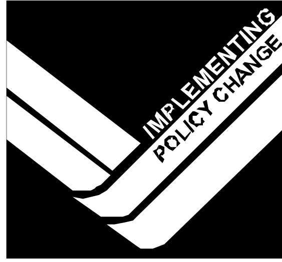

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IMPLEMENTING PRIVATIZATION POLICY IN DEVELOPING COUNTRIES:

A Selected Literature Review

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The vast amount of literature on privatization reflects the fact that many developing countries have been pursuing this type of policy in recent years, many at an accelerated rate. Privatization has been pursued worldwide as a response to the demands of fiscal austerity, as fulfillment of international donor conditionality, and as a remedy to the disappointing performance of government provision of certain goods and services. Countries have, for example, sold state-owned enterprises (SOEs), liberalized trade regimes, and/or opened various sectors of the economy to private participation in the provision of formerly public services.

For example, between 1974 and 1990, the Chilean government privatized approximately 550 enterprises under public sector control. The Brazilian government has outlined plans to sell two-thirds of the country's SOEs by 1995 in addition to reducing the number of civil servants from 800,000 to 250,000 (Glade 1991, Luders 1991, Molz 1991). With the collapse of communism in Eastern Europe, the countries of this region began the transition to a market-oriented capitalist economy. In Poland, at least 20,000 shops were privatized in 1990, and the government has begun the process of privatizing at least five large enterprises (World Bank 1991). On the African continent, privatization programs figure prominently among the terms and conditions of World Bank structural adjustment loans, for example, in Guinea and Senegal. In 1989, 92 companies in Nigeria, valued between $2 and $3 billion, were being considered for privatization (Bienen and Waterbury 1989). In the Maghreb, Algeria has modified its development strategy due to the fall of international petroleum prices; the government has emphasized the deconcentration of public sector enterprises, and the deregulation and encouragement of the private sector. In Asia, for example, Malaysia's present privatization efforts began in 1983, with the initiation of a new policy of cooperation between the government and the private sector (Nankani 1990).

Privatization encompasses a very complex array of policy issues, with many pros and cons. This paper does not review all the arguments on its potential benefits and drawbacks. Rather, the objective is to summarize a selection of the privatization literature with a particular focus on its implementation dimensions, that is, those issues that need to be addressed once the initial decision to pursue the policy has been made. Special emphasis is placed on the issue of winners and losers from privatization reforms, and the measures policy managers can take

to resolve conflicts arising during the implementation process.

RATIONALE FOR PRIVATIZATION

The reasons for pursuing a privatization policy are related to the policy's potential benefits, and most often the policy is part of a macroeconomic reform package with other components to stimulate the nation's economy. The stimuli may be in terms of investment, improved products and services, foreign market access, or increased capital. Some sources state that privatization is the "strong" policy called for because other measures, such as attempts to improve SOEs, do not go far enough; privatization is what is needed, for example, to get rid of excess labor and increase economic competition (Kikeri et al 1992, Pack 1987, Fischer 1992). Lending and/or international agency pressure or persuasion is another compelling reason cited by authors for governments to pursue privatization, as following their recommendations may lead to fresh loans or an increase in donor funding (Leeds 1991, Bergeron 1991).

There are both political and economic motives for privatization, and while economic motives are more widely discussed in the literature, the two are intertwined. Authors state that governments are, for example, seeking to improve income distribution and mitigate public service inequalities in the country. Often governments yearn for stability (both political and economic) in times of crisis, and thus implement privatization as the means to a specific end. The various motives are directly related to the success of a country's privatization process, as many authors claim that it can only be measured by comparing results against the specific objectives and goals of the government (Aharoni 1991, Domberger and Piggott 1986, Vernon 1991).

DEFINITION AND FORMS OF PRIVATIZATION

A review of the literature confirms that "privatization" is a comprehensive term, encompassing many types of reforms. The range of privatization opportunities are expressed, both in analytic treatments and in policy declarations, in terms of the degree of ownership, control, management or operations that is foregone by government (Hanke 1987, Heath, 1989, Rondinelli and Kasarda 1991). Thus, the terms "privatization" and "divestiture" are frequently used interchangeably (Nankani 1990, Luders 1991, Cook and Kirkpatrick 1988, Cowan 1990, Berg and Shirley 1987).

Rondinelli and Kasarda (1991) offer a broad concept of privatization, illustrating the various forms of privatization measures: the sale of public assets to private investors, public-private partnerships, incentives/guarantees for private sector, transfer of public service delivery to NGOs, deregulation and liberalization policies to facilitate private provision of public services, contracting-out, government encouragement of private sector expansion in service industries, and state subsidies for private service delivery, the reorganization of an enterprise into separate entities, management and/or employee buy-outs, debt-equity swaps, and build-operate-transfer (BOT) arrangements.

Authors gave varying comments on the different privatization mechanisms (Kikeri et al 1992; Berg Associates 1989; and Savas 1989-90). For example, according to certain sources, concessions, where the holder has responsibility for capital expenditures and investment, are more desirable but less feasible than leases. As a World Bank publication explains, the desirability but less feasibility stems from the fact that:

> … private financing (or willingness) tends to be weak in comparison with the size of the investment, particularly in sectors or countries in which the political and economic risks are seen to be high. In such instances the government might have to assume responsibility for planning and investment (Kikeri et al 1992: 52).

Partial sales (hybrid privatization, or public-private ownership) can be a source of problems, as the division of responsibilities and priority-setting becomes less clear (Vernon 1991). For example, if a majority of shares remain in government hands, the government may be prone to meddling in a firm's affairs (Kikeri et al 1992; Vuylsteke 1988). Vernon (1991: 62) states clearly the situation of competing objectives of mixed firms:

> At first approximation, analysts can assume that privately-owned enterprises are seeking to maximize their profits at some chosen level of risk; they can plausibly assume ... that a state-owned enterprise is trying to maximize some objective function of the

state. But what objective function can a mixed enterprise have?

Some experts show, however, why partial privatization is a good idea. As illustrated by Vuylsteke (1988: 118), the government and the private sector can work for mutual benefit:

> The presence of a minority shareholder may increase efficiency by instilling a greater financial/management autonomy and discipline ... A government may also bring in a private partner to improve the enterprise's technical competence, market access, management expertise, etc. Sometimes the government will enter into a management contract with the minority private party, or conversely, the outside management contractor of an SOE may invest fresh equity as part of the overall arrangement.

Debt-equity swaps are considered an innovative form of privatization, while the process of BOT is viewed as a special case and as an alternative to the traditional private sector-state relationship. Regarding debt-equity schemes, sources state that this mechanism can ease financing constraints and help improve a country's investment climate. They add, however, that the government may be better off to sell the asset and use the proceeds to buy back debt on the market (Kikeri et al 1992). BOT is the least discussed form, but certain authors state that, "The BOT concept is enticing because it puts forth a method by which there is a built-in incentive for the host government to allow the foreign firm relative freedom of operation, but with a closing clause that squeezes out the foreign firm over time" (Elledge and Picard 1992: 187).

A common mechanism is the sale of SOEs. The selling of an SOE is a very long and complex process, and observers recommend the careful study of many sub-issues. For example, there may not be many bidders, or the highest bidder may not always be the "best" bidder, if social value, residency, or other qualitative factors are considered (Ramamurti 1991b). Authors warn, however, that selling an SOE at a low price may produce negative effects in the long run (Jones et al 1991, Vernon 1991, Ramamurti 1991). Leeds (1991) illustrates this consequence with his discussion of two Jamaican privatization cases, and Vernon (1991: 63) states in his analysis of privatization issues that:

> … governments have systematically offered shares at prices that were substantially lower that the public was prepared to pay ... One ironic aspect of this tendency is that is has sometimes overridden and defeated the government's original purpose in undertaking a privatization exercise, namely, that of staunching or reversing an adverse cash flow...

Experts also discuss private versus public offerings, and the controversial role of former owners in the sale of a nationalized firm (Vuylsteke 1988, Yotopoulos 1989, Ayala Espino and Cordera Campos 1992, Hachette and Luders 1988, Lorch 1991). Lorch (1991: 149-50), for example, cleverly illustrates the implications of privatization through private sale in his case study of the Bangladeshi textile industry:

> The privatization process [also] impaired efficiency gains in the textile industry ... [One] example was the decision to privatize in the seemingly easiest and fastest way, namely, to return companies to their former private owners without assessing their financial strength or managerial capabilities. This strategy placed several large mills in the hands of families that were managerially and financially weak. However, if privatization had been implemented at a slower pace, it may have become bogged down as martial law was lifted and political participation increased.

Regarding sales, many authors highlight the importance of ending a monopoly, and illustrate how privatization in the absence of existing or created competition in a country's economy, may replace a public monopoly with a private one (Aharoni 1991, Vuylsteke 1988, Domberger and Piggott 1986). Governments must study the possibilities of "transferring" monopolies (from the public to the private sector), creating new enterprises, or devising schemes for many new firms (an SOE may be divided up according to the work to be performed; for example, accounting, management, production, and distribution).

Authors emphasize that in public, private, or mixed public-private firms, effective management and incentives are vital. Additionally, control and ownership are key factors in a privatization policy. A final important point several authors make is that the choice of which privatization form to pursue

depends on the specific country conditions and objectives (Aharioni 1991; Vuylsteke 1988; Van De Walle 1989). There are pros and cons for each mechanism, and all involve political factors to a certain degree.

CONDITIONS FOR PRIVATIZATION

Appropriate and favorable conditions under which to pursue privatization include: a market-oriented macroeconomic policy, an adequate capital market, and time to identify the firms that are marketable without the attachment of expensive and counterproductive special concessions to the buyer (Shirley and Nellis 1991, Nellis 1991b, Grimstone 1989, Heath 1989, Glade 1991). If these conditions are not present, it is suggested that steps toward their establishment be taken before privatization efforts are initiated.

Steps covered in the literature include legal reforms where the laws or regulations have been intolerant of, or hostile to, the private sector; changes in labor laws, protectionist policies, restrictions on access to credit, wages and price controls, and in the system of property rights. In general, sources emphasize complementary macroeconomic reforms and adjustments that facilitate efficient production and private sector participation (Rondinelli and Kasarda 1991, Nellis 1991b, Ramanadham 1991, Bos 1991).

Progress on implementing these complementary reforms strongly influences the prospects for successful privatization. Bienen and Waterbury state that the pace and scope of privatization will be determined by the process of implementing more broadly-gauged programs of structural adjustment and liberalization (1989). Nankani, assessing privatization in Chile, Malaysia, and Sri Lanka, emphasizes these linkages as well:

> While policy sequencing issues are very difficult to generalize about, it seems safe to suggest that privatization efforts are likely to run into difficulties and not to yield their potential longer-term benefits unless preceded by needed macroeconomic and sectoral policy reforms such as stabilization, deregulation and liberalization (1990: 44).

Bienen and Waterbury (1989: 617) caution that a government's pursuit of privatization policies does not necessarily reflect a shift in orientation to private sector led development: "... Many privatizations may be implemented in the absence of a commitment to market forces, but where the state seeks to redefine the instruments and scope of its interventionism." They discuss privatization as meaning the selling or leasing of assets in which the state has a majority interest, and the contracting out of publicly-provided services. Privatization is viewed with some skepticism, and the authors leave open the question of whether the policy signifies the beginning of unfettered markets and private enterprise, or if it exemplifies a new form of state influence.

Many sources reiterate the importance of, and dependence on, capital markets and competition, and encourage the creation of confidence-building schemes. Market forces are key because they influence competition with the economy; ownership does not (Aharoni 1991, Domberger and Piggott 1986, Van de Walle 1989). Some sources further advocate codes and measures not only to foster the capital market, but also to minimize corruption in the privatization process and in the economy (Lorch 1991, Bienen and Waterbury 1989). Authors maintain that development of the private sector takes time, and changes should be made on a step-by-step basis. They advise policy implementors not to skip crucial steps, offer advice on complementary reforms and further warn that pseudo-changes (promises and not action, or policies that are not fully implemented or monitored) are detrimental to a privatization program (Ramamurti 1991b, Lorch 1991, Vuylsteke 1988).

STRATEGIC ASPECTS OF PRIVATIZATION

Important decisions, such as which SOEs to privatize and at what pace, have to be made when embarking upon privatization. These decisions relate to the strategy of implementing a privatization policy; this issue will be briefly discussed in this section.

There are many differing opinions regarding decisions on which SOEs to privatize and at what speed to implement this policy. Some authors believe that the correct strategy is to begin with those firms that are easy to privatize, and work up to the more difficult cases. "Easy" SOEs could be the smaller public firms, or those that for various reasons lend themselves to the privatization process. For example, a few observers believe it is wise to start with SOE "success stories" so that buyers will be attracted to the

sale and provide momentum for the new policy. Governments may, however, choose to begin with a large scope of work and tackle the most burdensome SOEs first. Additionally, some governments opt for an unselective, broad privatization process, while others prefer to narrow down systematically their choices of which SOEs to sell. The latter option is considered a case-by-case strategy in which policy leaders reach consensus on which individual SOEs will be the target of their privatization efforts (Leeds 1991, Fischer 1992).

Which SOEs to privatize may also be determined by the preparation costs involved. Here again, authors give differing advice. Some believe that SOEs should be sold "as is" with no government investments made, as the government is most likely trying to reduce expenditures and avoid increased debt (Kikeri et al 1992). Others state that government investment in SOEs may greatly pay off when the enterprise is put up for sale (Leeds 1988, Leeds 1991). The study of preparation costs entails much analysis, and observers point out that thorough study of the feasibility of the privatization of SOEs is highly recommended. Also, thorough exploration of privatization options should be explored, for maximization of policy effectiveness. (See privatization forms and mechanisms discussed above.)

Regarding the speed at which privatization is implemented, many authors caution policy leaders not to go too quickly. While they believe that in going too fast implementors are prone to making serious mistakes, the observers also admit that if policy leaders go too slowly, opposition to privatization may gain momentum and thwart future gains. Experts also note that the goals of governments are to privatize quickly and raise public income (government revenues). The more dire the need for money, the quicker the governments will sell their property. Authors warn that the overall policy may be hurt by rapidity, and that savings in time and preparation costs at the beginning of the implementation process may result in the government paying more down the line. Whichever strategy governments decide upon, monitoring and evaluation of the entire privatization process in each country is very important and encouraged by policy experts (Kikeri et al 1992, Ramamurti 1991b, Lorch 1991, Bergeron 1991).

All of the sources reviewed noted the complex and controversial nature of privatization, and some detailed its political and/or economic implications (for example, World Bank 1991, Molz 1990, Cowan 1990). The following section discusses a dominant controversial issue cited in the literature, that of who wins and who loses in the implementation of a privatization policy.

WINNERS AND LOSERS FROM PRIVATIZATION

The literature is in broad agreement that privatization policy is highly political. A representative comment highlights the contentious issue of winners and losers: "The politics of privatization, like those of other reform measures, consist in holding out future gains to the general public as well as to specific beneficiaries, such as private sector capitalists who have competed with the public sector" (Bienen and Waterbury 1989: 623). Authors observe that many people consider privatization a good policy by which to rapidly generate revenue and profits (Cowan 1990, MacLeod and Baldik 1991, Ramanadham 1989, Hanke 1987). However, as Nankani notes, "privatization has many enemies and together they pose a formidable challenge to the typical supporters, such as planning and finance ministers, donor countries, and international development agencies" (1990: 45).

The literature attests that it is hard to predict the outcome of privatization, but that the form of privatization pursued will largely determine the winners and losers of the new policy (e.g. Luders 1991, Fitch 1988, Domanski 1992). Implementation success also depends on the management of the privatization process. Bienen and Waterbury state that the effective assessment of the constraints on and possibilities for privatization necessitates a clear picture of which economic sectors will gain or lose, and of the gains and losses that will be sustained by the dominant political coalitions (1989). Other authors concur, emphasizing attention to key groups such as organized labor, the indigenous private sector, and managerial and civil service elites (e.g. Marston 1987). The armed forces and multinational corporations (MNCs) are also cited as significant stakeholders (Luders 1991, World Bank 1991, Molz 1990, Bienen and Waterbury 1989). In general, the efforts of those who want to maintain the status quo (in terms of job security, the control of economic resources and patronage, etc.) are dominant tempering factors in the implementation of a

privatization policy (Poole 1987, see also Murrell 1992a).

Benefits

Various sources state that private enterprises are not always more efficient than those of the public sector; the "private sector efficiency" argument cannot automatically be made. Vernon (1991: 70) states, "the economic basis for widespread programs of privatization, which ordinarily rests heavily on assumptions about efficiency, is not yet firmly developed." Aharoni adds:

> Much of the work economists have done on privatization assumes that the goal of privatization is improved efficiency ... or social welfare ... the success of any privatization program (however) can only be measured in terms of the objectives that motivated it, and ... those objectives are likely to be different for different actors affected by privatization (1991: 73).

Still, many sources state that one of the primary reasons for pursuing privatization is that the public will benefit from the operational efficiency and equity that privatization is believed to bring about (see, for example: Shirley and Nellis 1991, Birch and Davis International 1989, Nellis 1991a, Ramanadham 1989, Berg 1988). Privatization policies assume that private enterprises are more efficient than either central or local governments in the delivery of many goods and services for which people can pay, such as public transportation, electric power, piped water, or housing (Roth 1987). The advocates of privatization also emphasize that the private sector has an advantage over the government in terms of lower production costs, and greater capacity to obtain and maintain capital equipment. Some authors cite the less bureaucratic structure of decision-making in the private sector as contributing to its efficiency and advantages (Rondinelli and Kasarda 1991, Bos 1991).

Many authors highlight the benefits of a privatization policy. One source gives details on twelve World Bank case studies where domestic welfare increased, productivity improved, products and markets largely expanded, buyers made money and other stakeholders gained, and the majority of consumers benefitted (Kikeri et al 1992). Leeds (1988) writes of a privatization experience in Malaysia involving ownership and operation of a port. The results included satisfied employees, the protection of ethnic interests, improved productivity through private management, increased international competitiveness, decreased financial responsibility for the government, and acquired transferable skills for future privatization transactions. Generally, in material on the benefits of privatization, it is reported that the private sector possesses advantages in management skill, financial autonomy, accountability, and in production, technical, and allocative efficiency (Kikeri et al 1992, Leeds 1988, Hachette and Luders 1988, Ayala Espino and Cordera Campos 1992).

In contrast, SOEs are widely viewed as inefficient and a drain on public resources; optimism on their revival or success is misplaced. As one source notes, "Despite the protection and subsidies, many SOEs continue to lose money, leading governments—reluctant to face the disruption of bankruptcy—to respond by further limiting or preventing competition" (Kikeri et al 1992: 16). Also, oversight of SOEs is considered costly, and governments may implement the policy of privatization to balance budgets or write off debt. Certain articles state that privatization is the way to recoup lost funds, as private firms on the average have better performance than SOEs (Kikeri et al 1992, Domberger and Piggot 1986).

Benefits also result from various public-private partnerships which are presented by some observers as "win/win" arrangements (Birch and Davis International 1989, Luders 1991, Triche 1990). Governments can demonstrate their commitment to the poor by providing assistance or subsidies to private companies to ensure the provision of unprofitable but essential services. Further, "these partial subsidies may be far more economical for governments than continuing to underwrite the costs of inefficient and ineffective public enterprises or agencies" (Rondinelli and Kasarda 1991: 111). The alleviation of pressure on the government to provide certain services is noted to be particularly beneficial where scarce central-government resources are diverted to support services which could be adequately paid for and provided at the local level (Rondinelli and Kasarda 1991, Cowan 1990, Roth 1987).

Two other positive features mentioned are that privatization fosters capital markets and that, if foreign buyers are involved in the policy, countries will gain technology and foreign market access

(Leeds 1988, Ayala Espino and Cordera Campos 1992, Kornai 1989, Bergeron 1991). (The policy implementors also risk, however, a potential surge of nationalism or overdependence on foreigners. See below.) This latter advantage is seen as key to developing a free economy, which is the goal in many Eastern European countries (Kornai 1990).

Negative Consequences of Privatization

In spite of privatization's potential benefits, analysts note a number of negative issues that need to be taken into account during implementation. Among the drawbacks to privatization discussed repeatedly in the literature are: 1) increased unemployment; 2) a loss of autonomy and unleashing of nationalist sentiment; 3) inequality in provision/type of services/products and 4) expense to the government (in terms of time, resources to prepare SOEs for sale, and management of the privatization process). These drawbacks are frequently used by opponents as justification to oppose a privatization policy (Poole 1987).

Increased unemployment

Unemployment, less job security due to "streamlining," and the threat of lower wages for public sector employees are negative effects to which numerous people are sensitive. Labor union leaders and rank-and-file employees are especially concerned and reactive, and the literature cautions privatization policy managers to proceed with their role in mind (World Bank 1991, Nankani 1990, Cowan 1990, Ramanadham 1989). As one source states, while "no theory of labor markets can predict with confidence the extent and duration of unemployment that would accompany privatization programs," it can be predicted that measures to absorb excess workers will facilitate the policy implementation process (Bienen and Waterbury 1989: 622-623).

Job security under privatization may be altered not only by the threat of layoffs, but also by new standards of performance unfamiliar to public employees. This factor is especially acute in the case of managerial roles and functions. Bienen and Waterbury make this point strongly: "One must distinguish between the political appointee foisted off on a public enterprise and the (more or less) professional manager. The former will sink or swim according to the strength of his political connections. The latter to some extent will be judged on performance" (1989: 626). Many other sources discuss the impact of the change in roles (MacLeod and Baldik 1991, World Bank 1991, Luders 1991, Wallis 1990, and Domanski 1992).

The subject of unemployment is related to the issue of compensation for job loss. For example, in Ghana, SOE employees who are declared redundant may be entitled to 10 years' salary (Heath 1989). Additionally, the obligations of the government to public sector workers may be carried through to the private sector. There are political and economic risks involved as private firms decide whether or not to take over the compensation of employees affected by divestiture as may be stipulated by the government. This responsibility for compensation is noted in the literature as one reason why private sector individuals and firms at times hesitate to bid on SOEs put up for sale (Heath 1989, Thompson 1989).

Loss of autonomy and release of nationalist sentiment

The threat of unemployment and responsibility for compensation will arise in either a domestic or foreign take-over of SOEs, but the latter situation is particularly controversial. Many of the articles reviewed pay special attention to the contentious issue of foreign investment in a privatization program. Rondinelli and Kasarda (1991) cite the example in Indonesia, where "economic nationalists" and the Muslim fundamentalists, who loathe western consumerism and capitalism, strongly oppose privatization. They are joined in their opposition by those who expect it is the government's responsibility to provide food subsidies and price controls, and create jobs, social programs or regional development project for purposes of redistribution (Hainsworth 1990). Reportedly, in Indonesia and Malaysia people fear that control of service industries will be lost to wealthy indigenous Chinese or to large foreign-affiliated firms. They are especially hostile to Japanese-owned firms (Rondinelli and Kasarda 1991). Molz (1990) notes that to placate the public and maintain support, governments at times openly criticize the foreign influence a privatization policy brings, but privately support the changes when negotiating with a multinational corporation (MNC).

The literature points out that the control a government gives up when it embarks upon a privatization policy is a sensitive issue (see Molz 1990, Wallis 1990, Kirkpatrick 1989). While an MNC can offer potential economic benefits, an agreement between it and the host country government to invest in or purchase a state enterprise

may not be politically acceptable to the public and government due to the perceived loss of autonomy. Opposition political parties often manipulate the issue to gain political advantage by appealing to citizen anxiety over foreign ownership and control. Advice for both MNCs and LDC managers is that they evaluate the political environment surrounding privatization, such as the reasons for the new policy, the more influential or powerful special interest groups, and the expectations of the enterprise in the private sector (Molz 1990, Poole 1987, Ramandhaman 1989, Grimstone 1990).

The public's distrust of external private firms affects the agreements that foreign firms make with the government. For that reason, proof of MNC cultural sensitivity toward the government and the people when investing in a developing country may facilitate business relationships. Some authors conclude that mutual benefits (for people of the host country and the MNC) are possible, but only with respect and understanding of cultural differences. Molz states:

> The MNC needs to recognize the host government's need to consider public policy objectives in the privatization process, and the host government needs to understand the MNC's need to structure the transition in a way that is economically viable and will stand the test of generating future earnings for the company (1990: 23).

In general, analysts recommend that the costs of MNC participation to the host country, such as a loss of autonomy and internal political dissent, as well as the benefits, like new markets, capital, industry knowledge and management skills, be fully weighed before a public/private collaboration plan is formally established.

Inequality in products/services

Whether foreign or domestic, private firms that gain control of the provision of previously government-supplied services are often under suspicion by the public that they will raise fees and reduce or eliminate necessary but unprofitable services, thus restricting access to those with the resources to pay market prices. Sources reveal that under privatization, the type and quality of services may change, and private monopolies may be created, giving economic and political influence to big business. As they acquire more power, monopolies are less susceptible to incentives to act in the public interest, thus initiating the prospect for more "losers" under privatization (Rondinelli and Kasarda 1991, Thompson 1989). Berg (1988: 207), however, argues that privatization, accompanied by deregulation and liberalization programs, ultimately increases equity as well as economic growth:

> Private sector-oriented policies tend to make income distribution less unequal; ... [and] reduce inequalities in access to goods and services by limiting the opportunities for favoritism, corruption, and differential attribution of rents that permeate economies characterized by extensive state controls, subsidies, and restrictions on private economic activity.

Some sources note that, ironically, some private firms in developing countries oppose privatization because they have closely adapted to existing, non-competitive conditions. The private sector would perhaps like to see the removal of, for example, any existing regulation, price controls, or discriminatory tax rates. It is not certain, however, that it wants to buy and operate public firms on a competitive basis, for these firms may have been (up until the new privatization policy) its main suppliers and customers. Reform and privatization may, to some extent, remove a safety net for the private sector; it would signify not only the transfer of assets but the forcing of the existing private sector to become "lean and mean" (Bienen and Waterbury 1989, Thompson 1989, Shirley and Nellis 1991). For example, Truong and Walker (1990) found one of the problems in privatizing Cameroon's fertilizer subsector was that private firms involved in importation and distribution lacked the skills to deal with a liberalized market for fertilizer, having depended for years on a stable relationship with the government agency previously in charge of fertilizer.

Expense to government

Foremost among the problems developing country governments face in the rapid implementation of a privatization policy are its costs. One source states that, "Privatization is not a quick fix ...; preparing PSEs for privatization can be very time consuming, and, in trying to attract buyers, may entail the state's absorption of the outstanding debt of the firm" (Bienen and Waterbury 1989: 624). The public may oppose concessions such as tax exemptions, subsidized loans, and lax enforcement of terms of payment. One source in particular maintains strongly

that private enterprise should compete and pay the opportunity cost for capital being offered under privatization (Shirley and Nellis 1991).

Costs to the government, in terms of time and finances, are noted especially when the decision is made to contract out the provision of services "because of corruption, the desire of contractors to maximize profits, the cost of contract management, or the absence of sufficient competition..." (Rondinelli and Kasarda 1991: 109, see also Moore et al 1987). Some sources note that contracting out can be more expensive to the government than direct services provision (Fitch 1988, Rondinelli and Kasarda 1991, Cook and Kirkpatrick 1988).

MANAGING CONFLICTS DURING PRIVATIZATION POLICY IMPLEMENTATION

As the literature makes clear, privatization is a complex policy requiring adept managers. These individuals should be capable of forging consensus and initiating cooperation between different sectors in society. However, many sources note that government officials seldom have the needed skills to effectively carry it out alone (Wallis 1990, Macleod and Baldik 1991, World Bank 1991). A continuing and additional problem is that,

> ... the state of the art for the implementation of privatization is not very far advanced as far as LDCs are concerned, bearing in mind the limited relevance of the developed world's experience (Wallis 1990: 140).

Nevertheless, while there may be a lack of expertise and "blueprints" for policy implementation, sources offer help with information about guidelines on the approach the government can take.

Privatization policy team and decisions

Political commitment is tremendously important in privatization programs. In addition to dedicated host country leaders, however, authors emphasize the need for the right mix of expertise when implementing privatization. Basically, the sources strongly suggest that implementation of privatization include a team with a coherent plan, a viable strategy with transparency of action and explanation, and ideas for incentives for those involved in or affected by the new policy. To create this team, outside consultants are often needed. Repeatedly highlighted as crucial to policy implementation is the ability of the privatization team to make terms clear and all negotiations transparent. In addition to verbal clarity, all agreements need to be carefully written up (Bergeron 1991, Elledge and Picard 1992, Kikeri et al 1992).

The "right" privatization team makes a big difference in the implementation process. This team plays an instrumental role is preparing an SOE for a sales offering. Preparation includes marketing, demystifying the stock market, handling political controversy, publicity (considered very important by observers), dialogue with labor unions, and targeting certain stakeholders, in addition to other activities. Basically, key responsibilities for the privatization team are to make the process convenient for buyers and to inform the public. The team should not by any means be composed solely of members of the host country government. While government ownership of the policy is necessary, the government may have conflicting roles, which can place it in a compromising position. For example, it may be courting foreign buyers, while at the same time making other efforts to placate public employees' concerns over foreign domination or liquidation. Playing these roles requires innovation, good management, and negotiation (Leeds 1991, Savas 1989-90, Leeds 1988).

As previously mentioned, privatization is a highly political process, and sources suggest that decision-making be depoliticized as much as possible. One author writes that a "bad mix" of economics and politics results in suspicions among the public and those observing the new policy process. Another specialist, however, states that minimizing negative political effects may be sub-optimal in the long run. The disadvantage stems from the lack of transparency, or full disclosure of the consequences of privatization, which could cause strong opposition to the policy and make the implementation process extremely difficult (Nellis and Kikeri 1989, Vuylsteke 1988).

Generally, what is asked of the policy team is generation of employee support, private sector assistance, and public participation; public relations, and learning experience. Regarding the role of donors, they should be encouraged to maintain a low profile while at the same time to offer their technical expertise to host country personnel (Leeds 1991, Bergeron 1991).

Announcement of the policy decision

A strategic aspect deemed very important by authors is how the government explains the new policy to the public, and how it handles the plans for implementation. With regard to how to inform the public about the new policy, the government should clearly explain the apparent benefits as well as the drawbacks of privatization to the people. The policy should not be suddenly imposed on the public, nor should "outside players" force the idea of privatization onto a host government. While donors and creditors often provide an impetus for privatization, it is recommended that the implications of the policy and pace of implementation be discussed and determined with maximum participation from the government (Bienen and Waterbury 1989, Nankani 1990). The debate (at both levels, government-public and donor-government) should be an informed one in which the pros and cons of the policy are discussed (Shirley and Nellis 1991).

After such a debate and thorough assessment of the new policy, it is advised that privatization efforts start with non-controversial opportunities, and that better (from a purely technical perspective), but perhaps more controversial, efforts be pursued at a later time (Birch and Davis International 1989). Another suggested approach is to have the privatization process be one of "phases," such as by geographic district or by industry, in order to reduce opposition, prepare groups for the changes the new policy may bring, and learn which strategies work best (Marston 1987). Also, various sources state that privatizations that strengthen the indigenous private sector will be more feasible than those that disregard economic sovereignty by selling important assets (steel mills, mines, national airline, etc.) to foreign buyers (Bienen and Waterbury 1989, Bos 1989, Cook and Kirkpatrick 1988). To begin this strengthening, however, the government may have to offer strong incentives to indigenous firms, which may be very costly time-wise, politically and monetarily.

Seller/Buyer Negotiations

Many of the sources on privatization dedicate much attention to the nature of negotiations between the seller and the buyer of SOEs, as well as to pricing decisions. Some authors offer detailed advice, such as the government should not put bonds and SOEs on the market at the same time, as this action results in competition for capital, and perhaps a lower selling price (Jones et al 1991, Leeds 1991). Others are more general, stating, for example, that a mutuality of interests (between seller and buyer) is key to privatization success. This success is presented as difficult to achieve, as private firms are mainly interested in profit, and governments more in the social value of SOEs. A mixed enterprise will have competing objectives, which necessitates much division of responsibility and continued cooperation (Vernon 1991, Cointreau-Levine 1992, Yotopoulos 1989, Jones et al 1991).

Virtually all sources caution governments and privatization teams to explore investor options carefully (especially those open to foreigners), study bids thoroughly, consider the SOE's value to society, and to think through the consequences of a set price before making final decisions. Authors deem price-setting as extremely important, adding that many times prices of SOEs are set too low, and that many unnecessary concessions to buyers are made. The need to generate capital and create an investment infrastructure is widely recognized, but excessive incentives to potential buyers ruin a deal, they claim. Sources illustrate the effects of crowding out and of money transfers on the privatization process and on a government's economy. They offer extra words of caution to governments courting foreign buyers, as there are more political and economic considerations in such a scenario, which require much analysis. Not only are the stakeholders more varied and influential, the direct and indirect effects on national budgets are difficult to estimate. One source writes that all offers made to or by foreigners should be in the selling nation's interest (Kornai 1990).

In all negotiations there are trade-offs involved, and the long-term effects of privatization are hard to gauge. For example, it is difficult to put a price on the social value of certain SOEs; thus the decision to sell or not to sell becomes more debatable. Candid sources state that no generalizations can be made. It could be that the policy result is higher unemployment, inflation, and lower wages, yet it may just as well be the opposite—job creation, better prices and higher wage guarantees. The responsibilities of the seller and buyer must be clarified, all terms (i.e. of loans) and agreements must be mutually understood, and compromises must be reached with the government (Van de Walle 1989, Leeds 1991, Hachette and Luders 1988, Leeds 1988).

Incentives for former SOE employees and the creation of safety nets

The subject of compromises brings up the issue of conflict resolution, such as agreements between the government and SOE employees. The literature notes that workers often oppose privatization, and that governments need to deal with this problem. These workers are important stakeholders and demonstrate the political aspect of privatization. Many authors view employee support of the policy process as extremely advantageous, and offer suggestions on how to avoid making the experience a negative and painful one. Trade unions in particular have to be carefully dealt with, as they are sensitive to any power reduction and have much clout with which to influence implementation. In sum, policy leaders have to show workers what they can gain from privatization. One suggested method is to give preference to SOE employees when privatizing. For example, they can be given priority in the selling of shares, or receive a set allocation. Another alternative is to institute a pay-for-performance rule and other bonuses and incentives, which would offer labor the opportunity to move up the wage scale based on their output.

The assessment of divestiture programs should include a realistic study of interim dislocations and a feasible financing plan for effects such as lay-offs (Shirley and Nellis 1991). The literature concludes that one of the most important tasks of the host country manager responsible for country-wide implementation of the privatization policy is the establishment of safety nets and guidelines for employee compensation (Luders 1991, Bos 1991, World Bank 1991). For example, Brazil, Argentina and Israel all renegotiated their pacts with labor and the private sector in launching their unprecedented shock programs in the mid-1980s in order to mitigate opposition (Bienen and Waterbury 1989).

Analysts emphasize that the social costs of privatization are high, and the lack of a "safety net" in place for those who stand to lose from privatization may seriously impede policy implementation. In Mexico, for example, the withholding of support by the bureaucratic elite (due to dissatisfaction with the terms of the policy) can paralyze bureaucratic action, while the private sector can threaten capital flight and disinvestment (Bienen and Waterbury 1989). In many countries organized labor and other lower and middle income groups have been players in "social pacts" with the government. In exchange for political support, these groups are promised government protection of their standard of living and a commitment to redistribution (Bienen and Waterbury 1989, Bos 1991). To gain legitimacy for the policy, the government has to prove that it is not abandoning its responsibilities to its workers and the general public.

Much of the literature mentions the variations of "safety nets" or compensation a government can offer to gain such support from those negatively affected by privatization, thereby deterring sabotage of the policy. These include allowing employees of public corporations or agencies to form their own company to contract for service provision or to acquire public assets, or requiring private companies that take over state enterprises to give preference to hiring public employees displaced by the sale of SOEs (Rondinelli and Kasarda 1991, Bos 1991, Ramanadham 1989). Also, the government should take measures to assure workers of fair wages and working conditions by private companies (Cowan 1990, Heath 1989).

For example, as an incentive to public sector employees in Chile, the government made notable efforts to sell shares to labor and pension funds, and reportedly often set special quotas for them at public auctions and offerings of shares (Nankani 1990, Bos 1991). In Pakistan, the government's 1984 privatization plans included the provision that certain workers were offered either alternative jobs or generous lay-off compensatory benefits, known as "the golden handshake" (Bokhari 1989: 156). The following quote demonstrates that such incentives and assurances are necessary:

> The reform process and privatization are regarded with understandable apprehension by organized labor ... in Turkey and Chile military authoritarians stripped unions of some of their legal rights prior to promoting privatization. Few workers can be persuaded to accept birds-in-the-bush of future employment generation in an expanding private sector over the bird-in-the-hand of secure public employment (Bienen and Waterbury 1989: 625).

This passage is representative of the articles that discussed employee compensation as a method by which to facilitate the privatization process.

Another operational measure of a privatization policy involves rewards. Rewards for both blue- and white-collar workers, in terms of incentives, is explained in the literature as a method to introduce effective features of the private sector into public enterprises. A few authors (for example, MacLeod and Baldik 1991, Bos 1991) concur with Ramanadham's suggestion that governments seek to instill, for example, a "maximizing attitude" in their workers (1989: 8).

Looking at the effect of privatization on SOE employees in a positive light, certain authors believe that some civil servants may welcome privatization. Also, many lay-offs are not always the case in privatization experiences. Additionally, stakeholders have varying interests and expectations, which may change throughout the privatization process, and facilitate implementation. If the process is effectively managed by the implementation team, the members may not have to make special efforts to show workers the benefits of privatization, as they will already be apparent.

Training for privatization

The above discussion demonstrates the enormous tasks to be handled by policy implementors, both those at the national level and at the individual SOE level. Many of the assigned duties relate to training and staff reform, and the following section discusses this aspect of privatization, which is the responsibility of both host country and SOE managers (assuming they are kept on after the policy is initiated).

A few of the sources reviewed discuss implications of privatization for public administration training programs (Wallis 1990, Fitch 1988, Shirley and Nellis 1991). These include lessons on facilitating the entry of the indigenous private sector, training in negotiating with foreign MNCs, instructions on how to choose buyers of SOEs (what criteria to use); and training on laws and the preparation of contracts. The sources note that the skills of a bureaucrat are not same as those of a business person, and one has to look at what both can offer. One author comments that, "Bureaucrats are not about to disappear but they will be expected to acquire new styles of performance, a process of change which will require training" (Wallis 1990: 143).

Enhanced marketing and financial management skills, for example, are necessary for the development of efficient managers. The government has the option of devising its own training programs, or it may wish to seek assistance from experts in the private sector. Either way, as a bridging mechanism, the government should consider the creation of training programs, as well as temporary jobs, to prepare public sector workers for privatization. Wallis notes that, "training institutions tend to adapt slowly to the introduction of new policies by the government" (1990: 138). There is lag effect, since curriculum has to be modified, procedures updated, etc. Future training will revolve around such topics as laws related to environmental protection, preparation of contracts, coordination issues around public and private sector relationships, new ways of approaching financial management, and how to promote private enterprise (Shirley and Nellis 1991, Rondinelli 1991).

The training required when implementing a privatization policy has implications for the donor community. Again citing Wallis,

> Instead of providing technical assistance and aid of other kinds to strengthen existing programmes, the emphasis might shift towards targeting some of the newer concerns which arise from privatization. Donor help might contribute substantially to making the required shift in emphasis in training, so that conventional programmes which have been going on virtually unchanged for many years can be adapted to meet the new requirements along the lines suggested (1990: 147).

He adds that generally, the weaker the economy the more likely it is that donors will be able to influence policy, including the implementation of it (1990: 139).

In sum, the literature reveals that training can help state enterprise managers and workers adapt to "the new rules of the game." There are difficulties for "new entrepreneurs" as they are asked to modify their bureaucratic thinking. In LDCs these budding entrepreneurs need outside assistance with capital and skills training in order to make a significant contribution to, and not detract from, the privatization implementation process. Certain authors caution that training plans, however, should be based on realistic expectations. Training should be an explicit and on-going phase of staff development; suppliers, contractors and purchasers may be some of

the best resources from which to obtain it (Shirley and Nellis 1991, Wallis 1990, World Bank 1991).

The case of Eastern Europe offers many opportunities for incorporating a training component in a privatization program. Attempts have been made to transform the economy, but as Nellis notes, "The problem with past Soviet reforms is that they did not create an owner who could protect the capital employed; they did not formulate a limited set of achievable, commercial goals for enterprises" (1991b: 16). Basically, worker behavior modification is called for by the development specialists. Nellis and other sources note the lack of sufficient autonomy to managers, inadequate performance-monitoring mechanisms, and minimal systems for rewarding success and punishing failure (Nellis 1991b, World Bank 1991, Macleod and Baldik 1991; Rondinelli 1991). Steps to remedy these deficiencies are recommended as essential to successful privatization in the former socialist countries.

Sources highlight that training is an acute requirement. Those affected by privatization may not be readily qualified to handle their new responsibilities. There is a need for people who have strategic management and not just technical skills. In the former USSR, "management" was comprised of engineers, scientists, and other technical professionals. Workers and management in Eastern European countries are generally not prepared to make decisions, seize opportunities and be self-reliant (Nellis 1991b). Feeling ill-prepared (and robbed of their "perks") many Soviet officials may become more hostile to privatization reforms, thus further impeding progress. This problem illustrates again the need for high level management training (such as in design, marketing, advertising, cost-effective production, quality control, etc.) as well as middle and lower-level training (Nellis 1991b, Rondinelli 1991, Domanski 1992). Murrell offers a caveat, however, arguing that excessive attention to remedying the deficiencies of former state enterprises shortchanges efforts to stimulate new entrepreneurship (1992b).

Public/Private Collaboration in Implementing Privatization

Collaboration between the private and public sector is emphasized as crucial for successful implementation of a privatization policy. Concrete operational guidance, however, is scarce. As Ramanadham states,

> While the literature plentifully documents and criticizes the great variety of interrelationships that exist between civil servants (and ministers) and public enterprises, we do not have an adequate idea of what kind of interface exists between civil servants and private enterprise owners and managers in developing countries. Massive programmes of privatization are likely to introduce new dimensions into these relationships, based on fact or suspicion (1989: 14).

A few authors also add that the success of privatization depends heavily on the management skills of private companies. In Africa, Central American and South Asian countries, and in those with socialist governments, the private sector remains small and weak. This weakness hampers implementation efforts (Rondinelli and Kasarda 1991, MacLeod and Baldik 1991, Domanski 1992, Bos 1991, Truong and Walker 1990). Murrell (1992b) discusses this issue for Eastern Europe.

The following section covers some of the innovative ways the two sectors can work together to serve their respective interests and facilitate a successful privatization policy. The three major types of public-private partnerships discussed in the material reviewed are asset sales, private development of infrastructure and contracting out. This section below includes examples of contracting out arrangements undertaken in various countries. These partnerships combine management, incentive and data issues, and it is recommended that they have a balance between autonomy and accountability. The government should have enough control to establish goals for the enterprise, yet management and contractors have to be allowed the freedom necessary to achieve these goals. Some authors view government regulation in privatization as a necessity; it serves as a mechanism to ensure that the public interest is protected when a larger role is accorded to private sector (Wallis 1990, Birch and Davis International 1989, Shirley and Nellis 1991).

Social functions role

The role each sector plays in fulfilling "social functions," including noncommercial objectives pursued for public benefit, is often discussed (Birch and Davis International 1989, Ramanadham 1989, Grimstone 1989, Heath 1989). Numerous articles

state that many people believe that policy objectives such as job creation and income distribution fall into government's domain. However, as one source points out, "Privatization is a means through which governments simply divest themselves of obligations for performing important but expensive or politically undesirable social functions. By privatizing, they can diffuse political pressures to deal with critical social needs" (Rondinelli and Kasarda 1991: 110).

Any minimization of noncommercial objectives, however, requires that legitimate social functions be undertaken by other bodies, either public or private. This issue is just beginning to be addressed (Nellis 1991a). Ramanadham states that, "From the United Kingdom (UK) experience, it was learned that many public enterprises have a 'public' element in them, and their comparative efficiency has to be judged in socio-economic terms" (1989: 33). Molz advises MNCs considering acquisition of SOEs that, "the first consideration should be the degree of continued host government influence into the enterprise after privatization. Since many enterprises in the privatized environment were used at least partially to achieve public policy objectives, the government may wish to continue this situation after privatization" (1990: 21).

The issue of which functions should be provided by the private sector then arises. A few authors concur that "public goods," including services to meet basic human needs, are likely to remain the responsibility of the government (Colin and Kirkpatrick 1988, Cowan 1990, Ramanadham 1989, Triche 1990, Roth 1987). Generally, if the government or the private sector cannot levy user charges for political or economic reasons, then the services will most likely be provided by either public agencies or public-private partnerships, for they are not likely to be profitable to private companies (Rondinelli and Kasarda 1991, Triche 1990, Colin and Kirkpatrick 1988).

One stream of inquiry in the literature dealing with the allocation of functions across the public and private sectors focuses upon appropriate institutional arrangements for the subset of public goods referred to as common property resources; for example, water/irrigation, forests, rangelands, and fish (Ostrom 1990). The slant on privatization here focuses on analyzing alternatives to the situation common to many developing countries and Eastern Europe where, until recently, the state has assumed the major role in both economic and social arenas (see Wunsch and Olowu 1990). Recommendations center around relaxing central authority so that local private solutions to common property resource problems can emerge (Ostrom 1992, Ostrom et al 1990).

Opportunities for collaboration

According to various sources, the greatest opportunities for private provision of public services are in services such as transportation, water, health care, and trash collection. For these types of services users can readily be identified, spillover effects are low, costs are divisible, and consumers are able and willing to pay for service improvements (Rondinelli and Kasarda 1991, Triche 1990, Birch and Davis International 1989, Roth 1987). Opportunities for privatization should be carefully studied for feasibility. Industrialized countries are experimenting with a variety of innovative approaches to public/private collaboration (Osborne and Gaebler 1992), some of which are potentially transferable to developing countries.

As expressed earlier, increased private sector participation does not necessarily signify a decrease in the availability and delivery of public services. Some social programs to begin with may be highly inefficient, and assistance from the private sector will thus be welcomed. For example, Bienen and Waterbury illustrate the support role a private firm may play in country development plans:

> Not only have social pacts proved costly in terms of economic efficiency but in terms of political credibility as well ... In welfare and income terms its efforts have frequently failed, at least as measured against initial promises .... Privatization ... may relieve the state of some of its obligations ... It asks the private sector, in essence, to share not only in the benefits of state patronage, but also in the risks and social costs of development" (Bienen and Waterbury 1989: 627).

This cooperation brings up another issue cited in the literature as important to successful privatization policy: the compatibility of the objectives of both the public and private sector. Phrased another way, are the interests of both parties served? Often negotiations have to be held and agreements made before any progress on implementation can be made, but sources assure the effort is worth it (Rondinelli

and Kasarda 1991, Colin and Kirkpatrick 1988, Marston 1987).

The achievement of this coordination and compatibility is difficult. There are problems synchronizing the planning periods of private enterprise and national government. Individual private firms appear to have a tendency to put their short-term interests above not only the public interest, but that of the private sector as a whole as well. They may do so by exploiting policy loopholes and oversights (Cook and Kirkpatrick 1988, Cowan 1988, Ramanadham 1989).

Contracting out

One innovative form of public/private partnerships discussed in all of the sources covering the topic is the contracting out of services (for example, Birch and Davis International 1989, Triche 1990, Fitch 1988). The advantages cited include increased equity, efficiency, and cost containment. Examples of contracting are found in many countries, among them Chile and Guatemala. There the governments offer territorial concessions in large cities for long periods of time to companies that procure, purify, distribute, meter and charge for water. In both countries, tariffs are approved by the national government, which also monitors water quality (Rondinelli and Kasarda 1991). Private provision of urban water has also been tried in Africa with positive results (Triche 1990, Roth 1987).

A study in Honduras of contracting out of urban upgrading, school construction, and road construction and rehabilitation found that the anticipated cost savings and quality improvements were less than expected due to a variety of factors (Moore et al 1987). The study recommends several actions to improve the performance of contracting out: streamline contract award procedures, provide incentives to reduce the cost of inputs, encourage more use of manual labor, reassign or eliminate public employee positions that have been contracted out, use performance standards instead of specification codes for construction contracts, and restructure the market to increase competition among service providers. The implication for privatization policies with contracting out provisions is that improved performance depends upon changes in the way both the public and private sectors do business. Managers responsible for contracting out policies need to focus on building private sector capacity to respond to the technical and managerial requirements of goods and service provision while at the same time increasing public sector capacity to award, monitor, and enforce contracts effectively (Wallis 1988, Fitch 1988, Roth 1987).

In sum, to form public/private partnerships, interested parties have to work toward a common purpose, agree on how much should be invested in what, and concur on the appropriate structures and operating procedures (Birch and Davis International 1989). After such an assessment, the conclusion may be that the public sector should perform specific functions, or serve rural areas or other limited access locale. The private sector may have either chosen not to engage in such activity or have no incentive to do so. Some authors suggest that government objectives include plans for control or development of a relevant industries neglected by private business, and government subsidies to use as incentives for those activities which would reduce profits (Birch and Davis 1989, Triche 1990, Cook and Kirkpatrick 1988, Cowan 1988, Grimstone 1989).

CONCLUSION

This literature review has highlighted some of the critical issues in the implementation of privatization policy. The sources utilized convey the complexity of such a policy, and recommend that host country managers conduct a thorough stakeholder analysis. Policy managers need to understand the complexity and controversy of privatization if they hope to develop an effective implementation strategy. The IPC project advocates a strategic management process in which the characteristics and the operational context of the new policy are taken into consideration, and implementation plans are designed accordingly. Realization of the fact that all policy reforms will encounter antagonistic reactions and change the status quo represents an initial step in this process (Gustafson and Ingle 1992, Thomas and Grindle 1990).

This literature review relates to this first step of developing a specific implementation strategy. The authors of the materials not only discuss the implications of privatization, but provide information on measures to be

NOTES

1. This paper is a review of dominant themes in the literature on privatization policy, and it will not discuss at length specific cases. There are, however, many detailed sources available with a country or region focus. For example, there is an abundance of articles on the privatization experiences of Mexico and Chile due to those countries' extensive programs. These governments generally have favored the selling of SOEs over other privatization options, and this procedure has been closely studied. For further reference, see Ayala Espino and Cordera Campos (1992), Yotopoulos (1989), Hachette and Luders (1988), and Kikeri et al (1992). Eastern Europe and the former Soviet Union are unique from other regions because of the degree of complexity and "novelty" of privatization there. While there are difficulties in implementing privatization measures in countries with bloated public sectors, policy managers in Eastern European countries face an especially difficult situation (Shirley and Nellis 1991). In socialist countries, the state controlled the distribution of housing, health and leisure services, along with almost every other commodity. The public sector is much more vast than that of other countries, but the strategies for privatization discussed in this review are applicable to socialist economies undergoing transformation. Reportedly, however, the general population's fear and mistrust of the state, while present elsewhere, is especially acute in Eastern Europe and has to be taken into consideration by policy designers. For more information, see Fischer (1992), Kikeri et al (1992), Nellis (1991), Rondinelli (1991), World Bank (1991), and Komai (1990). In Asia, various forms of privatization have been pursued and sources document both policy achievements and shortcomings. See, for example, Leeds (1988), Lorch (1991), Kikeri (1992), and Shirley (1991). Africa is a more problematic region, due to many factors such as lack of viable investment opportunities, civil war, lack of infrastructure, etc. Nevertheless, there are sources which highlight the lessons learned from privatization attempts in the region. See Truong and Walker (1990), Bergeron (1991), Young (1991), and Elledge and Picard (1992).

2. This paper serves as an introduction to the literature on implementing privatization policy in developing countries. It is a product of the U. S. Agency for International Development's (AID) project, Implementing Policy Change (IPC), which assists developing country managers to improve their capacity to implement policy reforms effectively. IPC research serves to identify and analyze managerial and sectoral policy implementation issues critical to host country and AID-supported reform activities. Among the activities of IPC's research component is the preparation of targeted literature reviews. The sources reviewed here include those summarized in IPC Bibliography No. 1, Implementing Policy Change: A Selected, Annotated Bibliography (Brinkerhoff and Gage 1991), as well as an expanded set of selections. This review and the annotated bibliography series serve to inform the IPC research agenda and contribute to the process of assisting IPC teams and developing country managers in the field. These products are part of a larger effort of IPC research to develop linkages among the project's technical cooperation, dissemination, and networking components.

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