companies purchased chains of between eight and 24 shops. Three companies, Spaar (Austria), Plus Food Trading Diszkont (German), and Duna Fuszert (Belgium), purchased twelve percent of Kuzert's Budapest shops, representing 60% of Kuzert's turnover. Ten of the stores were sold to Louis Delhaize Group of Belgium. Twenty-four were sold to Tengelmann, an international retail company based in germany, for $20 million. Tengelmann also owns 53% of Skala, a large Hungarian chain of food and department stores.

The **Budapest Duna Intercontinental Hotel** was sold in November by the State Property Agency to Marriott Hotels for $53.1 million. Marriott plans to invest a further $22.5 million. The same month, it was announced that Hungarian-owned hotel chain **Danubius Hotel and Spa** would issue $24.3 million in public stock to domestic investors on December 1. This offering represented 25% of Danubius' capital, with each share being valued at $12.15. Purchases of stock were to be made with a 10% down payment, 40% to follow in 6 months, and the remainder financed through credit. Investors would also be awarded one bonus share for every two held for at least a year.

In November, a 94% share of **Migert**, a state-owned trading and distribution firm, was purchased by Robinco of Britain from the Hugarian State Property Agency, at 60% of its face value. Half of Migert's inventory includes technical measuring instruments and the other half is office equipment. About 65% of Migert's products are imported.

In the same month, the **Hungarian Tisza Chemical Works** was purchased by Henkel Austria, a subsidiary of Henkel of Germany. Henkel has already invested tens of millions of shillings to expand capacity at Tisza, and plans to inject another Ft 1 billion. Tisza produces three brands of washing powder for Henkel, and currently has a capacity of 5,000 to 6,000 tonnes per year.

Latvia

Privatization proceeded unevenly in 1992, following a relatively successful sell-off of small and medium size enterprises in 1991. Though Latvia had a relatively strong economy relative to the other former republics of the Soviet Union, its dependence on the strong regional links to those republics, now in prolonged recession, have made privatization and economic reform difficult to implement.

Privatization Strategy

The Latvian government has approved guidelines for privatization under which state-owned enterprises are auctioned off to domestic investors, and to employees, who are offered shares at discounted prices. Portions of each firm's equity are reserved for former owners, pension funds, and local investment funds. The procedure for privatization now requires that proposals be submitted to the Ministry of Economic Reforms by each sector's corresponding Ministry. The process is not yet completely centralized, however, as several Ministries maintain their own privatization divisions and bureaucratic framework for managing privatization transactions.

In March 1992, Latvia passed the Law on the Concept and Preparation of a Program of Privatizing State and Municipal Property which established a systematic plan for privatizing large state-owned enterprises. According to the Law, Latvia follows three major privatization strategies:

- Small Privatization covers assets and properties of retail shops, restaurants, and distribution centers, focusing on direct tender offers or public auctions presented to employees or nearby residents.

- Large Privatization, still in its initial stage, targets SOEs for sale as going concerns, but will also employ other methods such as auctions, corporatization and sale of shares, leases with buy-out options, and asset liquidation.

- Mass Privatization through the distribution of vouchers has also been suggested, but was not actively being pursued as of the end of 1992. Vouchers were to be freely available to all Latvians, but resolution of several issues, including the eligibility of ethnic Russians, complicated progress of the mass privatization program.

Investment Environment

The legal procedure presently mandates that privatizations in each industry be approved by their appropriate government ministries, and that sales to foreign investors be in hard currency terms only.

Latvia is trying to reform its economy to encourage increased foreign direct investment and participation in its privatization program. It has since 1991 allowed full repatriation of post-tax, hard-currency profits. Foreign ownership of Latvian enterprises is mostly unrestricted, though investment must be made in hard currency. Tax holidays of up to 50% for several years in some sectors still exist, but increasing demand for hard currency revenues make the continuation of this policy uncertain.

One of the greatest barriers to foreign participation in the Latvian privatization program has been the lack of convertiblity in the Latvian currency, which is still based on the rouble. The new Latvian rouble was introduced as an intermediary step in mid-year 1992 to de-link from the defunct Soviet currency. The introduction of a new convertible Latvian currency, the lat, was planned for late 1992 but stalled, unfortunately slowing new investment and progress in Latvia's privatization program.

Prospects for 1993

Economic reform continues with concentrated efforts on privatization, and a more streamlined process for privatization operating through the Ministry of Economic Reforms seems likely. Latvia, as in the other Baltic states, will likely provide a Scandinavian foothold into investment in the rest of Eastern Europe and Russia.

Privatization Announcements and Transactions

A 60% share in the **Aldaris Brewery** was sold to Baltic Beverage Holding, a new private enterprise which has also purchased several other regional breweries.

Lithuania

Despite temporary setbacks to the privatization program, Lithuania proceeded with its ambitious plans, quietly achieving one of the most rapid transitions to a private sector economy in the region.

Government Commitment

Though privatization accelerated in 1992, it fell into a transitional pause at the end of the year, on the heels of political change in Lithuania. The new government announced its commitment to continue with the existing voucher method, but made clear its plans to accelerate the pace of hard currency auctions, especially of larger assets and state-owned enterprises.

Privatization Strategy

The Central Privatization Committee (CPC) is responsible for developing the Lithuanian privatization program. It meets on a regular basis, reporting to the Supreme Council, an advisory unit under the Prime Minister.

The legal framework for Lithuanian privatization is drawn from the "Law of February 1991 on Privatization of State Property," which contains provisions on the methods, organizations, and means of payment to be involved in the process.

Privatization proceeded in 1992 with increasing organization, as the CPC sought to gain control of the auction process which governed the privatization of most small and medium sized assets. Approximately half of the stock of state-owned housing units were transferred to the private sector by June for example, involving a combination of direct sales and voucher payments. Though the CPC accepted throughout the year rouble and voucher payments, it increasingly favored hard currency down-payments to anchor investments.

Mass privatization got off to an early start in Lithuania, focusing on both large and small enterprises, as well as housing and property assets held by the state. The estimated value of these assets is 37 billion rubles ($350 million), or about two-thirds of all state property. Vouchers with a nominal value of 10,000 rubles (about $90) were distributed to all adults free of charge, through inscriptions in their savings account passbooks. An obligatory 5% cash downpayment plus a limited optional cash payment may accompany voucher payment.

Unlike the programs in Czechoslovakia and Russian, vouchers were not freely tradeable in Lithuania. High levels of informal trading among voucher holders, though, prompted the government to introduce investment funds late in the year through which vouchers could be traded legally.

By May 1992, the Lithuanian mass privatization program successfully sold off 34% of its public housing, 1200 small enterprises, and government shares in 400 large enterprises. World Bank estimates indicated that by the end of 1992, the number of small enterprises sold were over 1500, while medium and large state-owned enterprises privatized exceeded 1200.

Scope of the Lithuanian Privatization Program: End of 1992			
Lithuanian SOEs	**Total**	**Medium/Large**	**Small**
All SOEs	---	7,844	unknown
SOEs in the Privatization Program	4,482	2,038	2,444
SOEs sold through the Privatization Program	3,184	1,284	1,864
Percent Sold	75%	60%	65%

Source: International Privatization Group.

Prospects for 1993

In August it was announced that the **Audeas State Textiles Enterprise**, the **Kaunas Confectionery Enterprise**, and the **Klaipeda State Tobacco Enterprise** would all be privatized under the hard currency program, which is targeted primarily at international investors. Arthur Anderson advised, along with KPMG and the law firm McKenna. The Klaipeda State Tobacco Enterprise, which has between 40-50% of the cigarette market in Lithuania, had a turnover nearly 90 million roubles on production of 3.7 billion cigarettes in 1991. A competitive tender offer for Klaipeda State Tobacco was issued in November of 1992.

Poland

Poland has over the last few years transformed its economy into one of the emerging free market success stories, attracting billions of dollars in foreign investment. Its vigorous and dynamic approach to privatization, not without its pitfalls in 1992, has been an important turnaround factor in what remained a very successful year for the economy.

Government Commitment

After leading the region in its drive for privatization in 1991, Poland began to encounter real opposition in 1992, as many began to question the government's reform efforts. Poland's program of mass privatization followed a long and difficult path, facing at times inconsistent support from the government and outright resistance from organized labor. Critical momentum was lost during 1992, as the external financing community began to question the Ministry of Privatization's ability to implement its program.

The new government under Prime Minister Hanna Suchocka reinitialized the drive for privatization, pushing ahead with numerous direct sales and sending the draft Law on Mass Privatization to Parliament for approval.

Approval of the Mass Privatization Program was dealt a setback, however. Resistance to the broad scope of privatization proposed by the Prime Minister came from several dissident factions in the legislature, and from several of the powerful and influential labor unions. Debate over many of the details in the Mass Privatization Program made its implementation extremely unlikely even by early 1993.

Privatization Strategy

The Polish Ministry of Privatization sought to complete 40 to 50 trade sales directly through public and private tender offers, and approximately ten Initial Public Offerings (IPOs) on the new Warsaw Stock Exchange. Aside from these two methods of privatization, the Polish government also sought the sale, lease, or outright liquidation of assets of nearly 1000 small and medium-sized enterprises.

The dominant privatization involved trade sales which were organized by industry. Poland's so-called "sectoral privatization" approach was straight-forward and relatively successful, seeking large foreign corporations as investors in joint ventures in existing Polish enterprises. By contrast, the IPO method was much slower, as few firms could fulfill the requirements for public listing on the Warsaw Stock Exchange.

Polish privatization had generated 75% of its Zl 4,000 billion ($280 million) revenue target for 1992 by November, with several large transactions pending. Small-scale privatization was also quite successful, while substantial progress on large-scale transactions has yet to be achieved. Most of the larger state-owned enterprises are governed by enterprise councils, which are often dominated by employees resistant to the privatization process.

Under the proposed Mass Privatization Programme (MPP), the government was to establish 20 National Investment Funds (NIFs) which would collectively manage 400 commercialized state enterprises, with 60% equity available for investment and 30% to remain with the State Treasury. Workers were to receive 10% of their company's equity free of charge, while shares in each investment fund would cost the equivalent of ten percent of the average monthly Polish salary.

The number of companies selected for participation in the proposed Mass Privatization Program increased to nearly 600, with an aggregate book value of about $11 billion and sales of $15 billion. As of the end of September, nearly 1875 large and small firms had either been divested of government ownership or were undergoing the process, including 475 firms which were commercialized and transferred to the private sector, and approximately 1400 whose assets were liquidated.

Investment Environment

A crawling-peg exchange rate and tight monetary policy has kept inflation relatively low, and encouraged increased levels of foreign participation. Foreign investment exceeded $4 billion in 1992, quadrupling the previous year's level. General Electric was the first foreign company which expressed interest in Poland's voucher program. The Polish economy leads the emerging markets of Eastern Europe in new investment and planned industrial capacity.

An emerging stock market in Warsaw, which had 16 companies listed by the end of 1992, will continue to float public shares of several new firms early in 1993.

Impact of Privatization

The Polish economy is energized by active small-scale entrepreneurialism which has been encouraged by the creation of the new Polish investment funds. The private sector share of GDP is rapidly increasing, nearing 50%. Nearly all of trade and road transport, as well as three-quarters of Poland's construction industry are now run by the private sector.

Prospects for 1993

A great deal of progress has been made in Poland toward achieving a vibrant market economy, and privatization efforts are expected to accelerate in 1993 as the government continues to be further encouraged by past results.

The Polish Council of Ministers approved its draft Law on Mass Privatization in September, providing a legal framework for the Ministry of Privatization to implement Poland's program. It failed to win the approval of the Parliament before the year's end, however, and the prospects for early passage in 1993 seemed unlikely. In one form or another, the Mass Privatization Program will become law if the Polish government can assuage the objections of the Polish labor unions.

Assuming the Polish government can overcome this hurdle, the coming year will see the establishment of numerous investment funds managed by Western advisors, and their growing role in the privatization process. Expectations are that continued privatization in 1993 will produce nearly $600 million in revenues, targeting banks, insurance companies, foreign trade operations, farms, and miscellaneous state-owned properties.

Privatization Announcements and Transactions

A 47.5% share of Poland's **Bank for Export Promotion (BRE)** was floated on the stock exchange in August, putting a total of 51% of the bank's equity in private ownership. The public offer included a total of 950,000 shares comprised of 200,000 reserved for employees, a large investor tranche of 450,000, and 300,000 for small investors. The shares were offered at 155,000 zl ($11), roughly half their net asset value, though employee prices were subsidized by 50%. The GiroCredit Bank of Austria was thought to have taken an especially large holding in BRE, and has indicated that it would like to accumulate additional shares. This transaction, managed by N.M. Rothschild, was Eastern Europe's first bank privatization through stock market floatation.

The privatization of **Wielkopolski Bank Kredytowy (WBK)** of Poland was announced in November. WBK would only be the first of Poland's nine leading domestic banks to be privatized, but the government's objective is to eventually sell all the others in the next three or four years. Schroders of the UK is managing the transaction, the Allied Irish Bank is providing management assistance in the interim under a three-year contract.

Poland's automotive manufacturing industry, long a major supplier to eastern Europe, got a boost in 1992 when it began to spin-off several joint ventures. In March, **FSO of Poland** entered into a joint venture with General Motors of America to build the Opel Astra and Vectra automobiles. GM paid $75 million for a 70% share, while a second, separate joint venture under discussion with FSO could generate an additional investment of $400 million in Poland by 19[illegible].

In June, Fiat and Poland's **FSM** entered into a car manufacturing joint venture, representing the largest privatization in Poland so far, and the second largest foreign investment in Eastern Europe next to the Volkswagon-Skoda joint venture. Fiat has agreed to contribute 90% of the $200 million in the new venture's equity, with the Polish government contributing the remaining 10%. Fiat has also plans to invest another $830 million over the next five years. The venture, managed by a consortium headed by Credit Suisse First Boston, will employ 18,500 people manufacturing a vehicle called the Cinquecento, and will increase FSM's capacity by 50%.

Poland's Privatization Ministry announced in October that it wanted to privatize **Kolbuszowska Fabryka Mebli** in Kolbuszowce as part of its "express" program. The state-owned enterprise, which manufactures furniture, has 506 employees. The Privatization Ministry also announced that it intended to privatize **Koninskie Przedsiebiorstwo Handlowe** in Konin, a retailing company with 155 employees. Also included in the announcement were three food processing companies: the **Wojewodzkie Przedsiebiorstwo Przemyslu Miesnego** in Zamosc, which employs 1106 people, **Zaklad Przetworstwa Owocowo-Warzywnegoi** in Terespol, and **Przedsiebiorstwo Produkcji Lesnej Las**, which employs 120 people and is located in Miedzyrzec Podlaski.

In April, an eighty percent share in Poland's **Mostostal Export** was sold through a public offer of shares (40%) and sale to a corporate investor (40%). The price per share was 180,000 zł. An 80% share in Pomorskie Furniture was sold the same month to the German company Klose Sitzmobelwerke for DM 3.8 million. The remaining shares will be sold to the firm's employees. The German company has agreed to invest DM 7 million over the next five years.

The Privatization Ministry announced in October that it would begin accepting bids for a minimum 51% stake in the **Odra** cement company. The International Finance Corporation advised on the transaction. It also announced that a minimum 10% stake in the **OLZA** biscuit factory would be privatized through a sale of shares. OLZA had 800 employees and sales of $21 million in 1991. Central Europe Trust was managing the sale.

In October it was announced that the Polish hotel management and tourism company **Orbis** would be transformed into a state holding company, restructured, and eventually privatized.

In December, it was announced that the largest Polish paint manufacturer, **Polifarb-Cieszyn**, would be privatized before the end of the year, through an equity offer to domestic investors. The public share offer of Polifarb was delayed, due to protests from the trade unions at the plant. Union members were holding out for the right to purchase up to 20% of the privatized firm at half-price as promised under Polish privatization law, instead of 4.8% as planned in the current agreement.

In November, AT&T's European division acquired 80% of Poland's **Telfa SA** public shares for $28 million. AT&T plans to invest a further $45 million over the next six years, and will soon increase its capital in Telfa by $7.2 million. Telfa, one of the three major suppliers to Poland's central telecommunications network, is the first Polish telecommunications firm to be privatized. AT&T also guaranteed work for 800 of the 1250 employees for at least the next 18 months. Although AT&T has been active supplying and installing exchanges in a number of Polish cities over the last three years, this purchase is its first direct investment in Poland. The Polish Telecommunication Ministry has predicted growing telecommunications demand in the Polish market, with estimates of nearly $900 million by 1995.

Poland achieved great success applying their sectoral privatization approach to the pulp and paper industry. An 80% stake in the **Malta** paper mill was acquired in August by Kronospan of Germany for $1.2 million, while the remaining 20% was reserved for employees. Furthermore, Kronospan agreed to inject $10 million in new capital over the next three years, and to retain all 200 employees for at least one year.

In the same month, the government approved the sale of 80% of **Kwidzyn**, the largest pulp and paper mill in central Europe, to International Paper of the U.S. for $120 million, and a commitment to invest an additional $175 million over the next four years. According to the terms of the transaction, no employee will be laid off for 18 months and all existing social benefits will be maintained.

A similar transaction also occurred in August, in which 80% of the paper mill **Cieszyn** was sold to a Polish-American joint company called Synteza CMC for Zl 4.24 billion (about $300,000). As in the other paper industry transactions, a 20% share in the state-owned enterprise was reserved for employees, to be sold at a discount.

In December, the Polish Privatization Ministry announced that the **Swiecie Paper Mill** would be privatized, hoping that its sale would bring 1992 privatization revenues to Zl 4,000 billion by the end of the year, from Zl 3,000 billion at the end of November.

In December, it was announced that Poland's second largest insurance firm, **Warta**, would be further privatized, transferring 30% to new investors. Once the new sale takes place 51% of the company will be in private hands. Warta earned $12 million before taxes in 1991, on income of $140 million.

In May, bids were invited for 10% shares in a number of medium-sized industrial firms, including **Rafamet**, a lathe producer with sales of $14.2 million in 1991, **Wiepofoma**, a Poznan-based manufacturer of customized machinery with sales of $7.8 million in 1991, **Ponar-Zywiec**, a leading producer of injection-moulding machines and plastic presses with sales of $9.2 million in 1991, **Bison-Bial**, a manufacturing company with 1991 sales of $13.8 million, and **Fat-Wroclaw**, a manufacturing company with 1991 sales of $13.7 million. Another firm included in this bid invitation was **Jotes-Lodz**, a Lotz-based producer of grinding machines which posted a 60% rise in sales in 1991 to $6.8 million.

In January of 1993, Gillete of the U.S. finally acquired its planned 80% stake in **Wizamet**, a Polish metal products company which manufactures razor blades, for $1.5 million. Gillete plans to invest another $7.5 million to modernize the plant.

An 80% share of Poland's **Fabryka Narzedzi Chirurgicznych (Chifa)** was reportedly sold to Aesculap of Germany for approximately DM 4 million ($2.6 million), with plans for future investment of DM 21.7 million ($14 million) over the next five years. Chifa manufactures medical instruments, employing roughly 700, and had sales of nearly DM 10 million ($6.5 million) in 1991.

Romania

Government Commitment

Though the government appears committed to economic reform and privatization, progress has been slow in Romania. The National Agency for Privatization was established to oversee and regulate the privatization of state-owned assets, but the government's task is daunting; the Romanian public sector is large and highly decentralized, encompassing approximately 40,000 state-owned enterprises and small retail shops. Though the government initially targeted 5000 candidates (including small assets) for privatization, estimates indicate that perhaps only as many as 1000 actually took place. The government has committed itself to increasing the ratio of private to total ownership to 50% in the next ten years from current levels of around 20%. The re-election of President Iliescu may have ominous tones for Romania's political future, but it does represent a mandate of sorts for the privatization process, which remains a centerpiece of the present administration's reforms.

Privatization Strategy

Aside from the isolated private sales to "test the water," Romania has yet to begin a full-scale privatization program. As of the end of the year, the government had distributed vouchers, representing 30% of all state-owned assets, as the first step to enacting a mass privatization program, and seemed ready to implement this public voucher system. The Romanian government also welcomes foreign investment, legally permitting ownership shares exceeding 50%. The present strategy calls for the conversion of approximately 6300 state-owned enterprises into commercial companies which are to be controlled by five Private Ownership Funds (POFs). Each participant in the voucher program will receive a share of the 30% in commercial company equity deposited into the POFs. The remaining 70% equity will be controlled by the State Ownership Fund (SOF) which is directed to sell off at least 10% each year for the next seven years.

Investment Environment

In an effort by the Romanian Privatization Agency to promote the sale of state assets, taxes on privatization transactions were reduced late in 1992 from 16% of the purchase price to 0.02%. Romania's two laws which govern the privatization process date back to 1990 and 1991, and call for the conversion of approximately 6700 parastatals into commercial companies prior to privatization. Thirty percent of each commercial company's equity will be distributed free to Romania's population of 16.5 million through five Private Ownership Funds (POFs). The remaining equity will be held by the SOF, which will sell off up to 10% each year.

Five Private Ownership Funds have been approved by the Romanian parliament. By law, 30% of every privatized firm will be retained in these funds, which will be privately managed for domestic investment purposes.

Romanian economic activity consists of small-scale entrepreneurialism consistent with its numerous parastatals. However, the urban private sector still employs only about 10% of the labor force. Private sector accounted for 32% of industrial output by the end of 1992.

Prospects for 1993

Privatization has been slow, but government plans to speed up implementation of its programs may encourage more foreign and domestic investment in 1993. A target of 2600 sales, including small asset holdings, has been established for 1993. Assets to be privatized through mass privatization are mostly small assets, such as land parcels, retail consumer goods outlets, small manufacturers of capital goods, and food stores.

A new airport joint venture called **Lufthansa Tarom Airport (Lutas)** was created in October. Lutas is controlled by a 37% share held by Tarom, the Romanian state airline, Lufthansa Airport Ground Service which holds 25%, Bucharest Otopeni International Airport Administration which holds 13%, and Balaclava of the Netherlands which holds 25%. The new joint venture has been initially capitalized with DM 4 million, and has plans for around DM 8 million in new capital investment. Lutas' primary business will be in airport services such as loading control, communications, baggage, and crew administration. Lutas intends to employ about 400 people.

In July, 51% of Romania's brewery **Ursus** was privatized through a public share offering. A total of 128,900 shares at 2,500 lei per share was sold for approximately $8.6 million. The transaction was handled by Ernst & Young. Divestiture of the remaining equity through direct sale to a foreign investor is presently being considered.

Romania also completed a transaction involving a 71% share in the clothing firm **Vranco** to a local concern called Incom, but further details were unavailable as of the end of the year.

Russia

Government Commitment

The Presidency established Russia's commitment to privatization by implementing the State Privatization Programme at the end of 1991, and throughout the political turmoil in 1992, the mass privatization program remained the centerpiece of the government's program for economic reforms. The privatization program set forth as goals in 1992 the divestiture of 70% of light industrial enterprises, 60% of food, agriculture, and retail industries, and 50% of construction and wholesale trade sectors. The Russian government amended the State Privatization Programme in 1992 by mandating that larger enterprises be converted into joint-stock corporations, and submit operation plans prior to privatization.

Privatization Strategy

Russia embarked on a voucher distribution system of national proportions to distribute state property among Russian investors. By the end of 1992, each Russian citizen had become eligible to receive a privatization voucher with a nominal face value of 10,000 rubles, valued at about $25. since that time, rampant hyperinflation in the Russian economy has devalued these vouchers to perhaps $12, but active trading has suggested that Russians place a far lower value on them. Vouchers at first quickly deteriorated in value to below 50% of their nominal value, and even lower in some regions where confidence was particularly low, and now seems to have found a base at 40% of their nominal value, valuing the entire voucher market at only $730 million. The owners of the vouchers are free to trade vouchers for cash in informal and formal market arrangements, or they can use them to buy shares in any of the thousands of planned privatization. Though each voucher has retained its face value of 10,000 rubles, the purchasing power has greatly deteriorated, giving further incentive for Russians to pool their vouchers in professionally managed investment funds. In an effort to encourage the voucher program, Russian authorities at the GKI have frozen asset prices at their 1991 level, despite hyperinflationary prices elsewhere in the economy.

The voucher program has come under criticism both in Russia and abroad for being too complicated, and the government has been fighting the perception revealed in a recent poll that many Russians feel that the entire voucher process is just another attempt to defraud the people.

In total, 150 million vouchers were distributed late in the year receiving values on the market ranging from R700 to R8,000 each. It is expected that 85-90% of all Russian state-owned assets are to be privatized through the voucher program. Over twenty-four types of state properties have been excluded from the privatization program including water resources, cultural properties, and central bank funds. Under the amended rules of the voucher program, up to 51% of each company's equity is available to its workers and management at subsidized prices.

Investment Environment

Foreign companies have a menu of options for participation in the Russian privatization program, and are being strongly encouraged to participate at all levels. The most direct process is for a foreign investor (private or corporate) to purchase vouchers redeemable for state-owned assets. Joint-ventures are also becoming very popular, in most cases leaving the management and labor workforce intact.

Foreign investors buying into privatized companies may be held liable for any remediation necessary to comply with new Russian environmental regulations. Sluggish investment in the past year has been attributed to legal and regulatory uncertainty among foreign investors, who are unwilling to risk capital because of frequent changes in Russian business laws. Repatriation, convertibility, and concerns of local stability are major forces working against robust Western investment. Price liberalizations, at first directed toward 90% of the consumer market and 80% of the wholesale market, has proceeded haltingly.

Although no formal capital market exists, the market for traded vouchers fell rapidly at year's end. Vouchers were worth only 4,000 rubles ($10) each by December, and a monthly inflation rate of 25% continues to depreciate their value. Investment funds which pool vouchers are becoming more popular, as investors realize the need to invest in equity versus the falling value of their vouchers.

The Nizhny Novgorod Model

The successful launch of the small-scale privatization program in Nizhny Novgorod on April 4, 1992 marked a turning point in Russia's privatization process. For the most part, the Nizhny Novgorod model has dealt with the local auction of small-scale municipal enterprises, working closely with the International Finance Corporation (IFC). The attempt to privatize through private auction some 3,000 businesses in Russia began in January 1992 with initial meetings between the IFC and Russia's GKI. The guidelines for the Nizhny Novgorod program were drawn mainly from the experiences of Poland and Czechoslovakia, both which had moderately successful small enterprise privatization programs. The close partnership between the IFC and the GKI yielded a workable model for privatization which will hopefully be duplicated throughout the Russian Federation.

The objective of the Nizhny Novgorod model is to privatize and restructure the manufacturing and defense industries with minimal commercial and employment disruption. The Nizhny Novgorod model, which as been called a "bottom up" approach to privatization, begins with small enterprises in services and retail which support the city's industrial economy, and gradually spills over into transportation, distribution, and other support sectors. In the first category, there were about 3000 businesses such as retail shops and restaurants, each employing fewer than 200 employees and valued at less than 1 million rubles. Wholesale networks which had been organized under socialism were dissolved, and each small enterprise was mandated to forge its own trade agreements with suppliers to induce competition.

Prospects for 1993

The complexity and enormity of Russia's privatization program certainly presents a significant challenge for the Russian bureaucracy. Political turmoil will continue to restrict foreign participation in Russia's privatization program. Potential long-term gains and the sheer size of the Russian market will attract those investors who are willing to accept risk, however, and indications are that there are many Western investment interests willing to do so. Privatization candidates have been selected from nearly every sector of the Russian economy, and includes small assets such as food and retail outlets, land parcels in addition to larger state-owned enterprises involved in manufacturing and food processing. Increasing joint-venture activity in Russia's failing petroleum and excavation industries has already begun, and is guaranteed to continue as export-related hard currency reserves dry up.

Despite political turmoil and a prolonged, deep economic recession, Russia's economic reforms and mass privatization program have not yet greatly affected unemployment, which is estimated to be near only 1% of the labor force. Gradual and uneven price liberalization, combined with gradual convertibility of the rouble has led to hyperinflation conditions within the Russian economy, limiting foreign investment.

Privatization Announcements and Transactions

Diapazon, a manufacturer of consumer plastic products employing 850 people, was privatized in June. The European Bank for Reconstruction and Development advised on the project.

In March it was announced that **Gaz,** the state-owned plant in the Russian city of Nizhny which makes trucks and Volga sedans would be offered for sale to its 100,000 employees and other investors.

In December, 31% of the Russian mining investment fund **Lenzoloto** was sold to Star Technology Systems of Australia for $250 million. The remaining equity is controlled by the Russian State Property Management Committee. Lenzoloto will begin gold mining operations in the Irkutsk region.

The **Moscow Gelatine Factory**, which employs 535 people, was privatized in June. In a highly publicized beginning for its voucher program, Russia also auctioned off shares for the state-owned factory **Eleks** in December. Formerly known as the Factory of the 50th Anniversary of the Revolution, Eleks was first transformed into a joint stock company with charter capital of 82.8 million roubles (about $138,000 at the time) and 82,800 shares. Forty percent of these shares were immediately transferred to its employees, who later elected to purchase an additional 20%. The December auction sold off the remaining 40%.

Novomoskovsky Consumer Chemicals, one of the largest consumer chemicals plants in the former Soviet Union, was purchased in May by Proctor and Gamble for $50 million. The deal was one of the largest Russian privatization transactions so far.

RJR Nabisco, the U.S.-based tobacco and food products corporation, purchased 52% of the **Uritski Tobacco Factory** for $25 million through a direct negotiated bid. RJR Nabisco has purchased several other tobacco and food processing plants through privatization programs in Eastern Europe.

Ukraine

With the second largest economy of the former Soviet Union, Ukraine has embarked on a privatization program of comparable scope to that in Russia, pursuing not surprisingly, similar methods and encountering similar hurdles. Though it hasn't received the same recognition or financial support as its neighbor to the North, it has made significant gains over the past year. Ukraine is still, however, at the initial stages of its privatization program, and it remains to be seen whether the reforms will be fully implemented, and if so, what their effect will be.

Government Commitment

Ukrainian privatization was directed by the State Property Fund of Ukraine (SPFU) in 1992. A legal framework was put in place late in the year accelerating the privatization process which began in July. The effort has been assisted by a $2.7 million fund and assistance provided by the European Bank for Reconstruction and Development (EBRD). Privatization activity had previously been limited, taking place sporadically and with little involvement from the central government. The State Privatization Plan, which established the goals of the Ukrainian program, has targeted up to 60% of state-owned enterprises to be sold by 1994.

Privatization Strategy

According to the principal Ukrainian strategy, small state-owned enterprises are sold through public auction.

A voucher program to encourage mass participation will also be enacted. Private sales of larger SOEs will include foreign bids. Foreign investors will not be excluded, and have been encouraged to approach Ukrainian authorities directly for private transactions. The new Ukrainian mass privatization program will allocate each citizen a number of coupons which may be used to buy shares in state-owned enterprises. The coupons, nominally-valued at 30,000 Karbovanets, but indexed to the inflation rate, would be non-transferable. The total value of these coupons was said to be approximately Ka 1.520 billion. Authorities intended that up to 70% of Ukrainian state-owned assets to be privatized would take place through certificate (coupon) transactions.

Investment Environment

Most consumer prices were liberated early in 1992, but many strategic goods such as petroleum-based products remain heavily subsidized. Ukraine is asserting its financial independence from Russia by issuing new currency in 1993, intending it to be fully convertible. Foreign investment has been encouraged by the emergence of a Foreign Investment Programme which guarantees full currency convertibility. The legal framework which governs the privatization process was established in July 1992.

Though Ukraine's mass privatization scheme doesn't provide for public trading of vouchers, an unofficial market for traded-vouchers is reportedly gaining momentum. Other than this, however, there is at present no formal capital market, and a severe lack of hard-currency liquidity in the Ukrainian economy.

Prospects for 1993

Recent government reforms point to increased privatization activity in 1993, enabling a larger role for foreign investors. Growing Ukrainian independence from Moscow will give further impetus to pursue such reforms. Economic prospects remain uncertain, however, following a virtual freefall in 1992. The introduction of a fully convertible unit of exchange, the "hryvnia", will likely be difficult to implement, due to inadequate reserves and a nominally overvalued economy. Access to IMF stabilization loans and new sources of foreign investment could abate this problem to some extent, however. Ukrainian privatization activity, much the same as in Russia, will proceed slowly, limited by the government's inadequate capacity to implement policy reform.

Uzbekistan

Government Commitment

Limited privatization is proceeding slowly and cautiously in Uzbekistan, focusing mostly on small retail outlets, property parcels, and similar assets. Collective farms and larger industrial enterprises are still under consideration, but the government seems very unwilling to pursue any course of action that may have "excessive social costs."

Privatization Strategy

Uzbekistan has established a near-term target to privatize about 15% of all state-owned assets, but will for the most part retain control over most economic production in the country. The State Property Committee has claimed the privatization of 39 medium-sized businesses and over 200 small shops, though these numbers may be inflated. In most cases, the state has retained significant or controlling interest in these firms.

Despite the government's hesitancy and wildly unpredictable economic conditions, some large industrial operations are pursuing joint-venture agreements with western corporations. In March, for example, Adgind International of Italy agreed to work with an engine manufacturing plant in Tashkent to manufacture agricultural machinery. Even so, Uzbekistan still approaches foreign participation in the privatization of its economy on a case-by-case basis.

Latin America and the Caribbean Regional Overview

By Tina Pham

Progress

Privatization in Latin America and the Caribbean this year displayed a reformative undertaking among the countries to limit the state's presence in the economy through government divestment of state entities. Congressional legislation was geared towards the deregulation of government control of SOEs to demonstrate the need for structural change. Privatization also reflected significant improvements in areas such as efficiency and competitiveness in important infrastructure sectors, access to international capital markets, and services offered by utilities.

The success of privatization in Latin America and the Caribbean was evident this year in several countries, especially in Chile and Mexico, whose programs neared completion by the end of 1992. The success of their programs influenced a wave of rebuilding demonstrated by investors who attempted to update their newly acquired enterprises. Chile's privatization program is unlikely to exhibit any major privatization transactions in 1993 since the majority of its SOEs had been privatized by the end of this year. Mexico's program succeeded in reducing the number of SOEs from 1,155 in 1982 to 221 by 1992. Nicaragua successfully divested itself of 237 companies from its targeted 350 to date. Bolivia and Ecuador have just begun their privatization programs this year, though neither had established specific timetables for privatization and privatized only on a case-by-case basis.

The volume of privatization transactions in Latin America and the Caribbean accounted for more than 25% of the global total with over $13 billion in reported transaction value. These sales and concessions reflected the trend towards government divestiture of telecommunications and public utilities, but most prominent was the privatization of the banking sector in various countries. Mexico's bank privatization program alone totalled $12 billion from the sell-off of its 18 commercial bank chains in 1992. The establishment of pension funds and their active participation in purchasing stakes in SOEs furthered the region's privatization progress.

Efforts to privatize state-owned industries resulted in the reduction of the region's fiscal deficit and foreign and local debt. Argentina alone retired $1.7 billion of its debt from the sale of Gas del Estado. The expansion of investment for modernization and the development of local capital markets were significant during 1992. Within the realm of emerging stock markets, Latin America captured 33% of the global market capitalization. However, the region did suffer slow growth rates, sagging capital markets and declining trade surpluses at the close of 1992.

Popular acceptance of government divestment continued to strengthen the success of Latin America's privatization effort. Such support also aided the region in remaining well ahead of Western Europe in the restructure and sale of its state entities. Attitudes towards privatization remained favorable in the region despite the political instability in Peru, Venezuela, and particularly Brazil, whose privatization program suffered numerous setbacks due to charges of political corruption.

In spite of the progress in this wave of government divestiture in Latin America, the process is far from complete. The next challenge for the region's privatization regime will be to define the role of the government and the private sector in the development of new infrastructure.

Process

Most governments initiated their privatization programs through the divestiture of modest-sized state companies in order to learn from early sales of small companies without paying a high price for mistakes. Mexico began with such a strategy and set the model for other Latin American privatization programs, proving to be a leader in the application of private-public partnerships to develop infrastructure, including concessions on existing highways, railway, ports, and airports. Infrastructure modernization became a common goal apparent in countries such as Argentina, Colombia, Ecuador, and Panama.

Privatization plans and procedures varied among the governments within the region, including different approaches in the implementation of a privatization program to investor participation in the sale of a SOE. The privatization methods often involved direct sales, joint ventures, concessions, public auction and public offerings. The latter two proved to be the preferred methods of sale. Payment for a newly acquired SOE by its investors frequently involved a portion paid in cash directly to the government. The governments directed proceeds from privatization towards funding improvement in social programs rather than financing further government spending or public debt.

Enactment of privatization laws and legislation played major roles in the implementation of the governments' divestiture process. Positive effects of these laws were seen in Bolivia, Honduras, Panama, and Peru whose privatization laws guided their programs. Privatization laws were established to define the role of privatization in the economy, while creating privatization committees and outlining the process by which privatization would take place. Promulgation of a privatization law was to act as a guide to an effective privatization program. However, a privatization law does not always guarantee the success of such a program, as seen in the case of Paraguay whose divestiture effort displayed little progress even with an existing legal framework.

Governments permitted increased employee participation when conducting the sale of a state-owned company, allowing employees to be the first to make bids on shares to be sold. Venezuela and Panama stipulated in their privatization laws that initial offers of shares were to be extended to the company's employees prior to accepting bids from outside investors. In some cases, preference for share purchase was also extended to the company's suppliers and customers before allowing other investors to make bids. In general, employees were permitted to purchase a minimum of 5% of the company and a maximum of 20%.

The role of foreign investor participation varied within the region, though there existed a desire for increased foreign investment in order to enhance capital market development. Colombia passed resolution 52 to allow full foreign participation, yet most countries kept foreign participation limited to 40%.

The World Bank conducted a two year research project to examine the benefits of privatization in Chile and Mexico, revealing that large gains in welfare accompanied the divestitures, especially in utilities. These gains came in the form of increased investment, higher productivity, and more efficient output prices. The Chile Telephone Company (CTC) doubled its capacity four years after its divestiture. Employees of Mexico's Telmex and Chile's electricity distribution company who purchased equity in these firms made substantial gains from privatization along with consumers, foreign investors, and local share purchasers. Prior to the sale of a natural monopoly, the adoption of appropriate regulation to ensure that privatized monopolies would operate in a competitive environment proved pivotal to the success of the divestiture.

Prospects

The future of privatization in Latin America has a positive outlook, particularly with growing support for the program. Privatization in Brazil will be back in full swing by 1993 once final revisions have been made by the government. Argentina and Mexico will carry on as leaders of privatization in the region, even though both countries plan to complete their programs in 1993. With the remainder of the electricity industry and the state oil company, YPF, scheduled for sale, 1993 will be an active year for Argentina. Argentina's 1992 sale of Gas del Estado will serve as a model of the restructuring of an industry to promote competition and set up a new regulatory apparatus. Poorly performing utilities will increasingly be the targets of privatization in 1993 throughout Latin America.

Major Privatization Transactions in 1992

Country	Company	Date	Percent Sold	Value (US$million)
Argentina	Telecom Argentina	3/92	30	1227
	Somisa	10/92	80	404
	Gas del Estado	12/92	100	3170
Brazil	Petroflex	4/92	100	222
	Copesul	5/92	63	839
	Tubarao	6/92	51	306
Honduras	Productos Lacteos Sula	4/92	100	3100
	Cementos de Honduras	9/92	100	7040
Mexico	Banco Serfin	1/92	100	918
	Comermex	2/92	67	872
	Banco del Atlantico	3/92	69	472
Peru	Hierro Peru	11/92	100	312
Venezuela	Hotel Cumangoto	2/92	100	5370

Source: *Privatisation International* and *Latin Finance*, 1992.

Argentina

Argentina's privatization program continued successfully since the outset of the program in August 1989, especially with this year's profitable sale of Gas del Estado. Little opposition for the country's program was observed, and the government's divestment effort should be completed by the end of 1993.

Government Commitment

The government passed the State Reform Act in 1989 that initiated Argentina's privatization program. Privatization was to act as a means to decrease the public debt and increase efficiency within ailing and non-productive SOEs. Dr. Domingo Cavallo, head of the Ministry of Economics, supervised the program this year in selling to private investors companies in sectors such as public services and transportation, targeting some 300 SOEs for privatization.

Privatization Strategy

The Ministry of Economics directed Argentina's privatization program, with the exception of the defense sector whose privatization was supervised by the Ministry of Defense. Regulatory frameworks, which were established in order to promote a competitive environment for privatized public services, had to be approved by Congress prior to the company's privatization. The Internal Debt Consolidation Act permitted Argentine internal debt bonds to be accepted in privatization sales. Foreign investment remained protected by the 1989 law.

The restructuring and assumption of debt was often performed by the government, all part of the state's efforts to promote public service deregulation. Sectors related to oil and gas, electricity and ports became major targets for deregulation and privatization.

Within the range of targeted entities, the government planned the privatization of the gas and power industries in late 1992, including the sale of Yacimientos Petroliferos Fiscales (YPF), the largest state-owned oil company, and Gas del Estado, the largest state-owned natural-gas monopoly. These two alone were expected to reap the largest revenues and be the most successful sales of the year, although the sale of YPF was not completed by the end of 1992. Prior to privatization, both industries were restructured into several smaller enterprises to be sold off to various private investors. This method of transforming an entire industry through privatization demonstrated the maximization of infrastructure modernization and was to serve as a model for the privatization of the railway system.

Over 150 SOEs have been transferred to private hands to date through direct sales, concessions, and joint ventures. Apart from divesting itself from power companies and the railway system, the government coordinated plans to privatize defense sector companies and the postal service.

Investment Environment

The country's improved fiscal performance was a reflection of an increase in tax revenues, a decrease in government spending, and profits from its privatization program.

Argentina held 9% of market capitalization in Latin America, averaging about $23 billion and listing about 175 companies per month on the Buenos Aires Stock Exchange in 1992. The Argentine stock market's record breaking appreciation that began in 1991 abruptly ended with a sharp decline in August 1992, having brought market capitalization from $32.13 billion in mid-June to $23.35 billion. By October 1992 the stock market lost almost 60 percent for the year. Foreign investors, who held 30 percent of stock market shares, expressed concern over the instability and rumors of insider trading.

The Internal Debt Consolidation Act permitted Argentine internal debt bonds to be accepted in privatization sales, since debt-equity swaps were an important part of the sale of SOEs. The decline in the share price of Telecom, a telephone company, after its privatization through a Dutch auction in March made sales of SOEs by that particular method more difficult.

The new peso was introduced in January 1992 to replace the Austral at a rate of 10,000 to 1, and solidified the current convertibility that was established in 1991. The tax on bank debt was eliminated along with 18 percent of the taxes and fees to exporters.

Impact of Privatization

The federal administration had expected total revenue to be about $10 billion for the companies sold in 1992, yet privatization raised over $4 billion in cash and over $7 billion in debt conversion revenues. The prospects for the vigorous continuation of the privatization program were boosted by the December sale of Gas del Estado, which ultimately raised $3.17 billion. The successful negotiation of a Brady-debt restructuring accord forgave $2.6 billion in debt. Next year's sale of Yacimientos Petroliferos Fiscales and Hidronor are expected to further reduce the country's debt. By the end of the year, the total foreign and domestic debt of the government fell to $65.3 billion, and inflation remained low at around 20 percent.

Prospects for 1993

The transformation of the social security system, involving the restructuring and privatization of retirement funds and the pension system, will dominate the privatization agenda for 1993. Over $7 billion in domestic capital funds is expected to be generated for new equity issues through the development and establishment of a private pension fund. The government also plans to complete the sale of **YPF**, while initiating the privatization of the hydro-electric power station, **Hidronor**, and the electricity transmission company, **Transener**.

Privatization Announcements and Transactions

The complete privatization of **Gas del Estado**, the natural-gas distribution monopoly, on December 28 was Argentina's largest sale to date. Prior to privatization, the company was slightly profitable with an annual sales volume of 19 billion cubic meters of gas, distributed among industries, electrical utilities, and household and commercial customers. The proceeds from the sale of Gas del Estado totaled $3.17 billion.

The sale involved dividing the company into ten separate concerns, consisting of eight regional distribution utilities and two pipeline transportation companies. Each company auctioned off between 60 to 90 percent of its majority stake, and the new owners assumed the company's debt and made commitments to invest further into the company. The remaining stock from the sale was retained by the government and ten percent of that went to employees.

A consortium led by Enron of the U.S. purchased 70 percent of the **Del Sur transportation company**. Each member of the consortium, including Perez Companc of Argentina, Citicorp Equity Investment, and the Argentine Private Development Trust Company (APDT), holds 25 percent of the concession purchased. Seventy percent of the **Del Norte transportation company** was purchased by a Novacorp-led consortium, in which Novacorp owns 25% of the holdings, Transcogas Inversoram 36%, and Wartins 39%. **Distribuidora de Gas Metropolitana**, the largest of the distribution companies, sold 70% of its share to a consortium led by British Gas for $300 million. Of this share British gas owns 41% of the holdings, Perez Companc 25%, Astra 20%, and APDT 14%. **Distribuidora de Gas Buenos Aires Norte**, the second largest of the distribution companies, was sold to the Gas Natural consortium, who purchased 70% of the company. Gas Natural holds 51% of the shares purchased, Discogas 28%, and MANRA 21%. The Tractabel-led consortium purchased 90% of **Gas de Litoral**. Tractabel holds 40% of the purchased share, while Iberdrola holds 20%, Garovaglio y Zorraquin 20%, and Diecisiete de Abril 20%. Societa Italiana per il Gas (Italgas) and Sideco Americana together purchased 90% of **Gas Centro** and 60% of **Gas Cuyana**. In each company, Italgas owns 75% and Sideco owns 25%. **Gas Noroeste** sold 90% of its holdings to the Cartellone Gasco-led consortium. Within the consortium, J. Cartellone Construcciones Civiles owns 40% of holdings, Banco Frances del Rio de la Plata 20%, and Cia de Consumidores de Gas de Santiago 40%. Camuzzi Gazometri purchased 70% of **Gas Pampeana** and 90% of **Gas del Sur**.

The bidding process was set up so that a single buyer could not purchase more than one pipeline transportation company or two distribution companies. The bid requirements for each participating consortium included both domestic capital and international technical advisors. All the new owners of the companies made investment commitments totalling $580 million.

The sale of **Yacimientos Petroliferos Fiscales (YPF)**, the largest state-owned oil company, was destined to become Argentina's most successful sale. The federal government had planned to privatize the oil company, valued at over $8 billion, over a three year period ending in 1993. YPF's sales figures have increased four times from $70 million in 1990 to $5.4 billion in 1991. The plan to privatize YPF included transferring majority control to private operators and cutting the workforce down by 77% from 52,000 to 12,000.

Beginning in March of 1992, the bill to privatize YPF was locked in negotiations with the provinces who were entitled to royalty payments. Once passed by the Senate, approval was held up because the lower house of Congress had not managed to obtain a quorum for a vote on the bill to authorize the sale of the company. During this time, advisory appointments went to a trio of Merrill Lynch, CSFB, and Banco de Negocia. The bill finally was passed by Congress in September 1992 after a three time delay. The bill was promulgated as Law 24.425, which set forth the rules for privatization of the company.

The government planned to sell at least half of the company's equity for around $4 billion. The government was to also sell off parts of the company, including its northwestern reserves, three refineries, three oil pipelines, its tanker fleet and its 49% equity in trading company Pluspetrol.

Shares were to be offered through an international stock offering in 1993. The first tranche of shares, approximately 31% of the company, was to be sold as Global Depository Receipts (GDRs) l:.ed in Buenos Aires, London, and New York. Thirty-nine percent of YPF's shares would also be sold to provincial governments in payment of back royalties for oil and gas exploration. The provinces were to sell one half of those holdings on the open market to private investors. Current YPF employees were to receive 10% while the government retained the final 20% to ensure the power to appoint two of seven board members, to avoid any hostile takeover attempts, and to veto any move to terminate YPF's exploring and drilling activities.

It was announced in March that **Yacimientos Carboniferos Fiscales (YCF)**, the national coal company, was being considered for privatization. A first draft of the divestiture plan was submitted by the Subsecretary of Combustibles to the Ministry of Finance.

It was announced in March that **Puerto Nuevo and Nuevo Puerto**, two of Argentina's electric power plants, were to be sold through an international public call for bids by Resolution 64/92. The government sold 60% of the companies for $92.2 million.

In July, **Edenor**, the newly-created electricity distributor unit of SEGBA for the northern part of Greater Buenos Aires, was partially privatized for $428 million, $30 million in cash and $398 million in debt. Electricidad Argentina, a consortium led by Astra, won 51% of the utility's shares, with Electricité de France as operator. Employees were allocated 10% of the equity, and the government was to sell its remaining 39% at a later date.

On August 31, **SEGBA**, the Greater Buenos Aires electricity company, was completely privatized when the distribution network was transferred to two groups as a 30-year concession, raising close to $1,050 million.

In September, 60 percent of the **Guemes power plant** in Salta was sold to a Powerco SA consortium for $86.2 million, of which $10 million was in cash and $76.2 million in foreign and domestic debt, enough to cover Guemes' $45.9 million in loans. An Iberdrola consortium won the bid to operate the plant. Powerco's shareholders were: Duke (US) 25%; Sociedad Comercial del Plata, 25%; Iberdrola (Spain), 20%; Argentine Investment Company, 15%; and TCW Americas Development Association, 15%. A group formed by Perez Companc, Acindar, and Citicorp Equity Investment placed a distant second in the auction with a bid of $52.3 million. A stake of 53.4% of the country's thermal electric generating capacity was privatized after this sell-off.

In November, **Edelap S.A.**, an electricity distributor and retailer in the La Plata area, was approved for privatization through a call for public bids by Decree 1795/92 and Resolution 1182/92. The company was purchased by a Techint consortium.

Argentina's National Atomic Energy Commission announced plans to privatize its nuclear program in October. The system consisted of plants for enriching uranium and three commercial reactors, one of which would not be operating until 1996.

As of September 8, the **Buenos Aires-Mar del Plata Railway** was available for sale through a public offering. The four bidders for the rail line were Ferrovia Atlantica, Ferrocarril del Atlantico, Tren del Atlantico and Ferrocarril del Sud.

The **Buenos Aires subway system and railway commuter services** were privatized at a date later than previously announced due to an administrative claim made by Transportes Integrados

Metropolitanos. The winner was expected to invest $8 to $10 billion in improvements over the next ten years.

In October, it was reported that **Argentina's ports** were to be infused with private capital, domestic and foreign, in order to promote more efficient management and development. The ports, which handle 95% of the country's trade, require considerable reform according to the Argentine Port Authority. It was estimated that the country's six major ports required private sector investment of $500 million, half for Buenos Aires alone, to achieve modern standards.

Empresa Lineas Maritimas Argentinas S.A., the national shipping company, was authorized to sell 89% of its shares in a public international offering by decree 299/92. The remaining 11% went to ELMA employees through an employee stock ownership program. The purchaser would have been granted all the rights ELMA currently held under existing freight conferences, and the company's liabilities would be partially or fully transferred along with the sale. The purchaser was required to guarantee a transport capacity of 1.3 million tons for 10 years.

Obras Sanitarias de la Nacion, OSN water-sewage facilities, was privatized through a public offering. On January 31, five multinational groups submitted basic information for pre-qualification on the offering of OSN. The schedule for the privatization was as follows: opening to technical offers, 2/15/92, opening to economic offers, 5/15/92, and preadjudication, 8/15/92.

Petroquimica Generale Mosconi was incorporated under the name **Petroquimica Platense S.A.**, and 94% of its shares were sold to private operators. Resolution 1283/92 authorized the opening of technical offers on 11/16/92, the opening of economic offers on 11/26/92, and award of the company on 12/9/92.

Somisa, an Argentine company in the defense sector, was sold in October for $404 million. Twenty percent was sold to the employees and 80% to a single consortium.

Telecom Argentina was further privatized through the sale of a 30% stake for $1.227 billion in March, with the remaining 10% sold to employees. The Telecom flotation far exceeded government expectations as $5.7 billion in bids were submitted. The offering was priced through a Dutch auction for 15% of the shares. Of the 30% that the company sold, 7.5% was sold domestically at a 5% discount, or 40 cents per share. Another 7.5% was sold internationally and domestically on a non-competitive basis. The retail sales were (300,000) three-fold greater than the Telefonica sale.

Privatization of Gas del Estado		
GDE Subsidiary	**New Owner(s)**	**% Equity**
Gas del Sur	Enron Pipeline Co. Argentina	17.5%
	Naviera Pérez Companc	17.5%
	Citicorp Equity Investments	17.5%
	APDT	17.5%
	Argentine Government	30%
Gas del Notre	Novacorp International	17.5%
	Transcogas Inversora	25.2%
	Wartins	27.3%
	Argentine Government	30%
Gas Metropolitana	British Gas	28.7%
	Cia Naviera Pérez Companc	17.5%
	Astra	14%
	APDT	9.8%
	Argentine Government	30%
Gas Buenos Aires Norte	Gas Natural	35.7%
	Discogas	19.6%
	Manra	14.7%
	Argentine Government	30%
Gas Pampeana	Camuzzi Gazometri	70%
	Argentine Government	30%
Gas del Litoral	Tractebel	36%
	Iberdrola	18%
	Garovaglio y Zorraquin	18%
	Diecisiete de Abril	18%
	Argentine Government	10%
Gas Centro	Sideco Americana	67.5%
	Societa Italiana per il Gas	22.5%
	Argentine Government	10%

Privatization of Gas del Estado		
GDE Subsidiary	**New Owner(s)**	**% Equity**
Gas Cuyana	Sideco Americana	45%
	Societa Italiana per il Gas	15%
	Argentine Government	40%
Gas Noroeste	J. Cartellone Construcciones Civiles	36%
	Banco frances del Rio de la Plata	18%
	Cia de Consumidores de Gas de Santiago	36%
	Argentine Government	10%
Gas del Sur (Distribution)	Camuzzi Gazometri	90%
	Argentine Government	10%

Source: "Best for Last," *Latin Finance*, March 1993, p. 38.

Bolivia

Bolivia initiated its privatization program this year with the intention of selling over 60 state-owned enterprises. The program's objectives incorporated the restructuring of SOEs for privatization and the use of proceeds from SOE sales was directed towards investment in state social programs. Despite several set backs, the country plans to carry privatization on into 1993.

Government Commitment

The privatization program in Bolivia began in June 1992 initially targeting 60 SOEs and then expanding to around 100. The government regarded privatization as a partial means to reduce the country's deficit and increase investment for the development of capital markets. Although the International Monetary Fund and the World Bank supported the program, many privatization plans and transactions were delayed due to charges of corruption within the government, lack of investor interest, and opposition from the Bolivian Central Workers Union and the military.

Privatization Strategy

The Congress passed Law 22836 supporting the privatization program of the executive branch. The law mandated that SOEs would be restructured through performance contracts and the sale of its assets, and sold through public offerings or public auctions. It was also stipulated that the government could only repurchase privatized assets with court adjudication.

The National Council of the Economy and Planning (CONEPLAN) established the Ministry of Planning to supervise the privatization program. The Commission for Evaluation of Public Enterprises (CEEP) acts as the technical and operative support to CONEPLAN and was set up to evaluate public enterprises prior to their sale and to develop privatization strategies.

The valuation of companies to be privatized involved studying the companies present market value to see if the company was capable of attracting investment for desired expansion. Consulting firms were asked to prepare technical and economic viability studies and financial analysis, and the government also received public bids to calculate the net value of the SOEs. The income derived from privatization was to be invested in health and education programs.

Price Waterhouse provided advisory services to the Ministry of Planning's Executing Unit involving two Bolivian sugar companies, the Bolivian Pension Fund system, and La Paz's solid waste removal services. For the Pension Fund, Price Waterhouse assisted in drafting a Pension Fund law, Corresponding Regulations, the Supervision Component, and a comprehensive public information program.

Prospects for 1993

The CEEP plans to privatize 110 SOEs in 1993, including the public offering of about 20 state-owned hotels. Sugar mills targeted for privatization include **Ingenio Azucarero Guabira** and **Ingenio Azucarero Bermejo**. Some dairy plants scheduled for privatization in 1993 include **Iboperenda, PEQ-San Javier, PIL-Cochabamba, PIL-Cordech, PIL-La Paz, PIL-Santa Cruz**, and **PIL-Tarija**. PW/IPG will conduct the valuation studies and will draft the privatization strategies for the sugar mills and dairy plants.

Privatization Announcements and Transactions

Taller de Ceramica de Sucre, a ceramics factory, was privatized in September and sold for $6 million.

The Bolivian Ceramic Factory was sold through a public auction in September for $1.2 million.

The **Rafael Deheza Oil Factory**, located in Villamontes, was sold in October through an auction to Granos del Oriente S.A., a company headquartered in Santa Cruz. The sale price of $5.1 million was 1.76 times the minimum price of $2.9 million, and considerably higher than the $2.1 million bid that was the lowest of the three losing bids.

Brazil

Brazil's privatization program was put on hold towards the end of this year at the request of newly elected President Itamar Franco in order to assess and amend the program. The program should recommence in April 1993 once ground rules have been revised and approved concerning participation of advisors and investors.

Government Commitment

The election of President Itamar Franco, following Ferdinand de Mellor Collar's resignation in June, put the country's National Privatization Program (PND) on hold. The suspension was mandated by the new President in order to reevaluate and modify the rules of the established program. Currently, President Franco is looking to establish a policy that will allow foreign participation and investment to increase from 40% to 100% in order to raise foreign capital. At the same time, he has removed the controlling power of the Brazilian National Bank for Economic and Social Development (BNDES), the government's privatization agent.

Privatization Strategy

The PND, which was launched in 1987, fell under the jurisdiction of the Privatization Commission in 1990. The Commission's responsibilities ranged from coordinating and regulating the process to approving privatization models recommended by the BNDES. Law 99469 was passed in August 1990 that defined the guidelines by which the privatization of a SOE would be carried out. Revenue gained from privatization was used for social projects concentrating on health and education.

Brazil's program incorporated a series of guidelines covering a number of issues from the role of advisors to employee participation in privatization. Advisors were designated to assist the government on the sale of SOEs by performing a second economic and financial evaluation to compare it with the one conducted by the Privatization Commission. The results from the two evaluations established the minimum price for the sale of an SOE, but if the difference between the two evaluations was more than 20%, then a third evaluation was required.

SOEs were allowed to take part in the privatization of another company, but the aggregate participation was limited by the Privatization Commission to a maximum of 15% of the SOE's capital. Pension funds could only invest 5% in a single company, but in most cases, pension funds were not permitted to participate. The sale of state-owned companies was conducted through public auction on the Rio de Janeiro Stock Exchange.

In 1992, only 1.7% of the SOE holdings were represented by foreign investors. In order to attract more foreign capital, the government allowed foreign investors to disburse profits and dividends abroad that resulted from investment in Brazil, although foreign participation was limited to 40% of the company.

"Social certificates" were an alternative strategy suggested to be used in privatization. The process involved auctioning off 10% of the value of the company's shares to be paid in cash to the government. Participating investors would then receive social certificates issued by the National Treasury to represent the 10% share purchased. The other 90% of the company would have been sold through public bidding or open auction on the Stock Exchange.

Investment Environment

Law 8031/90 was passed in order to promote stronger local capital markets through the public offering of shares in the companies being privatized. Brazil held 18% of the market capitalization in Latin America at about $52 billion. The country listed about 570 companies on the Sao Paulo Stock Exchange and 599 on the Rio de Janeiro Stock Exchange in 1992. Proceeds from privatization in 1991 were $1.7 billion, well below the expected value of $18 billion. For 1992, the government expected to raise $3.4 billion. All the postponed auctions were rescheduled for April 1993.

Prospects for 1993

Although President Franco showed less enthusiasm for privatization in Brazil than his predecessor, the privatization program should continue after a review period early in 1993, focusing on **Poliolefinas**, the state-owned petrochemicals enterprise, and the **National Steel Company**. The Directive Committee of PND intends to have 11 more companies privatized by early 1993.

Privatization Announcements and Transactions

Petroflex was sold at 21% above the established base price for $234.1 million on April 10. A PIC consortium consisting of Suzano, Unipar and Copebol/Norquisa purchased 51% of the company. Petros,an employee pension fund of the state-oil company Petrobras, purchased another 14% of the company.

On May 15, **Copesul**, the second largest company in Brazil, was the first major Brazilian petrochemical producer to be privatized, and was considered the second most successful privatization in Brazil. The shares were sold for a price 29.17% higher than the minimum price previously established. The company sold 64.5% with proceeds totalling $797.1 million. The saletook place through a public auction, with the minimum price set at $780 million. Thirty-eight percent of the total amount of shares offered in the bidding were acquired by PPE, a consortium of Polisul, PPH and Poliolefinas. Other minor stakes were acquired by Petroquisa (15%), Banco Real (7%) and Privatinvest, a domestic bank consortium (4.5%).

INDAG, a state-owned fertilizer company, was sold to IAP through a private offering in February for the price of $6.8 million.

In January, **SNBP**, an aircraft engine repair company, was sold to Cinco, a fertilizer company, for $12.6 million.

In February, **Celma**, a jet engine repair company, was privatized through the sale of an 11% stake to pension funds and a 9.7% stake to General Electric of Brazil.

In February, **Mafersa**, a state-owned locomotive manufacturer, sold a 90% share to pension funds and a 10% share to its employees through a public offering for $91.1 million.

In February, **Acos Finas Piratini**, a state-owned steel manufacturing enterprise was privatized by selling an 88.9% share to the Gerdeau group of France for $107 million. This sale price was 153% higher than the minimum base price set.

The **Tubarao Steel Mill** was auctioned off in two steps. Kawasaki Steel and the Italian company Ilva each owned 26% of the company prior to privatization. The first auction held on July 10 sold a 51% controlling stake to a domestic party for $306 million. The second auction on July 23 was held exclusively for foreigners and allowed the two foreign shareholders to increase their stake.

Embraer, a state-owned aerospace company, was restructured and then privatized. Prior to privatization, the firm was not profitable and was forced to lay-off 4,000 workers, even though the government provided a rescue plan of $400 million.

Chile

Chile's privatization program neared completion this year, with only a few SOEs left to be sold in 1993. The program's success contributed to the country's higher credit ratings and expanded productivity in privatized SOEs.

Government Commitment

With only a few companies scheduled for privatization in 1993, the current Aylwin administration plans to complete the country's privatization program by the end of 1993 at the latest. The government now intends to focus on creating "mixed companies" with private investors in companies under majority ownership and control of Corporacion de Foment del la Produccion, CORFO, the administration in charge of privatization.

Privatization Strategy

The privatization program in Chile commenced in 1974 with the reprivatization of some 250 companies nationalized during the previous administration. The program entered its third phase in 1990, continuing the sale of some public services and small electrical distributors targeted for privatization by the Allende government. The program has maintained the goals of decreasing the role of government, increasing efficiency within the companies, and contributing to the development of capital markets.

Investment Environment

Capital market development was evident in 1992 when a more active secondary stock market emerged, following the success of stock sales between 1985 through 1989, half of which were SOE shares. By 1992, the number of shareholders in Chile increased to more than 200,000 from 26,600 in 1985, contributing to the evidence of capital market development. Chile held 12% of market capitalization in Latin America at about $34 billion. The country listed an average of 230 companies per month on its Santiago Stock Exchange this year, with listings ranging from 223 to 245 companies.

Total foreign ownership in the Santiago stock exchange was only 4%, demonstrating the country's effort to protect the market from speculative flight. Inflation remained around 13% in 1992, and could fall to one digit in 1993. The purchase of stock shares by pension funds generated $9 billion since their debut in 1987 as authorized institutional purchasers of SOE shares.

Impact of Privatization

Chilean companies, previously limited by the government's credit rating, became capable of attaining higher credit ratings and cheaper credit after receiving a Standard and Poors BBB investment credit rating. Production and service capacity expanded in the privatized telecommunications and electric generation sectors.

Prospects for 1993

In November, CORFO planned to make a public offering of **Edelnor** shares on the Santiago stock exchange in early 1993. Proceeds from the capital expansion would be used to finance the construction of a $150 million thermoelectric plant in the port of Mejillones to supply power to mining projects.

Codelco, the state's largest copper producer, is scheduled for partial privatization next year. The next company on the privatization schedule is the freight division of **Ferrocariles del Estado**. Five enterprises in the water/sanitation sector are scheduled for privatization in the first half of 1993.

Colombia

Colombia's privatization plans were in accord with its effort to modernize the economy, though no specific guidelines for privatization were set.

Government Commitment

Fondo de Garantias de Instituciones Financieras (The Guarantee Fund of Financial Institutions), FOGAFIN, was created in 1985 by the Colombian Congress to administer all registered financial institutions. In 1991, the government designated FOGAFIN as the administration in charge of privatizing state-owned banks. FOGAFIN sold the shares of Banco de Los Trabajadores, Tequendama and Comercio in 1991 and 1992. However, the government did not design or implement any schedules this year to guide its privatization program.

Privatization Strategy

Outside of FOGAFIN activities, the government also initiated a process of liquidation and restructuring of companies in transportation, telecommunications, sanitation and electric services. The Instituto de Fomento Industrial (IFI), a state-owned holding company and a major holder of Colombian industrial stock, was placed in charge of pursuing the sale of stocks in the industrial and manufacturing sector. In 1992, IFI supervised transactions which included the partial sale of an engineering company, Conastil, and chemical companies, Ferticol and Penwalt. Though no guidelines were established in regards to the methods of sale, SOEs are most likely to be sold through a public auction on the Bogota Stock Exchange.

Investment Environment

Colombia's emerging stock market performed well in 1992, posting a gain of 36% in U.S. dollars. The total value traded this year was $553.9 million, five times the figure in 1991. Colombia held 2% of market capitalization in Latin America at $5.2 billion. The Bogota Stock Exchange listed a total of 80 companies each month.

Resolution 52 allowed foreign investors to buy up to 100% of SOE shares and abolished capital repatriation restrictions.

Impact of Privatization

Plans to modernize the economy included promoting the presence of the Colombian economy in international markets and attracting more private investment. Trade liberalization and integration with Venezuela was credited with boosting trade and regional growth.

Prospects for 1993

The government plans to permit the private provision of telecommunication services and the granting of roads by concession. However, the establishment of a legal framework or timetable for such transactions is uncertain. FOGAFIN will proceed with assessing **Banco del Estado, Banco de Colombia, Banco de Comercio Exterior,** and **Banco Cafetero** for privatization in 1993. Chemical companies scheduled for privatization next year include: **Venezolanos, Alcalis, Fatextol, Quibi,** a salt company, **Salinas,** a textile company, and the **Catsa agroindustrial facilities.**

Privatization Announcements and Transactions

Cerro Matoso, a Colombian nickel mining company, was privatized in March, when the IFI sold its remaining shares. The Royal Dutch Shell Group continued to hold 52% of the company after privatization.

Propal, a Colombian paper products company, was privatized in March. International Paper and W.R. Grace each held 35% of the company prior to privatization.

Costa Rica

Costa Rica sought a reduction in its budget deficit along with commencing economic liberalization through the process of privatization. No guidelines or schedules were set for any specific industry privatization, but the Costa Rican government targeted the privatization of state-owned banks and several CODESA-owned enterprises.

Government Commitment

Costa Rica's privatization program, managed by the Ministrio de Planificacion, began in 1985 motivated by a desire to shrink the government's budget deficit while enacting fiscal discipline. Under the current administration of President Rafael Angel Calderon, the government had not been able to set up any schedules or guidelines to complete the program and opposition from the National Liberation Party (PLN) further slowed the process.

Privatization Strategy

The Costa Rican Development Corporation (CODESA), a state stock holding company, became a primary target for privatization in order to reduce the company's debt. Since its creation in 1970, CODESA over the years accumulated too much public debt making it heavily indebted to Banco Central de Costa Rica. While most of the enterprises owned by CODESA were sold to private investors, some companies such as Fertica, the huge fertilizer plant at Port Puntarenas, and Cempasa, the cement plant in the Guanacaste province were to be completely privatized following Congressional approval of each company's privatization schedule.The privatization of CODESA-owned companies involved sales through public bidding. The valuation of CODESA-owned companies for sale and bid approvals were conducted and approved by Costa Rica's Office of the Comptroller General.

The government targeted five of its state-owned banks for privatization as part of an effort to deregulate the banking system and implement a policy for the liberalization of the banking sector.

Prospects for 1993

The government plans to further reduce public spending next year through the sale of **Fabrica Nacional de Licores,** the national alcohol distillery, **Cementos del Pacifico,** a state cement company, and **Fertilizantes de Centro America Costa Rica,** the state fertilizer company. No specific schedules for the companies' privatization have yet been confirmed.

Dominican Republic

The Dominican Republic did not launch a full fledged privatization program this year, though pressure was placed on the country to initiate one by the International Monetary Fund. The country continued to seek suggestions from various advisors in hopes of establishing a policy of deregulation that would provide a stable environment for the private sector.

Government Commitment

Though President Balaguer stated his support for privatization in August 1990, the government of the Dominican Republic has not yet instituted a privatization program. In March 1993, the Dominican Republic's "stand-by" agreement with the IMF will have expired, and the IMF required privatization of some state-owned enterprises as a precondition for renewing the agreement.

Privatization Strategy

The Dominican Republic has not yet established a privatization approach in spite of recommendations submitted by Socimer and the Economic and Development Foundation (EDF) to lean towards privatization. Part of an EDF proposal involved the privatization of Consejo Estatal del Azucar (CEA), the sugar council, Corporacion Dominicana de Electricidad (CDE), the electric company, and some assets of Corporacion de Empresas Estatales (CORDE). Privatization will proceed on a case-by-case basis until the guidelines for a privatization program are instituted.

Prospects for 1993

Though opposition may be observed by labor groups who fear lay-offs and unemployment due to privatization, the program should proceed into 1993.

Ecuador

The move towards a privatization program in Ecuador awaited approval by the Congress, while no specific privatization schedules were established for any sector or industry.

Government Commitment

President Sixto Duran Ballen's government announced in August 1992 its intention to privatize approximately twenty of 160 SOEs, though the goal was far from reached by the end of the year. Consejo Nacional de Modernizacion del Estado, CONAM, was created on October 7 as the government's privatization agent. CONAM acted to propose and implement policies to be used in the process, with the idea that privatization would aid in decreasing inflation and attracting more investment from abroad.

Privatization Strategy

The government had prepared a privatization law and strategic privatization plan that would be presented to the President and the Congress for approval early in 1993.

The Price Waterhouse International Privatization Group (PW/IPG) was contracted by USAID/Ecuador to provide policy and implementation assistance to CONAM and the Ministry of Agriculture's privatization unit. PW/IPG conducted the diagnostic and valuation study for the sale of Fertilizantes Ecuatorianos, S.A. (FERTISA), a fertilizer company that is 90% state-owned and 10% privately-owned. PW/IPG also advised the government of Ecuador in drafting a privatization law and establishing a debt-for-equity swap program.

Prospects for 1993

A strategic plan for privatization has been completed and will be submitted to the President for approval in January of next year, along with an executive decree reforming current foreign investment regulations. Upon approval of a privatization law, the government plans to target several companies for privatization including **Ecuatoriana de Aviacion**, a state aviation company, and **Emetel**, a state telecommunications company.

Grenada

Government Commitment

The philosophy of the current administration favors a development strategy of private sector-led growth with the primary role of the government focused on the provision of infrastructure development, institutional support, and social programs. However, the government's privatization program faced opposition from nationalist-minded citizens, including some labor unions, political groups, and the media.

Privatization Strategy

Privatization provided the government with a tactic for institutional and infrastructure reform while focusing on improving the efficiency of ailing SOEs. Privatization was to also act as a means of contributing resources to the Capital Development Fund (CDF) for infrastructure development, which has a revenue target of EC$12.1 million (US$4.48 million) for the CDF. The government of Grenada sought the help of the USAID in late 1992 to provide assistance in the development of a sustainable privatization program. Previous privatization efforts had reduced the number of SOEs from 27 in 1984 to 11 by 1990.

Prospects for 1993

Privatization assistance will be provided by the Price Waterhouse International Privatization Group (PW/IPG) under the USAID Privatization and Development Project. The assistance package, scheduled to begin in January 1993, consists of five activities aimed at program development and institutionalization, skills development, public information, and enterprise valuation and marketing advisory. Additionally, PW/IPG will help to develop a public information program aimed at reducing the political risk that faced the divestiture effort. The information program would take on a transparent approach that would allow the government to convey its privatization objectives and allow the public to monitor the process and progress of the program.

The national electric utility, **GRENLEC**, and the **Gravel, Concrete, and Emulsion Production Corporation (GCEPC)** were targeted for divestiture in 1993. In addition, the assets of the **Central Garage** and the **Public Transportation Service** have been targeted for liquidation.

Privatization Announcements and Transactions

In July, a 51% share of the **National Commercial Bank** was sold to Republic Bank Limited of Trinidad and Tobago for EC$6.3 million (US$2.3 million) at EC$16.50 per share (US$6.10). Another 39% share was sold to the public at EC$15 per share (US$5.55), while the government retained the remaining 10%. The sale of the NCB was the first divestiture under the Structural Adjustment Program.

Honduras

Privatization in Honduras succeeded in the sale of several state-owned hotels and agricultural industries, while aiding in the reduction of government debt while boosting capital investment.

Government Commitment

The Honduran government created the Comision de Alto de Privatizacion to supervise the country's privatization program, which sold off 29 public enterprises since the program began in 1986. The government raised a total of $90 million in 1992 alone. Though impediments to the program were observed within the law and the political system, the government intends to extend the program until 1995.

Privatization Strategy

The Callejas administration approved the Divestiture Law that permitted the sale of any state-owned enterprise and decentralized government entity. The government's new economic reform program was expanded to include the privatization of grain storage, vocational training, tax collection, and airport administration.

Impact of Privatization

The privatization program was credited with creating a $30 million net reduction in external government debt with commercial banks and created over 2000 jobs.

Prospects for 1993

The government looked to an agreement with USAID/Honduras to provide technical and financial assistance for future privatizations, which is scheduled to become effective as of January 1, 1993 until the end of 1995. The government has targeted around 40 SOES for privatization in 1993, hoping to raise another $2 billion in sales. Among the targeted companies are the **ACENSA sugar mills, Mejores Alimentos**, a tomato cannery, **Aisa**, a steel mill, and the **La Ceiba free zone.**

Privatization Announcements and Transactions

Hondulab, a laboratory that produces basic medicines, was privatized on January 30.

In April, a number of hotels were sold, including **Hotel Brisas del Lago**, a small hotel on Lake Yojoa which was sold to local investors for $611,000. **Hotel Posadas de Copan**, an incompletely constructed hotel near the Copan Maya ruins, was sold to a Virgin Islands investor group for $521,000. **Hotel Telemar**, a state-owned Honduran resort hotel on the north coast, was partially privatized in a debt-equity exchange of which 51% of stock was exchanged for $1.2 million in debt.

In April, **Aceros Industriales S.A.**, a Honduran steel manufacturer, was fully divested for $1.7 million to a group of local investors.

In April, **Industria de la Construccion (INDECO),** a state-owned Honduran construction company, was privatized by a private offering to majority shareholders. The sale price was $130,000, the stock book value.

Productos Lacteos Sula, a dairy producer, was sold to a local group for $3.1 million in April.

Transportes Aereos Nacionales (TAN), a Honduran airline, sold 40% of its holdings to Transportes Aereos Centroamericanos (TACA) for $270,000 in April, following an earlier tranche in October 1991.

Cementos de Honduras (Bijao), a cement plant in the northern coast, was auctioned off in September for $7.04 billion.

Several transactions led by various ministries were completed in 1992. The Ministry of Natural Resources privatized the seed program. Instituto Hondureno De Mercadeo Agricola (IHMA) prepared to sell grain silos, and the Ministry of Transportation and Communications (SECOPT) contracted for the private maintenance of rural roads.

Mexico

Mexico maintained its status as a leader of privatization in Latin America, well noted by the successful privatization of its banking industry. The country's commitment to privatization has cut down the number of SOEs by more than three-fourths, calling for the possible completion of the program by the end of 1993.

Government Commitment

Privatization guided the implementation of structural and regulatory changes within the government. The government has managed to raise over $20 billion from privatization since the opening of its divestiture program in 1982. It established the Office for Privatization of State-Owned Enterprises to monitor the process, and the success of the program can be traced to a privatization agenda based on economics.

The government's sale of its 18 state-owned commercial banks alone raised $12 billion, with the banks selling at prices higher than expected. The banks sold for an average of 3.1 times the book value and 14.75 times historic earnings.

Privatization Strategy

The privatization program in Mexico was approaching the end of its existence after having drastically reduced the number of state-owned enterprises from 1,155 in 1982 to 221 in 1992. Part of the government's strategy involved privatizing an entire industry, as seen with the privatization of the banking sector ,rather than targeting one particular company in the sector. The sale of companies subject to privatization were conducted through public auctions. At the same time, debt-for-equity swaps were avoided to prevent indirect subsidies to investors.

Revenues obtained from SOE privatizations went to social spending for the National Solidarity Program. For private sector investment, around $7.8 billion was reported to be committed for investments in road, rail. air and maritime infrastructure transportation, to be completed by 1994.

Investment Environment

Mexico held 57% of market capitalization for all of Latin America at about $127 billion, while listing an average of 20 companies per month on its stock exchange. Their was a mid-year loss in the market when speculative ventures by foreign investors induced a shift of equity from stock purchases to government bonds and other instruments yielding higher rates of return.

Impact of Privatization

The country's economic recovery effort was boosted by the privatization of several hundred loss-making enterprises over the past ten years, which led to the turnover of an 8% budget deficit in 1991 into a budget surplus in 1992. Privatization also contributed to increased capital inflows and reduced the public debt through the sale of troubled state steel companies that raised $340 million in cash and $545 in debt. Brady bonds purchased at a discounted price with proceeds from privatization canceled US$7.2 billion in public debt.

Prospects for 1993

The Federal Government has planned the privatization of 37 SOEs in 1993 through public auction. The targeted entities include the sale of Mexico's airports, 9 port service businesses, and all of its media holdings, including the official newspaper, three television stations, and a film production company. The government plans to privatize the secondary petrochemical plants of **Pemex**, the state-owned petrochemical company, even though the constitution will not allow for the privatization of Pemex itself. The state insurance company, **Aseguradora Mexicana (ASEMEX)**, is also scheduled for divestiture next year. In addition, public-private partnerships are being used to develop the national highway system. These plans are in spite of the planned closing of the privatization program at the end of 1993.

Privatization Announcements and Transactions

In February, **Banca Serfin**, the third largest and oldest Mexican bank, was sold through a public offering with the option to purchase the remaining 16% share still owned by the government. Banca Serfin had about $22 billion in assets and about $125 million in profits as of 1991, and employed 22,000 workers at almost 600 branches. The deadline for bids was January 24, 1992. A 51% stake in the bank was sold for $918 million to Grupo Financiero Operadora de Bolsa (OBSA), an investor group led by glass industrialist Adrian Sada Gonzalez. Other groups likely to have submitted bids were Grupo Financiero Privado Mexicano S.A. de C.V. (Prime), headed by Antonio del Valle, and GBM Grupo Bursatil Mexicano S.A. de C.V., Casa de Bolsa (GBM), headed by Alonso de Garay. The purchase price of the sale represented 2.69 times book value or $2.62 a share. The rest of the bank's shares, a 33% stake, had been traded publicly for several years. Banca Serfin was the tenth bank to be sold, providing the government with over $8 billion in total proceeds. In the same month, **Multibanco Comermex S.A.**, Mexico's fourth largest bank, was privatized through a public offering, by the sale of a 66.5% stake for over $872 million to an investment group led by Agustin F. Legorreta.

In March, **Banco Mexicano Somex** was sold for $603 million to Grupo Financiero InverMexico S.A. de C.V., consisting of A. de Garay Gutierrez and Jorge Guameros Torar.

In April, **Banco del Atlantico** sold a 69% stake for $472 million to investors from Grupo Bursatil. **Banco Promex** was partially privatized through a private offering, by the sale of a 66% stake to investors from Valores Finamex for $350 million. **Banoro** bank was partially privatized through a private sale of a 66% stake to investors from Estrategia Bursatil for $366 million.

In June, **Banco Mercantil del Norte S.A.** was sold for $567 million to Gonzalez Barrerra, R. Barrera Avalos, and B. del Valle Perochena.

In July, **Banco Internacional** was sold for $174 million to Grupo Financiero Privado Mexicano, S.A. de C.V. **Banco del Centro** became the 18th and final bank to be privatized in Mexico, when 66.3% of its shares were sold for $279 million.

Telmex, a telecommunications company, was privatized through a multi-phase process and earned a total of $4.8 billion. In December 1990, a controlling 20.4% stake was sold to a consortium of Grupo Carso, Southwestern Bell, and France Telecom for $1.76 billion, valuing the whole company at $8.6 billion. Southwestern Bell invested $953 million for a 10% share, and a 4.4% stake was offered to employees. In May 1991, the government sold 1.52 billion L shares in international markets for $2.2 billion, valuing Telmex at $15.5 billion. The international ADR equity issue was the largest equity offering ever by a developing country, yielding proceeds of over $2 billion. Until May 1992, the government still held a 9.3% interest, worth $2.5 billion. After the latest offer of 25 million shares in the U.S., Europe, and the Far East raising US$1,357 million in May 1992, the Mexican government continued to hold 4.58% of Telmex equity.

In January, the Caribbean Ispat Group from India was awarded **Siderurgica de Balsas, S.A. de C.V. (SIBALSA),** a state steel industry.

Nicaragua

The government succeeded in the divestiture of over three-fourths of its state-owned enterprises that were targeted for privatization.

Government Commitment

The Nicaraguan government designated the National Corporation of Public Enterprises (CORNAP) in May 1990 to head the country's privatization program. CORNAP targeted over 350 SOEs to be privatized during the program's existence. Of that targeted amount, a little over 200 companies had been privatized by the end of 1992 through leases, liquidations, and saies to the private sector. Though success has been observed in most cases, privatization activity has been impeded by conflicts between labor unions and the government.

Privatization Strategy

CORNAP launched the privatization program by initially targeting companies within the agricultural and service sectors. The program then expanded to include privatization in the industrial sectors. By the end of December 1992, nearly one-third of the country's industrial companies were sold to private investors.

The Price Waterhouse International Privatization Group (PW/IPG) was contracted by USAID to provide technical assistance to the Nicaraguan government and CORNAP. PW/IPG conducted diagnostic studies and business valuations for four hotels and the two sugar mills, **Ingenio Victoria de Julio** and **Ingenio Julio Buitrago**, scheduled for privatization. The hotels include **Montelimar, Intercontinental, Barlovento,** and **Las Mercedes**.

Prospects for 1993

The **Intercontinental, Barlovento,** and **Las Mercedes** hotels, the two sugar mills, and the **National Cement Company** will be privatized in 1993. PW/IPG will also provide technical assistance in the privatization of SOEs not managed by CORNAP, including the telecommunications firm **TELCOR**.

Privatization Announcements and Transactions

The terms of the sale of the **Montelimar Beach Resort** for US$22 million to Spain's Grupo Barcelo S.A. were mostly agreed upon by the end of the 1992, with the transaction's conclusion still pending. The payment was to be divided up as follows: $5 million paid in cash directly to the government; $8 million devoted to development to expand facilities; $3 million used for promotion purposes; and $6 million towards improving current facilities.

Panama

The approval of Panama's new privatization law led the way for the country's move toward its divestiture of state entities. The privatization law gave support to instigating privatization schedules and methods for industries to be privatized in the future.

Government Commitment

The country's privatization program was established in May 1991 by the Guillermo Endaro government in order to help reduce the interest accumulated on foreign debt that amounted to $3.8 billion and to commence the country's economic liberalization.

The government set up the Coordinating Unit of the Privatization Program, PROPRIVAT, which was headed by Juan Raul de la Guardia of the Ministry of the Treasury, to coordinate and advance the privatization plan. PROPRIVAT also conducted studies for the program, prepared the terms of reference for the sale of a SOE, and supervised the actual sale of state-owned companies.

Privatization Strategy

Panama's program revolved around the newly adopted Privatization Law that set the guidelines for all divestiture activities. This includes allowing the government to decide which companies are to be sold, who the bidding investors will be, and the terms of the new owners' investment obligations following the company's sale. It also allows for privatization by public offerings, joint ventures, administrative concessions, and leases. However the law did specify that the public offering of stock shares is the preferred method, and that debt-for-equity swaps are prohibited in the sale of a SOE. According to the Law, employees are given the option to purchase no less than 5% of the company, and investors are required to pay out full compensation to workers if unemployment arises due to the sale of the SOE. The revenues from sales would go towards financing and paying for government investments in social programs.

Impact of Privatization

Panama's economic reform program supported strong growth in GDP of 8% in real terms in 1992, capital inflows that resulted in a 15% increase in bank deposits, and a boost in tax collection that was 13% above 1991. These encouraging developments further boosted the privatization program which had already resulted in significant sales. This standing allowed Panama to be approved for a loan package of $132 million by the Inter-American Development Bank, part of which went to contracting consultants for further privatization.

Prospects for 1993

Some of the primary targets for privatization in 1993 under the new law include **Citricos de Chiriqui S.A.**, a citrus products company, **Empresa Estatal de Cemento Bayano**, a clinker cement company, **Corporación Azuarera La Victoria**, a sugar mill, **Corporacióon Integral del Bayano**, an agricultural company, and **Ferrocarril de Panama**, a transportation company.

Privatization Announcements and Transactions

In March, **Air Panama** was privatized through a private sale for $10 million, in which a 51% stake was sold to a domestic consortium and 49% went to a group of individual U.S. investors. Legal claims against the company, labor disputes, and poor asset quality delayed the transaction for a full year. The new airline, Panama Air International, was expected to begin service on June 1.

The sale of **Corporacion Bananera del Atlantico (COBANA)**, a banana plantation, in April was conducted through direct negotiations between the government and potential investors. COBANA sold for $6.7 million to Cooperativa de Servicios Multiples Bananera del Atlantico, a cooperative primarily of COBANA employees. Investors paid $3.84 million directly to the government and assumed labor, social security, and other obligations amounting to $2.93 million.

In April, **Intel**, Panama's telecommunication company, was announced for sale, although the method of sale had not yet been decided upon. The sale would have been Panama's largest privatization with Intel averaging total assets of $400 million and gross operating revenues of $195 million in 1992.

Paraguay

Paraguay's privatization effort progressed at a sluggish pace this year, even with a privatization law to guide it.

Government Commitment

The privatization program in Paraguay continued at a slow pace and made little progress this year, particularly with growing opposition from nationalist-minded politicians and political parties. The Privatization Law deterred investor interest due to the provision that it was mandatory to offer up to 20% of the SOE's shares to company employees, and that not only employees, but their suppliers and customers, had to be offered shares first before any other investors could make bids.

Privatization Strategy

In mid-1991, the government submitted to Congress its first comprehensive privatization bill which faced disapproval among the members of Congress and was locked in appropriations for over six months. The bill was finally passed on December 27, 1991, and was proclaimed as Law No. 126/91 to provide the general framework for privatization of all government-owned enterprises. Assumption of a company's debt prior to privatization was permitted by this law as a means to facilitate the divestiture process. The Law also states that sales of SOEs should be conducted through the sale of the company's assets or shares, the sale of the company as an ongoing concern, buy-operate-transfer and buy-operate-own, and concessions. On May 8, by Decree No.13.461, the Executive Power issued the regulations of the privatization law. The Decree regulates the functions of the Privatization Council and defined the duties of the Executive Director.

Despite the promulgation of a privatization law, privatization progressed on a company-by-company basis. There were no specific guidelines for determining the values of the companies to be privatized or for deciding upon advisor appointments for the sale of each company.

Prospects for 1993

The new Paraguay government will not take office until August 1993, and its first duties will include drafting a new privatization law or amend the existing one to put it in sync with the new Constitution. At the programs current pace, privatization transactions in 1993 are unlikely to occur, and the program may not be in full swing again until 1994.

Peru

Support for Peru's privatization program increased this year, and divestiture activities were accelerated with the drafting of supreme and legislative decrees for privatization. The progress of Peru's program was evident in the sale of companies in the utility and mining sectors.

Government Commitment

The Fujimori administration's committed stand to deregulate and divest the government of SOEs provided the country with a favorable environment for privatization this year. Political parties, as well as the public, showed their support of the program by manifesting little opposition. With the passing of Legislative Decree No. 674 in September 1991, the Commission on the Promotion of Private Investment (COPRI) was assigned the task of promoting private investment and conducting and monitoring the privatization program.

Privatization Strategy

Peru's privatization program came into full swing with the enactment of Legislative Decree No. 674 and Supreme Decree 041-91EF. The Supreme Decree outlined the manner in which state corporate activity would be restructured along with its holdings prior to privatization. The Supreme Decree also regulated the participation of new investors and their acquisitions in SOE holdings. Legislative Decree No. 674 appointed COPRI to design and direct the program, along with the creation of Special Committees to implement the program by conducting appraisals, management controls, and supervision and scheduling of the process.

According to Legislative Decree No. 674, the transfer of shares and assets would be conducted through public auction, public offering, or direct sales with payments made in cash. Companies may also be privatized through joint ventures involving service, lease, and administrative contracts, whereas external debt could only be used in the purchase of non-performing working capital and short-term commercial banking credits. Decree No. 674 also called for privatization of 130 SOEs, including companies in industries such as oil and gas, hotels, cement, and banking. Various advisory services were called upon by the government to aid in the valuation of the company and the implementation of the divestiture process. Firms were sometimes restructured or merged in order to simplify the transfer to private hands.

Investment Environment

Financial sector reform was conducted simultaneously with the privatization program, including the liberalization of interest rates and the decrease in restrictions on capital flows from abroad. Commercial bank deposits in Peru were approximately 70 percent denominated in US dollars and other foreign currencies. The financial opening resulted in an increase in competition and greater efficiency in the Peruvian banking system.

Participation in privatization by foreign investors is on the rise, with potential foreign direct investment from privatization expected to total $100 million.

Prospects for 1993

The privatization of the chemical company, **Renasa Reactivos,** and **Aeroperu**, the state-owned airline, are both expected to take place early in 1993. Forty other companies are scheduled for privatization in 1993, including large mining operations, electricity utilities, telecommunications firms, and fisheries.

Privatization Announcements and Transactions

Banco Popular, the third largest bank in Peru, was to be completely privatized through a public offer. The bank was valued at $15 million, but before selling it, the government intended to restructure the bank to increase its profitability. However, the sale was annulled in November.

In July, the **Conchan refinery** failed to sell at the minimum price of $8.0 million, having only attracted one bidder, Asphaltos Chilenos, a small Chilean group. In spite of Conchan's near monopoly in asphalt production in the central coast region, the sole bid was 15% less than the minimum price, which prompted the withdrawal of the sale. A new auction was scheduled for September.

On May 26, **Condestable** became the first state-owned mining company in Peru to be privatized. An undisclosed bidder paid $1.29 million for 80% of the company's equity in an auction on the Lima stock exchange, while the remaining 20% of the company was reserved for employees. Possible bidders were reported to be Marc Rich and Company, Sociedad Minera Pudahuel of Chile, and the Hochschild group of Peru.

Electro-Lima S.A., a state-owned electricity company, was to be privatized in June by separating the company into two enterprises for electricity production and distribution.

Electroperu S.A., an electricity production and distribution company, was to be sold after a 3-6 month restructuring period aimed at splitting the company up into several smaller companies in order to introduce competition. The nine regional government power companies were to be privatized gradually, with the value of all state-owned power sector assets at about $10 billion.

Among the notable transactions in 1992 was the November sale of the iron company, **Hierro Peru**, to the Shougang Corporation, a Chinese state-owned producer of steel. About 6 foreign consortia wanted to bid for the iron concern which would earn about $67 million in 1992, yet the company was sold for $312 million. The sale of Hierro Peru marked the beginning of Peru's privatization of its mining concerns.

On November 11, **Quimica del Pacifico S.A.** was fully privatized when the final one-third was auctioned on the Lima Stock Exchange. The initial 67% of Quimica del Pacifico was successfully privatized by auction on July 24.

The Peruvian government sold rights to the **Quellaveco copper deposits** in December for $12 million.

Puerto Rico

A policy for privatization was generated in 1990 when the government approved the sale of the Puerto Rico Telephone Company and authorized the construction of public works projects such as highways and bridges by private enterprises. However, the government did not formally adopt a privatization program this year. The government would have used either the Government Development Bank or the Puerto Rico Industrial Development Company, depending on the particular asset, to negotiate any sale. Outside consultants, such as investment banking firms, would have been selected by the government to assist it in establishing the value of the enterprise being sold.

The present administration is willing to dispose of businesses run by the government, but no privatization schedule has been set up with respect to any particular government enterprise. The new administration will come into office in 1993 with the intention of privatizing all SOEs except for the state monopolies in electricity and telecommunications.

Uruguay

The country's policy to divest itself of control over certain state industries through privatization was faced with heavy opposition from the public. Support from the people was very weak and is unlikely to increase unless the economic viability of privatization can be proven.

Government Commitment

Though the government set up the Officina de Planemiento y Presupuesto to conduct and monitor the privatization program, little support was observed from the statist-minded citizens. The majority of the population is unsatisfied with the service, the prices and the taxes charged, and the administration of the government. Since 1 in 10 adults worked for the government and feared unemployment, the possibility of widespread privatization caused strikes and unrest.

The government drew up two bills, which were under study in Congress and are expected to be approved, to de-monopolize the alcohol and insurance industries.

Privatization Strategy

Privatization was to be carried out according to the structure regulations defined by Congressional Law 16.211, which allowed the government to deregulate and prepare public services for privatization, proceeding on a case-by-case basis.The law also permitted the government to create a more competitive environment for privatized companies by removing certain monopolies.

Prospects for 1993

The people of Uruguay demonstrated through a clear lack of support that they did not approve of the government's effort to privatize its many state-owned companies. In the meantime, a large number of smaller privatizations are in the works, but 1993 will be the year in which these projects are implemented.

Venezuela

Venezuela's privatization program achieved the sale of several SOEs at prices higher than expected. The privatization process is regulated by the Law of Privatization, and though amendments to the law are to be made, the program is expected to progress smoothly into 1993.

Government Commitment

Coordination of the privatization process was assigned by the government to the Fondo de Inversiones de Venezuela (Venezuelan Investment Fund), FIV. Presidential approval and congressional notification were required of any privatization policy designed by the FIV. The government anticipated that privatization would create an environment conducive to ameliorating management and production efficiency in order to boost competition, private sector growth,and economic modernization.

Privatization Strategy

The Venezuelan government's commitment to the privatization program was reinforced in March through the enactment of the Ley de Privatizacion, the Privatization Law. The law specifies that the sale of shares is to be accomplished through a public auction, though state-owned enterprises involved in the extraction of bauxite, oil, and iron are excluded from privatization. The Law requires that 10% to 20% of company shares should first be offered to the employees, suppliers, and customers of the company prior to offering shares to other investors.

The base price for the sale of a SOE was determined by at least two independent proposals, while no debt-equity swaps were permitted and purchases were made on a cash basis. Revenues from the sales were to be spent mainly on health, education, and infrastructure projects.

Investment Environment

The Bolivar depreciated 28.5% this year while inflation increased 32% resulting from rising aggregate demand and wages. Venezuela captured about 3% of market capitalization in Latin America at about $9 billion dollars. The country listed 66 companies each month on the Caracas stock exchange.

Impact of Privatization

In spite of the failed coup attempts in February and November 1992, two years of privatizations generated $2.1 billion in revenues. Part of this figure came from the sale of certain SOEs at prices that were double the set minimum price.

Prospects for 1993

Even though the outcome of congressional debate is uncertain concerning amendments to the Privatization Law, privatization is expected to advance at a steady pace in 1993. The Venezuelan Investment Fund announced the initiation of numerous diverse projects for 1993 which include the privatization of sugar mills, hotels, utilities, waterworks, mines, and banks. **Hotel Trujillo** is scheduled for privatization in 1993 with a base price set at Bs42 million or $560,000.

Privatization Announcements and Transactions

Aeropostal, the second national airline, was to be privatized through a public offering. Some 80% of Aeropostal's stocks were to be sold to bidders, while the remaining 20% was to be sold to employees. An additional investment commitment of $100 million annually over the next five years was required from potential investors.

Aluminios de Caroni S.A. (ALCASA), the state aluminum company, was privatized at the end of the year as part of an agreement with its major creditor, Banque Indosuez. ALCASA had a first semester loss of Bs3.6 billion, whereas its 1991 losses totalled Bs4.8 billion. The inside track on the Alcasa privatization was apparently held by US-based Reynolds, which already had an 8% share in the company. Reynolds was reportedly negotiating to increase its share to 51%.

CANTV, Venezuela's telecommunications company, was partially privatized through a 40% sale in November to a consortium led by GTE. The sale raised $1.9 billion, and the government announced its intentions to sell its remaining 30% stake in 1993. The network expansion plans stipulated that viewer outreach had to increase to 20% of the Venezuelan population by the year 2000, compared to the current level of 6%.

Enelbar and **Enelven,** two state-owned electricity companies, were to each sell 55% of their shares through a public offering, while the remaining 45% was offered to the companies' employees.

Several hotels were sold in 1992 through public offerings. This included the sale of **Hotel Cumangoto** in February for $5.37 billion, and the sale of **Hotel Miranda** for $1.2 billion. In December, **Hotel El Tama** was sold for $4.59 billion.