Report of the Development Committee

on

Privatization

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

October 1993

Foreword

The Development Committee, which is made up of more than 40 members of the International Organization of Securities Commissions ("IOSCO") that regulate emerging securities markets, has endorsed on October 25, 1993 this Report from its Working Group on Privatization and has authorized its public release during the XIXth Annual Conference of the Organization. The first part of the Report, prepared under the chairmanship of the Securities and Exchange Commission of the Philippines, contains an up-dated summary that includes the answers provided by 22 members of the Development Committee to a questionnaire on privatization experience, which was prepared by the Working Group. The objective of the Development Committee of IOSCO is to promote the development of emerging securities markets, in particular, by the exchange of pertinent information and the implementation of common standards.

UP-DATED SUMMARY

REPORT
WORKING GROUP ON PRIVATIZATION

Introduction

During the Development Committee Meeting in Nairobi, Kenya, the Chairman of the Working Group on Privatization voiced out her concern over the limited number of responses received. Considering, therefore, the lapse of reasonable time from the date the questionnaire was sent to each of the members, the Working Group has deemed it right to submit this Report based on the responses so far received.

Structure of the Report

The purpose of the research conducted is to analyze the different privatization experience of various developing countries.

The following terms of reference were considered:

1) The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.

2) The role of the regulatory agency in this process.

3) The possible vehicles necessary for the privatization process and the different strategies to use them, and,

4) The possible impact in the distribution of share ownership.

Summary of Data Gathered from the Responses

The following countries have had no privatization experience:

1. Bermuda
2. Cyprus
3 Guernsey, Channel Islands
4. Isle of Man
5. Jordan
6 States of Jersey

Among the respondents who have engaged in privatization program, their respective experiences are summarized as follows:

1. Argentina

In the Argentine case, the privatization process has a beneficial impact on the market particularly regarding transactional volume. The consolidation of securities markets, the penetration of Argentine companies in the international capital markets, the new drive given to the over the counter market, the increase in the daily trading volume of shares and the increase in the sub-accounts of Securities Clearing Corporation are evident.

2. Bolivia

At the moment, it did not affect the capital market. In the near future, the government is seriously analyzing the possibility of selling the public corporation through the stock market. The privatization process will have an important impact in the capital markets in the next years.

3. Brazil

The Government's priority with the privatization process is to diminish the public debt. Still, the Government intends to direct its efforts to those activities that are pertinent to the Estate. That means to focus on social interest areas such as education, health, housing, security, and infrastructure

The Brazilian privatization process has been successful since it has accomplished its proposed objectives. Yet, some aspects of the process should be reviewed to improved it. For instance: a) the foreign participation's rules should be more flexible to increase the foreign capital presence in the process; b) new mechanisms should be implemented to avoid legal problems that have inhibited the privatization process; c) new methods of privatization, other than public auctions should be implemented to conform to special situations; and d) the privatization program should be widened to include the privatization of companies in the infrastructure sector.

4. Chile

The most important effects of the privatization of state-owned enterprises were to increase, diversify the supply of securities available in the Chilean capital market, and also enlarge the number of shareholders.

5. Costa Rica

The privatization process have no effect in the capital markets. Until now there is no effect recorded due to the fact that most of the transfers have been realized through public biddings. It would be expected that the sale of shares of cement and fertilizer firms which were recently approved as well as those of the National Stock Exchange, shall be realized by means of stock exchange mechanisms.

6. Ecuador

In recent times, there has been only one case of privatization; its most significant effect was seen in the remarkable increase in the volume of negotiations on variable income in the stock market, representing 10% of the sum total of stocks negotiations, when historically, such negotiations represented less than 0.5%

7. Hungary

It cannot recommend a standard procedure to follow, because every state has its own political and economical background based on which it should define/carry out its privatization strategy. Foeign underwriting firms were employed for privatization through the stock exchange.

8. Kenya

The privatization process has had positive impact on capital markets especially the cases effected through public issues. These companies are now quoted on the Stock Exchange and the shares are performing well.

9. Mexico

The privatization process came as part of a broad economic reform program that tried to correct the fiscal and monetary imbalances of the past, and encourage economic modernization through financial deregulation, fiscal reform, the deregulation of production and distribution activities (commercial liberalization), a privatization process, and the promotion of foreign investment.

10. Nigeria

The privatization programme came into being when the economy was severely distressed and undergoing restructuring. It was therefore an integral element of the general reform exercise.

Privatization resulted in widening the base of share ownership. The number of shares of quoted companies on the Nigerian Stock Exchange increased from 3,753.55 million in 1988 to 11,273.2 million as at December 1992; a good percentage of the increase resulted from the exercise. Similarly, the privatization process has created more than 700,000 additional shareholders spread all over the country.

Likewise, privatizatio resulted in bigger value/volume of stock transact on and the stock market experienced a considerable impact on its transactions by reason of the privatization.

11. Paraguay

The Executive Branch was authorized to transfer totally or partially, to the private sector, the productive assets or services of government agencies, known as "Government Firms Subject to Privatization", as well as their shares, or as the case may be, the company/agency shares where the State is the owner or has participation herein.

11. Peru

The privatization process in Peru is one of the strategic elements in the program of structural reforms and economic modernization started by the present administration. The effort is directed to a number of basic economic-financial objective.

The balance of the process to this date shows an imperceptible impact on the securities market. This may be concluded from the high concentration in the acquisition of shares resulting from the sale of state-owned enterprises through Exchange auction, but what is more revealing is that only four of them maintain securities listed in the Exchnage, as in the case of Sogewiese Leasing S.A., Cia de Minas Buenaventura, Banco de Comercio and Quimica del Pacifico which, therefore, did not bring about an impact of significant magnitude on the stock market.

12. Philippines

By far, the largest obstacle to privatization in the Philippines is the lack of liquidity in the capital markets to support both divestment and new projects. Given the poor financial performance of many state owned enterprises, listing on the stock exchanges is possible for only a few big-ticket corporations. Thus, most of the privatizations that have taken place have been through direct sales to private investors through auction. This has raised the problem of social equity, as the pool of local corporations and individuals with the ability to purchase the assets is limited and in many cases, includes the same individuals whose assets were originally sequestered.

13. Singapore

The privatization programme added 26 companies (out of 217 companies listed on the SES) to the Singapore stock market. This helped deepened the stock market and widened investors´choice of companies.

14. Thailand

Privatization resulted in widening the base of share ownership but not to the extent that the government loses its control over the state enterprises that were privatized.

15. Tunisia

The methods and procedures of privatization are largely determined by the objectives of the government, the organization of the state-owned enterprises, the financial conditions and performances of the state-owned enterprises, the ability to mobilize private sector resources, the degree of development of the capital market and socio-political factors.

Based on the data available, we offer the following recommendations:

Privatization of government owned enterprises in areas where government directly competes with the private sector and which are concerned with non-governmental functions should be initiated and actively pursued by the government.

Inorder to ensure a successful privatization program, several factors must be considered:

First

There must be a clear legal framework that will provide transparency to the process. The support of the Legislative Body is therefore indispensable by way of enactment of a law which will implement and regulate the privatization process. It is necessary to encourage transparency and accurate valuation of the assets inorder to forestall problems which will jeopardize the exercise and to gain wide public support.

The regulatory agency charged with the task to oversee the privatization process must have highly trained professional of unquestionable honesty and integrity. No conflict of interest should be allowed to exist.

Privatization works only if the political leadership of the country is tenaciously supportive of the commitment.

Second

As experience has shown, it is better for the government to choose to sell the assets in stages so as to maximize results by taking advantage of the evaluzation of the previous experience.

Additionally, the government must implement the process step by step. As proven by studies, it is better to make a good sale late than make a bad sale early. Small companies should be privatized first to minimize risks in case an error is made and to gain experience from the faults of the privatization process undertaken.

And if possible, sell the assets in CASH. But above this, the proceeds from the privatization process should have a permanent impact on public finances (like a reduction of public debt) and should not be used to finance current expenditures.

Third

It is advisable for the government to retain some control of the privatized companies inorder to maintain check and balance.

Fourth

There must be a well-studied approach to the implementation of the privatization program. There cannot be a standard formula for priivatizing assets. Each of them is unique in its simplicity or complexity. An asset maybe of low or high value, operational or idle, obsolete or modern, clean or without liens, etc. And each country's portfolio of state owned enterprises is unique. It will be worthwhile to consider the participation of foreign consultants who can lend their expertise on the field.

Fifth

Considering the state of developing countries, foreign investors should be encouraged to participate to some extent in the privatization process. Of course, the local investors will have to be given the priority.

It is a fact that the participation of new investors especially those of institutional in nature provides significant level of liquidity to the market.

MAIN REPORT

REPORT OF THE WORKING GROUP ON PRIVATIZATION

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Structure of the Report

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The following terms of reference were considered:

1) The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.

2) The role of the regulatory agency in this process.

3) The possible vehicles necessary for the privatization process and the different strategies to use them, and,

4) The possible impact in the distribution of share ownership.

In view of the limited number of country experiences analyzed, the Group will not offer generalizations but will discuss their features in the light of the terms of reference given to the Working Group. In the end, however, we will offer recommendations based on the successful privatization programs already launched. Mainly it will focus on the terms of reference and a number of case studies using the responses given to the questionnaire.

The following countries have no privatization experience for the corresponding reasons cited:

1. Bermuda

All of the major enterprises in Bermuda have always been owned privately, there is virtually nothing to privatize.

2. *Cyprus*

In Cyprus, there has been no drive for privatization. All business entities, other than public utilities, have always belonged to the private sector.

3. *Guernsey, Channel Islands*

Guernsey has no securities exchange and no experience of privatization. Being in monetary union with the United Kingdom, it is not certain that Guernsey fits the description "developing country".

4. *Isle of Man*

Isle of Man has no privatization experience and has no securities markets either. Where shares in Isle of Man companies are quoted on public exchanges, London or Dublin prices are used.

5. *Jordan*

Jordan is considering the possibility of privatizing some of the State-Owned companies. There is some work on this issue but no clear vision has been reached yet.

6. *States of Jersey*

Jersey is a small community - 80,000 people - and has not thus far engaged in any privatization exercise. The Island is in monetary union with the United Kingdom and is part of the Sterling area. It does not have any stock exchange of its own, but where listings are required, these are obtained via the London Stock Exchange.

Among the respondents who have engaged in privatization, their respective experiences are summarized as follows and their individual responses are presented hereunder.

ARGENTINA

I. *The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.*

The privatization of State-owned companies represents a great potential for the capital markets. These big enterprises when put to sale with the government keeping a portion, may be a source of new issues of shares that increase capital markets activity where they are injected.

The idea of the so-called popular capitalism underlies the whole structure and justifies the privatization. The distribution of shares aims at the dispersion of equity among not only big investors but also small ones. Taking these newly private companies to the stock market allows full participation of the general public in the ownership of these companies and is a strong and valid counter-argument to the possibility of re-nationalization.

Employee Stock Ownership Plans (ESOP) also contribute to the development of popular capitalism. Employees become owners of a portion of the company previously owned by the State, thus giving them a further interest in maintaining the company in private hands. Moreover, like any other ESOP, this also serves the purpose of providing an incentive to increase profitability by enhancing the cooperation of the labor force.

In the Argentine case if we analyze the results that the offering of Telefonica and Telecom (the two companies created by the privatization of the Argentine National telephone company) has had, we will be able to see the beneficial impact it had on the market particularly regarding transactional volume. The consolidation of the securities markets, the penetration of Argentine companies in the international capital markets, the new drive given to the over the counter market, the increase in the daily trading volume of shares and the increase in the sub-accounts of Securities Clearing Corporation shareholders are evident.

In 1989, the Government-sponsored State Reform Law was adopted by Congress declaring 32 state enterprises eligible for privatization. The aim of the privatization was to increase the efficiency of public-sector enterprises as well as provide cash proceeds to reduce the public-sector deficit and the Government's foreign debt through selective use of debt-equity conversions.

Taken as a whole, privatizations are an extraordinary tool to increase capital markets activity in an economy in the process of recovery. A quick glimpse at the emerging securities markets of those countries under privatization process should be enough.

The volume traded in the capital market increases greatly when new offerings arising out of the privatization process are made. Domestic and international capital is injected in the market stimulating its growth.

The dispersion of equity introduces the public massively in the securities markets. This results in a greater interest in those securities already traded in the market.

II. The role of the regulatory agency in this process.

The State Reform Law regulates different aspects regarding privatizations.

1. ***Reorganization of public companies.***
2. ***Employee Stock Ownership Plans.***
3. ***Protection of employment and the workers' labor situation during the privatization process by assuring the continuation of the protection afforded by labor laws.***

Regulatory bodies should promote the enactment of new legislation in order to deregulate and ensure transparency in the market. Thus, the privatization process together with the legislation create the necessary conditions to attract capital for portfolio investments.

The role of the securities regulatory body is to give advice and supervise the public offering process. In order to accomplish this, it has to make a thorough analysis of the capital market structure and the political and economic factors that may influence the offering.

III. *The possible vehicles necessary for the privatization process and the different strategies to use them.*

The privatization of the Argentine telecommunicaions sector has represented a total income of:

Cash:	*US$ 2,279 million*
Promissory Notes:	*US$ 380 million*
GRA:	*US$ 5,028 million*

The telephone company was the first to be privatized. It was divided in two blocks: a strategic sale of 60% and a public offering of 30%. The remaining 10% was distributed among the employees according to the Programa de Propiedad Participada or Employee Stock Ownership Plan established by law.

The Dutch Auction or Non-discriminatory sealed bid auction adapted to the governmental requirements had excellent results. However, this mechanism is not widely accepted in the international field.

The offering consisted of a) an initial Retail Offering in Argentina to natural persons domiciled in Argentina and b) an initial Wholesale Offering in Argentina, ADSs in the United States and GDSs outside Argentina and the United States.

The Wholesale Offering included a Competitive Offering and the Non-Competitive offering. There was a minimum price set for the Competitive offering and the Argentine shares, the ADSs and the GDSs were awarded in descending order of the amount bid per share. The Non-Competitive offering was awarded at the clearing price established in the Competitive Offering.

The offering was made in two stages. Telefonica went public first and three months later Telecom followed. This two-stage process offered better results.

The mechanism of public offering chosen allowed the government to collect higher amounts than if a fixed price mechanism had been used achieving in this way the maximization aimed by it.

It may be advisable that the government choose to sell the other privatized companies in stages so as to maximize the results by taking advantage of the evolution of the previous stages.

The procedure to sell the stakes of the government to the general public (as opposed to the sale of control stakes to operators of the privatized companies) may be:

1. *Open outcry in which an auctioneer cries out the different bids.*

2. *Sealed bid auction in which the bids are contained in sealed envelopes.*

Within the first type we can distinguish two kinds:

a) *the so-called English auction in which a minimum price is set and there is a progressive increase until the highest bid is made.*

b) *The so-called Dutch auction in which a high price is set and it decreases gradually until it is awarded to the first bidder.*

Within the second type of sealed bid auction we also have two kinds:

a) *Discriminatory sealed bid auction. It has been the most widely used. In this type the bidder states how much it offers to pay and the auctioned goods are awarded to the one who bids the highest who must pay the price it has offered.*

b) *Non-discriminatory sealed bid auction, also called Dutch auction. Every bidder offers a price and the goods are awarded to the highest bid but the price paid is the best rejected price (or the worst accepted price).*

IV. *The possible impact in the distribution of share ownership.*

Privatization creates the possibility for an emerging market to insert itself in the international capital markets. The shares of newly privatized companies may trade abroad with excellent returns for investors.

There has been a substantial increase in the sub-accounts of Securities Clearing Corporation shareholders, the entity in charge of depository trust services.

BOLIVIA

I. The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.

At the moment (April, 1992 - March, 1993) it did not affect the capital market. In the near future, the government is seriously analyzing the possibility of selling the public corporation through the stock market. The privatization process will have an important impact in the capital markets in the next years.

The privatization experience was, by all means, succesful, because it was carried with absolute "transparency".

The objectives of the privatization is for the government.

- Change the role of the State;
- Promote the growth of the Gross National Product;
- Develop the capital market;
- Promote the "popular capitalism"; and
- Promote efficiency in the management of the enterprises

II. The role of the regulatory agency in this process.

The starting point of the privatization process in Bolivia was the promulgation of the Supreme Decree No. 21660 on July 10, 1987. This Decree empowers the Ministry of Planning and Coordination of Bolivia to "reorganize" the public enterprise sector. On January 4, 1990, the Supreme Decree No. 22407 was promulgated. This Decree defined, among other things, the functions and responsibilities of the Comision de Evaluacion de *la Empresa Publica (CEEP) (institution in charge of the privatization process). On June 14, 1991, the Supreme Decree No. 22836 was promulgated. With this Decree, on one hand, the UEREP (technical arm of the CEEP) was created, and on the other, defined the policy towards the privatization process.*

The objectives of the privatization are also for the regulatory authority concerned.

- *"Transparency" in the process; and*
- *Transfer as many enterprises as possible to the private sector, always within the law.*

III. The possible vehicles necessary for the privatization process and the different strategies to use them.

- *Transparency at every stage of the process*
- *Enough information to the public*
- *Regulatory agency in charge of the process must have highly trained professionals*
- *The agency must have direct contact with the highest economic authorities of the country*
- *Take the process step by step, do not hurry. It is better to make a good sale late, than make a bad sale early.*
- *If possible sell the corporations in cash*

Foreign consultants were employed, specially at the beginning of the process. As the process advanced, only national professional took charge of the privatization.

IV. The possible impact in the distribution of share ownership.

Some of the corporations were bought by private enterprises, whose shares are owned by large groups of investors (Sociedades Anonimas). In that sense some widening of the share ownership has resulted. On the other hand (popular capitalism through the stock market), no widening of share ownership has occured. There was no stock transaction.

BRAZIL

I. *The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.*

The privatization process started on October 24, 1991. Usiminas, a steel company, was the first Government owned company to be privatized.

Three privatized companies became public within the process, widening the stock base in the market.

II. *The role of the regulatory agency in this process.*

1. *National Development Bank*

   - *To stimulate the modernization of the national industry through competition.*

2. *Brazilian Securities and Exchange Commission*

   - *To strengthen the Brazilian capital market through the dissemination of stock ownership.*

III. *The possible vehicles necessary for the privatization process and the different strategies to use them.*

The privatization was done through public auctions in the Stock Exchanges, sale of stock to the company's employees, and public offering of the shares not sold in the auction.

Other possible vehicles are:

- *Going public*
- *Raising capital through the release of the subscription rights.*
- *Reorganization, incorporation, merger, or division.*
- *Alienation, lease, rent.*
- *Company liquidation or partial divestiture.*

Several foreign consultancy firms have participated in the Brazilian privatization process. Also, foreign investors had a small participation in the process.

IV. *The possible impact in the distribution of share ownership.*

There has been dissemination of share ownership in most privatized companies.

CHILE

I. *The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.*

Chile has carried out a privatization process of state owned enterprises. This process was mainly made during the period 1974-1988. The privatization process of state owned enterprise in Chile began in a historical moment, where the state participation exceeded 80% of GDP. The development strategy followed by the administrations prior to September of 1973, can be characterized as one of industrialization based on the principle of import substitution. This kind of economic policy was adapted by all Latin American countries, with different scopes, roughly from 1930, year of the great financial crises in U.S.A. and Europe. The Chilean economy showed in the period 1930-1973, the following main features:

1. *Scarce opening to the international trade, due to the structure of high tariffs on imports followed by the authorities.*

2. *The securities market was also barely developed. The main supplier and demander of securities was precisely the state itself.*

3. *As a consequence of the high participation of the state in the productive system, there were a great number of regulatory bodies, often non-compatible among them.*

It can be asserted that the privatization of state owned enterprises attained the main goals of economic policy formulated by the government. The most important objective obtained was the reduction of the state participation in the different productive activities of the Chilean economy. The decrease in the size of state ownership has as counterpart an increase in the size of private sector ownership. This pact is very clear, analyzing the increase in the number of shareholders of the companies recorded in the Santiago Stock Exchange. The government pursued several objectives with the privatization of state owned enterprises. The main aims were:

- Strengthen and enlarge the share of the private sector in the economy
- Supress or reduce in the greatest possible extent the operational deficit of state owned enterprises
- Increase the economic efficiency of state owned enterprises
- Develop and strengthen the securities market
- Improve the capitalization condition of those enterprises
- Additional revenues for the state, which allowed to make the expansion and modernization of those public enterprises controlled by CORFO, a development corporation which managed the main enterprises owned by the state.

The most important effects of the privatization of state owned enterprises were to increase, diversify the supply of securities available in the Chilean capital market, and also enlarge the number of shareholders.

It is relevant to observe that, in a securities market like the Chilean, characterized by a scarce variety of securities, being mostly issued by the government, through the Central Bank, and by a high degree of concentration by economic sectors, the privatization process of state owned enterprises powerfully helped to widen the investment possibilities of investors, especially from institutional investors like insurance companies, mutual funds, pension funds administrators, etc.

The privatization process of state owned enterprises increased the supply of securities, in a market with a new set of regulations. Under these conditions, the privatization process of state owned enterprises contibuted to enlarge the volume of transactions of securities, encourage the entry of new specialized agents and intermediaries, and promoted the participation of new investors, basically of institutional nature, who provided a significant level of liquidity to the Chilean securities market.

II. The role of the regulatory agency in this process.

The government was a firm supporter of an economnic development strategy based on the functioning of a free market system, with a minimum interference of state regulation. All the responsibility of the economic growth was basically assigned to the private sector.

The role of the state, under this new view, was exclusively subsidiary. So, the state had to concentrate its attention and its resources to those activities where the private sector was unable to bring about provision of public goods, such as administration of justice, and into the design and implementation of aid programs to the poorest citizens of the Chilean society.

The reduction and change of the state role in the economy, induced by the privatization process of state owned enterprises, together with the application of a development strategy based on the functioning of the free market, implied for the regulatory authority to design set of norms, which should conduct to an efficient functioning of those enterprises, whose ownership was transferred in a partial or total way to private sector. Otherwise, few prospective private investors would have been interested in purchasing shares of state owned enterprises.

The regulatory framework had to make compatible the goals of social welfare with the natural pursuit of attractive private profitability rates by potential investors.

III. The possible vehicles necessary for the privatization process and the different strategies to use them.

The main instruments employed by the government in the privatization process of state owned enterprises are the following:

1. Sales of shares in stock exchange markets.
2. Direct sales of shares to the workers of the enterprises to be privatized or anybody else interested on it.
3. Payments in the form of shares of the enterprises to be privatized instead of money.
4. Credit operations, with repayment periods of 4 to 6 years.
5. Investment companies (workers as shareholders, in some cases) which obtained banking loans in order to purchase shares, allowing that these securities constitute pledges, until the full payment of the banking loan.

Another instrument, whose employment in Chile was basically for banking enterprises, and some qualified non-banking companies were the conversion of external debt promissory notes into shares of enterprises to be privatized.

The swap mechanism could be an attractive instrument for those countries which still maintain large burden of external debt.

The presence of foreign consultants/underwriters was not significant in the privatization process of state owned enterprises.

IV. The possible impact in the distribution of share ownership.

The privatization process of state owned enterprises implied to widen the number and type of investors. So, for instance, many workers who never knew any security, turned to be important investors.

The privatization process effectively attained to diffuse the ownership, although it was also very foreseeable that those individuals or groups with better managerial abilities and financial resources attained to buy a large percentage of shares of the privatized enterprises.

The privatization process of state owned enterprises involved a strong increase in the value/volume of stock transactions.

Also, the privatization process of state owned enterprises implied an increase , diversification in the supply of securities, joined with an increase in *the number of shareholders into capital markets. The increasing demand of the institutional investors drove to a strong increase in the value of transaction volume and the general index share price (GISP).*

COSTA RICA

I. *The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.*

Privatization in Costa Rica was seen as part of a global strategy to adjust the economy toward a more efficient and productive structure, ruled largely by agreements implicit in the borrowings of international organisms to finance said adjustment programs, attributing to the efforts of privatization an important role within the conditionality of the borrowings.

The privatization process have no effect in the capital markets. Until now there is no effect recorded due to the fact that most of the transfers have been realized through public biddings. It would be expected that the sale of shares of cement and fertilizer firms which were recently approved as well as those of the National Stock Exchange, shall be realized by means of stock exchange mechanisms.

II. *The role of the regulatory agency in this process.*

From the point of view of global adjustment, the regulatory mark which defines the process of privatization has various limitations, particularly with repect to the transfer of company assets which requires consent of the Legislative Assembly and in the limitations entailed by the public administration in the adjudication of firms with bid values inferior to its valuation/appraisal, and for which it was necessary to create a trust fund in national currency with the end to purchase such firms.

III. *The possible vehicles necessary for the privatization process and the different strategies to use them.*

The present situation gives a picture of an increase in the resources offered, on an average and long-term basis, proceeding from funds from complementary allowances and from work suspensions, which would be in need of long-range tools (which the capital markets actually lack). This could allow for a favorable change in conditions where there is a demand for hereditary proprietorship of companies. Conditions for transfer of companies/firms establishing the obligatoriness of sale of stocks through the market could find positive response that would invalidate the argument given as a justification for the sale through public biddings.

Public bidding has been the mechanisms used, par excellence, in addition to the possibility that those firms that are not adjudicated by purchased/acquired through trusteeship, and who after some time, would again sell them to the public sector. The investment of stocks in the capital markets has been an exception to the rule.

Given a more developed capital market, the best alternative would be to sell through the stock exchange mechanism.

Foreign participation has been channeled through Loans for Structural Adjustment and the constitution of FINTRA (trusteeship in charge of the acquisition of firms that are not adjudicated, and of subsequent sale, constituted by USAID FUNDS).

IV. *The possible impact in the distribution of share ownership.*

Privatization did not result in widening the base of share ownership and in bigger volume/value of stock transaction. Likewise, the stock market did not experience a considerable impact on its transactions by reason of the privatization.

ECUADOR

I. *The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.*

In Ecuador, the only recent experience on privatization, is the case of Banco de la Previsora, S.A., whose capital share (30,500,000 shares) was transferred to the private sector in 1988 by way of public adjudications, in which the applicant/solicitor could only acquire a maximum of 10,000 shares with an equivalent amount of one million sucres (or 3,316 US Dollars).

The government of Ecuador, through the Bancos de Desarollo Publicos, (National Development Banks) has capital participation in some firms. In the last few years, there has been a process of non-investment in companies/firms with government participation. This non-investment or stocks selling has been carried through the Stock Exchange.

In recent times, there has been only one case of privatization; its most significant effect was seen in the remarkable increase in the volume of negotiations on variable income in the stock market, representing 10% of the sum total of stocks negotiations, when historically, such negotiations represented less than 0.5%.

II. ***The role of the regulatory agency in this process.***

The present government has submitted a bill for approval by Congress, on the Modernization of the State, where consideration is given to the process of privatization of government agencies.

Said bill has the following principal objectives: *a) to increase the levels of efficiency, agility and productivity in the various functions of the State as well as to promote, facilitate and strengthen co-participation of the private sector in areas of economic exploitation reserved for the State; b) to bring to the people services with greater efficiency; and c) to be involved in activities formerly reserved for the State such as telecommucication, electrical energy, refining of hydrocarbon, and many others.*

A bill on the stock market is now under deliberation. This aims at the development of a financing source, which is presently in its initial stage and is almost referred to exclusively in negotiations under the heading fixed income.

III. *The possible vehicles necessary for the privatization process and the different strategies to use them.*

There is actually a national debate as to which among the economic sectors as well as the government agencies, may be subject to participation and how to go about it. There is also a consensus that we must learn from the experiences of other countries thus avoiding the mistakes committed by the same.

There is no general degree of development that is uniform for all countries, that would serve as referential basis to initiate privatization processes. Rather, they are conceived within the universal tendency to attain liberalization of productive processes through competition, leaving on one side the "estado empresario" (the state as manager); nevertheless, it seems that the high public (government) expenditures and the financial deficits are the indicators that warrant this process. One must also take into consideration the government's awareness of the need to improve the services rendered by government agencies, which undeniably, are highly inefficient.

IV. *The possible impact in the distribution of share ownership.*

The minimum amount of investment was 3,316 US dollars. There is no information whether it was productive or not, for the majority of the people; however, the company cited, is presently known for having maintained a segment of the financing market and the gains/results it has obtained are comparable to those of the rest of the system.

There is a greater volume/bulk of negotiations in the stock market during that year. Inasmuch as all stock negotiations were carried out in the market (3,500 millions of sucres, approximately 11.6 million US dollars). Likewise, the only effect was in the stock market.

HUNGARY

I. *The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.*

Privatization is one of the first steps to market economy. Privatization itself is a tool. Without an independent strong private sector, we could never create an effective economy. The launching of the "New Economic Mechanism", the centrally planned economy has been gradually reformed and a profit oriented economy was aimed.

These reforms included:

- *giving more independence to the state owned enterprises*
- *establishing a western style personal income tax system*
- *liberalization of imports*
- *gradual decrease of state subsidies*
- *liberalization of prices and wages*
- *developing of financial system*
  - ** introducing of a two-tier banking system*
  - ** reopening of the Budapest Stock Exchange, etc.*

After these reform steps following free elections, a multi-party system was established, the resulting economic policies benefited from the macroeconomic background and germs of the ownership reform were already established. The new Government of Hungary decided in 1990 to reduce the state's participation in the economy from 90% to less than 50% until 1994.

Effect of privatization process on capital market

Up to now 6 corporations have been floated by the SPA on the Budapest Stock Exchange. In the near future there will be a new type of floating namely after a direct sale the strategic investor has to float a certain part of its shares on the stock exchange. It should be clear that privatization through the stock exchange was the beginning of the capital market's life. Second, the corporations privatized by the SPA lead the public offering, because the private firms were not strong enough to do it.

II. *The role of the regulatory agency in this process.*

The methods of privatization were basically formulated according to who initiates the privatization. Any of the three parties could initiate it.

- state initiated "active programs". The centralized privatization started in September, 1990 with First Privatization Program for 20 state owned enterprise. The Second Privatization Program started in January, 1991 for the so called "shell companies". Some programs were initiated for sectors like for construction and for historical vineyards.

Other parties that could initiate privatization are:
- companies
- investor

The following two methods had also an important role:

- *pre-privatization in retail, catering and consumer goods sector. This program was launched in order to privatize small shops and restaurants.*

- *self-privatization. For the accelaration of the process, the SPA introduced a new way of privatization. It meant that "privatization was privatized" - the smaller cases could be privatized by consultancy firms, so the SPA could give more attention on bigger transactions.*

The SPA's task was at its establishment <u>to transform and privatize 2,000 state owned enterprises with asset HUF 1,800 billion.</u> Altogether, by the end of 1992, 18% of the state property has been privatized in the responsibility of the SPA since 1990. A State Holding Company was established in August 1992 by Law No. LIII.

III. *The possible vehicles necessary for the privatization process and the different strategies to use them.*

Vehicles

- *Trade-sales by tendering*
- *public offering*
- *floating on the stock exchange*

- *compensation warrant*
- *ESOP (Employee Share Ownership Program)*
- *MBO*
- *leasing*
- *planned credit notes*
- *installment payment*

We cannot recommend a standard procedure to follow, because every state has its own political and economic background based on which it should define how to carry out its privatization strategy. Foreign underwriting firms were employed for privatization through the stock exchange.

IV. The possible impact in the distribution of share ownership.

The sale of assets to the employees has widened the number of owners. They could get several allowances, even they could pay lower price for a share. In accordance with the Employee Share Ownership Program (ESOP), shares and ordinary shares (or common stock) were distributed. Through ESOP, approximately 5-10% of enterprises at an average were sold. Privatization through stock exchange did not increase the number of new share-owners.

KENYA

I. The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.

The privatization process has had positive impact on capital markets especially the cases effected through public issues. These companies are now quoted on the Stock Exchange and the shares are performing well.

II. The role of the regulatory agency in this process.

In July 1991, the Government announced its intention to privatize its investments in 139 companies which are non-strategic and commercial oriented, subsequently, in 1991, the Parastatal Reform Programme Committee (PRPC) was set up to oversee the sale of Government interests in those enterprises. The PRPC has an executive and technical wing which prepares and packages the enterprises for sale.

The objectives of the regulatory authority are similar to those of the Government. The Authority is also concerned about transparency in the sales proper, valuation of the public assets being sold and ensuring that there is a wide distribution of ownership of the capital being sold. The Capital Markets Authority however is specifically involved in privatization through public issues.

III. The possible vehicles necessary for the privatization process and the different strategies to use them.

To ensure a successful privatization programme, it is necessary to encourage transparency and accurate valuation of such public assets besides ensuring a broad distribution in the sales. This is necessary to diffuse any potential social or political resistance which would otherwise stall or jeopardise the exercise.

Secondly, it is necessary to carry out the exercise bearing in mind that in the event that the local investors can not take up and efficiently run some of the enterprises due to limited capital base and technical know-how, foreigners should be allowed to partake in such cases for the overall benefit of the economy.

Thirdly, the exercise should be gradual and well programmed so that it is successful. The financial sector should also be encouraged to advance credit to entrepreneurs who wish to partake in privatization.

Several methods have been used to effect privatization. Public issue of securities by state owned enterprises, private placement, management and employees buyouts sale of assets through tender and allowing private provision of some non-essential public services on costs sharing basis.

There are other vehicles that need to be explored as the exercise progresses. Vehicles such as Employee Stock Ownership Plans, Management Buy Outs and

Leasing, Restructure Operate & Own Investments Trusts, etc. are some of the advanced methods that should be explored.

No foreign consultants/underwriters have been employed for the exercise. However, technical assistance from the USAID and World Bank have been extended to facilitate the implementation of the exercise. Actual underwriting of sale of securities is relatively underdeveloped domestically and may take some time before it takes root.

IV. *The possible impact in the distribution of share ownership.*

Privatization has so far resulted in widening of share ownership base in the five enterprises where privatization has taken the form of issue of shares to the public. Emphasis has been on allotting the shares to a wide cross-section of investors, nationwide. In case of oversubscription, the allotment is scaled down while ensuring all the investors applying for small blocks of shares are given preference. In other cases, predetermined upper ceiling of number of shares that can be applied by an individual investor is set.

Privatization has had some positive impact on the turnover of share trading at the Exchange. The few companies that have been privatized partially through public issue of shares are among the most popular and actively traded on the Stock Exchange. This has increased the volume of transactions and market capitalization.

The stock market experiences positive impact on its transactions whenever a new public issue is concluded and subsequently starts to trade on the secondary market. This has been also true of all public issues under the privatization programme.

MEXICO

I. *The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.*

The privatization process came as part of a broad economic reform program that tried to correct the fiscal and monetary imbalances of the past, and encourage economic modernization through financial deregulation, fiscal reform, the deregulation of production and distribution activities (commercial liberalization), a privatization process, and the promotion of foreign investment.

At this moment, Mexico is consolidating its stabilization program which has brought about lower inflation levels, positive and stable growth and better economic perspectives.

The effect of this process in the capital market was relatively important. Even though only 20 companies from the 961 that have been divested, have been sold through the capital market, their value represents 90% of the total amount earned through the privatization proces.

The privatization process did affect the capital market, but not in a substantial manner. There are too many factors that are involved in the market operation that would have to be considered before assessing any possible growth in operations to the privatization process.

II. The role of the regulatory agency in this process.

The Office for the Divestiture of Public Companies (Unidad de Desincorporacion de Entidades Paraestatales) is mainly concerned with verifying that the privatization cases that are under its control are completed in the estimated time and in the most appropriate manner.

The privatization process starts with the government's public announcement that it is to divest from a company whose activities it does not consider strategic or of high priority to the nation.

The Office for the Divestiture of Public Companies will then determine, together with the ministry responsible for the company, if the said company is to be sold, terminated, merged or transferred, depending on its general situation and its line of work.

If it is decided that it will be sold, the government will choose, on the basis of previous experience and loads of work, a commercial bank, that will serve as the government's sales agent.

From this point on, the bank develops the payment scheme to be followed, and an auction is held, receiving and evaluating different buying offers, and from these the most appropriate one is selected (the main factor being the price offered).

III. *The possible vehicles necessary for the privatization process and the different strategies to use them.*

In the case of Mexicana de Aviacion, a Mexican airline company, the selling process consisted on returning the profits from the sale to the new owners as investment capital, so that the government would not have to spend on modernizing the company, and the airline could develop as necessary. In fishing industries, a scheme was developed, including private financial agents, to accomplish the divestiture of this sector's companies. Another specific case, involving sugar plants, was solved by creating debentures related to the price of sugar, so that if the price of sugar were to decrease, the price paid for the plant would fall.

Although general privatization guidelines and steps can be described, it is important to mention that the privatization process in Mexico has followed a case by case approach, in which the company's characteristics, its market's structure, etc. play an important role in determining the exact divestiture process to be used.

The vehicles more frequently used where selling, termination, mergers and transfers of companies.

From the Mexican privatization experience, we can conclude that this process should be dealt in a case by case study, adequating the vehicles that have just been mentioned to each specific case.

In the case in which simultaneous local and international offers where made in the securities market, foreign consultants did participate.

IV. *The possible impact in the distribution of share ownership.*

Only in the case of the 20 companies that where sold through the capital market can we see some widening in the base of share ownership.

The value and volume of stock transactions increased during 1991 and decreased during 1992, in general terms. This cannot be said to have happened due to the privatization process, since there are many other factors that are involved.

The privatization process is just one of the factors that have had an impact on market transactions. By itself, it has not had a considerable impact.

PARAGUAY

I. The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.

No answer.

II. The role of the regulatory agency in this process.

The Executive Branch was authorized to transfer totally or partially, to the private sector, the productive assets or services of government agencies, which shall henceforth be known as "Government Firms Subject to Privatization", as well as their shares, or as the case may be, the company/agency shares where the State is the owner or has participation herein. The law shall determine, in each case, which are to be the "Government Agencies Subject to Privatization".

A National Bicameral Commission of Congress shall be constituted, to be composed of 3 Senators and 6 Representatives, and to be designated by their respective chambers. Said Commisssion shall formulate its own rules, create its internal structure and shall attend to the coordination between the Legislative and Executive Power, in so far as the implemenmtation of the law is concerned.

The Bicameral Commission shall be regularly informed of everthing pertinent to the process provided for by the present law. Likewise, the Bicameral Commission shall make observations, proposals and recommendations.

In the case of "Government Agencies Subject to Privatization" rendering service to the people, prior to their transfer to the private sector, a law has to be passed determining the regulating mark to which the respective services shall be adjusted.

The Contraloria General (similar to the Dept. of Finance & Expenditures) of the country shall inform the private sector of the transfer of "Government Agencies Subject to Privatization", in accordance with the powers incumbent upon them. For this reason, it may hire advisory companies/agencies and professionals it deems necessary.

The Executive power is likewise empowered to express/award preferences in the acquisition of "Government Agencies Subject to Privatization" or of the shares of those.

The Executive Branch is empowered to delegate the functions, as provided for by the laws, to a Privatization Council, composed of Ministers of Finance, Commerce and Industry, Agriculture and Livestock, and the Chairman/President of the Centeral Bank of Paraguay. The first of the Ministers mentioned is the president of the Council.

The Privatization Council shall appoint an Executive Director whose functions shall specifically be defined in the rules (of this law) as dictated by the Executive Branch.

III. The possible vehicles necessary for the privatization process and the different strategies to use them.

Privatization was carried out in any of the following manners:

a. Sale of assets as a unit or separately, avoiding that the sale of one portion will cause a devaluation of the rest of the assets;

b. Sale of shares;

c. Sale of productive/earning establishments that are in operation;

d. Lease with or without option to purchase, for a certain period, having to fix in advance the selling price; and

e. Concession, license or permission for a definite period.

For this purpose, any of the following procedures were employed; bidding sale of shares in the stock exchanges, etc.

IV. The possible impact in the distribution of share ownership.

No answer.

PERU

I. The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.

The privatization process in Peru is one of the strategic elements in the program of structural reforms and economic modernization started by the present administration. The effort is directed to a number of basic economic-financial objectives: among which outstanding are the source of incomes for the state and the correction of imbalances in public finances as well as an increase in the competitiveness and efficiency of entrepreneurial management. This includes the long term feasibility of enterprises, their administrative and legal soundness and the attainment of a fast privatization, which may take them to acceptable production quality operation levels that will eventually strengthen the role of the private sector as key factor in the economic development of the country.

One of the objectives of the privatization process is to foster a wider distribution of the shares held by state-owned enterprises, therefore the sale of public enterprises to private and civil workers, savers and users and institutional investors, etc. has been suggested contributing in this way to backstop the development of a domestic capital market. The importance of concentrating the operations in this market is explained by the benefits it offers: transparency, security, wide dissemination, sufficient access to information on the enterprises, ample participation on local and foreign bidders, market-fixed selling prices and, in brief, all those factors allowing an efficient execution of the process.

However, the balance of the process to this date shows an imperceptible impact on the securities market. This may be concluded from the high concentration in the acquisition of shares resulting from the sale of state-owned enterprises through Exchange auction, but what is more revealing is that only four of them maintain securities listed in the Exchange, as in the case of Sogewiese Leasing S.A., Cia de Minas Buenaventura, Banco de Comercio and Quimica del Pacifico which, therefore, did not bring about an impact of significant magnitude on the stock market.

II. The role of the regulatory agency in this process.

In order to meet the objectives, the Commission for the Promotion of Private Investment (COPRI) was created on September 26, 1991 and started in mid February 1992 with the first 26 privatization processes in mid February 1992.

III. The possible vehicles necessary for the privatization process and the different strategies to use them.

The Private Investment Promotion Law in State-Owned Enterprises stipulates that the sale of the shares held by the State should be performed through public offer under the mechanisms of:

a. Sale through the Stock Exchange, in an Exchange Round or the Trading Desk.

b. Public auction sale.

IV. The possible impact in the distribution of share ownership.

Thus far, the results of the privatization of public enterprises evidence that the process has not given origin to a wider diversification of the owenership, rather, in the majority of the cases, it has tended to concentrate in big economic power groups.

The impact on the transactions of the securities market in Peru as a consequence of the privatization has not, as already indicated, been significant, it is possible, however, to identify an indirect consequence on the amounts traded, since the confidence climate created for foreign investments as a result of the beginning of this process has given place to a higher foreign investment in the country and, therefore, an enhanced dynamism in our securities market.

PHILIPPINES

I. The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.

In developing countries like the Philippines, public enterprises play a key role in its economic development. These public enterprises, especially in the field of power, transport and energy, to name just a few, are organized primarily to pursue industrialization programs. While private businesses are being encouraged, there are certain areas where government has to take the initiative in. These are segments of the economy that are either capital intensive or where the private sector lacks the pioneering spirit. Those enterprises are established, therefore, to lead the way and spur private capital into these activities. Others are created to offer some form of initial competitiveness to certain business pursuits that are locked in monopoly.

The privatization program of the government has been off to a good start. It has been a source of funds for the reduction of the country's fiscal deficits. While a good number of enterprises identified to be privatized are still in government hands, some major businesses are already in private management.

The privatization of PAL (through USAID assistance) was the largest single privatization transaction that has taken place under the auspices of the country's privatization program. Though not as far reaching in terms of broadening ownership among the local populace, it helped in assuring all those holding a pessimistic view, that an entity having all *the possible ingredients of problems, can still be privatized if the determination is strong among those carrying out privatization programs.*

Even though the Asset Privatization Trust (APT) has been able to fulfill its major objectives, however, the entity has done little towards achieving its broader objectives of developing the capital market base in the country. The project assistance has also not COP from August 31, 1992 to December 31, 1993.

With the extension of its life up to December 31, 1992 under Republic Act 7181 and subsequently, Executive Order No. 11, the APT renewed its thrust in pursuing the privatization program of the government in support of improving economic efficiencies and sustaining economic growth.

III. The possible vehicles necessary for the privatization process and the different strategies to use them.

By far, the largest obstacle to privatization in the Philippines is the lack of liquidity in the capital markets to support both divestment and new project. Given the poor financial performance of many state owned enterprises, listing on the stock exchange is possible for only a few big-ticket corporation. Thus, most of the privatizations that have taken place have been through direct sales to private investors through auction. This has raised the problem of social equity, as the pool of local corporations and individuals with the ability to purchase the assets is limited and in many cases, includes the same individuals whose assets were sequestered.

Privatization through listing in the stock exchange only took place with the initial public offering of Philippine Naitonal Bank and Manila Electric Company in 1989 and in January 1992, respectively.

Both Meralco and PNB also tapped international markets by issuing GDRs on a portion of their floats. The IPOs were both successful, riding on ample pre-election liquidity. The Meralco GDR in particular, took over PLDT's role as the market's standard bearer and boosted investor interest in the market.

During 1992, 37 assets were disposed primarily through negotiated sale. This mode of disposition predominated APT's disposition as the stringent measures in R.A. 7181 made it hard for prospective buyers to comply with APT's terms during the bidding. Other dispositions during the year were through bidding and settlement by the debtor either through a direct-debt-buy-out (DDBO) or compromise agreement.

Disposal Mode

A. Thru APT Dispositions
   1. Bidding
   2. DDBO-AV
   3. DDBO-TP
   4. Retrieval
   5. Other Modes (Negotiated sale, etc.)

B. Thru Non-APT Dispositions

   6. GFI Sales (Government Financial Institution)
   7. Other Modes

IV. The possible impact in the distribution of share ownership.

For example, the initial public offering of the shares of the country's largest commercial bank, Philippines National Bank, paved the way for other profitable state-owned institutions to go public like the nation's flag carrier, the Philippine Airlines. The privatization of these two giant government entities did not only earne much needed revenue for the national government but it also has drawn foreign investments into the country and stimulated a lot of interest in the stock market. The privatization of Manila Electric Company also expanded considerably the base of its ownership to include its millions of electric power subscribers. Next in line for privatization is the National Steel Company, the Philippine National Oil Company, the Manila Hotel, the Philippine Duty Free Shop and other profitable partially or wholly-owned state-owned enterprises. The essential privatization of these entities will not only provide needed revenue to the government but it will also bring about an increase in the supply of shares and perk up the securities market.

SINGAPORE

I. *The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.*

The privatization programme added 26 companies (out of 217 companies listed on the SES) to the Singapore stock market. This helped deepen the stock market and widen investors' choice of companies. These 26 companies account for 12% of the total number of companies listed and together represent 30.4% of total market capitalization of SES as at 31 December 1992. Popularity of GLCs also enhanced market liquidity. They accounted for 12.9% of total market volume and 31.2% of total value of trades done on the SES in 1992.

II. *The role of the regulatory agency in this process.*

Between 1968 and 1985, the Singapore Government divested part of its shareholding in 6 government-linked corporations ("GLCs") by floating them on the Stock Exchange of Singapore ("SES"). In 1987, the Government appointed a Divestment Committee comprising private and public sector representatives, to establish privatization principles and guidelines, and to identify those GLCs and statutory boards which are suitable for privatization. Following the recommendations of the Divestment Committee, the Government has since 1987 privatized another 20 GLCs by listing them on the SES. In connection with the listing of these GLCs, the Government offered between 30% to 20% of the equity interest to the public for subscription.

Singapore had established corporate laws which embodied safeguards to protect shareholders, including disclosure requirements of financial information and provisions on directors' duties and responsibilities. The regulation of stock market was further improved in 1986 with the introduction of the Revised Securities Industry Act. The new legislation raised the standard of business conduct required of intermediaries and imposed new financial requirements to ensure that they operate prudently. These laws have been instrumental in building both local and foreign investor confidence in the local capital market and protecting investors' interest.

III. The possible vehicles necessary for the privatization process and the different strategies to use them.

The privatization programme in Singapore was effected by converting the Government's interest in business into a public company incorporated under the Companies Act. Shares in these public companies are offered to the public before they are listed on the stock exchange.

Some of the public offers made by GLCs were co-underwritten by the Singapore branch of international securities and broking houses. However, majority of the floatations by GLCs were lead-managed by local banks and sucurities firms.

IV. The possible impact in the distribution of share ownership.

The privatization of GLCs has succeeded in increasing the share-owning population in Singapore markedly. In the 10 years between 1980 and 1990, the share-owning population in Singapore surged 65%; from 228,248 in 1980 to 377,021 in 1990. More remarkably, the average shareholding of each share-owning resident has more than quadrupled; from 12,827 shares in 1980 to 51,394 in 1990.

The privatization programme has had a significant impact on the trading activities on the SES. For the year 1992, the trading volume of the listed GLCs accounted for 12.9% of total trading volume on the SES, representing 31.2% of total value of trades done on the SES.

THAILAND

I. The impact of the privatization process in the economy as a whole and specifically in the capital markets of developing countries.

The privatization process affected the capital market as follows:

A broad-based share issuance of the firms would both enhance the SET's market capitalization and provide the government with an instrument for stimulating the growth of national saving rate. In other words, participation by investors in the market would be enhanced. This would, therefore, increase capital suppliers from dormant savers.

Due to the limitation of data, we could hardly measure the effect of the privatization process on the capital market before 1987. After 1987, the privatization increased the market capitalization by the figures shown below:

Enterprises/Year		Percentage
NEP	(1987)	0.16%
KTB	(1989)	0.23%
THAI	(1992)	0.46%
PTTEP	(1993)	Not available yet

Percentage is computed from the value of privatization/market capitalization when the enterprises entered the market.

II. The role of the regulatory agency in this process.

The following has been the main objectives that the regulatory authority attempts to meet.

- ***dispersing risk***
- ***reducing decision-making process by the regulatory authority***
- ***moving state enterprise towards state of self-regulatory organization (SRO)***
- ***improving efficiency in the public sector***
- ***changing ownership ratio among public and private sector***

III. The possible vehicles necessary for the privatization process and the different strategies to use them.

After World War II to 1986, the number of state enterprises that were privatized in various forms was as follows:

- *liquidating* 33 cases
- *selling their shares to the public* 26 cases
- *modifying* 16 cases
- *hiring professionals for management* 7 cases
- *contracting out* 3 cases

During 1987-1991, three more state enterprises were partially privatized by selling their shares to the public, i.e., The Thai Airways International (THAI), Krung Thai Bank (KTB), and North East Jute Mill (NEP), The Petroleum Authority of Thailand (Exploration & Production) known as PTTEP, is now in the process of offering its increased shares to the public and those shares will be listed in the SET, accordingly.

Due to differences in political and economic environment, path of privatization in each country may be different from each other. From the experiences, however, it is believed that the following steps could be used as a general guideline:

1. *clarifying economic justification and objectives*
2. *seeking political approval and supports*
3. *searching for the relevant management skills*
4. *implementing the privatization plan*

According to data available, the foreign underwriters which involved in the distribution of the PTTEP shares were: Barclays de Zoete Wedd Limited, Daiwa Europe Limited, Goldman Sachs (international) Limited and Asia Equity (UK) Limited. In the case of THAI, foreign business law consultant was: Baker & McKenzie Ltd.

IV. *The possible impact in the distribution of share ownership*

Privatization resulted in widening the base of share ownership but not to the extent that the government loses its control over the state enterprises that were privatized.

***Whether** the privatization has resulted in the bigger value/volume of stock transaction depends significantly on period of time. **Normally**, at the first day of trading in the SET, turnovers of those stocks are high. However, the performance of companies will be an important factor determining the level of turnover. According to the graph of THAI,* the transaction was highly heavy at the period of being listed in the SET. At the listing period, transaction volume was 12.4901 million shares (13.15% turnover), and the value was 786.8763 million baht. After being listed for a month; howwever, the THAI shares were traded at a normal pace. Now, the SET is very bearish; therefore, it is seen that the THAI stock is trading at a low volume. Perhaps the reason why the THAI shares is trading in a low level is the stock is not regarded as a speculative one. The THAI stock is considered as a stock for medium to long term investment.

As data available from the SET index during the time that THAI share was listed, it could be seen that it partially triggered high volume of transaction. However, there is no evidence to support that the privatization of THAI created a serious impact to the stock market.

TUNISIA

I. The impact of privatization process in the economy as a whole and specifically the capital markets of developing countries.

Over the past three decades State-owned enterprises have played an active role in the Tunisian economic activity. The growth of the state-owned sector since 1960 is attributable in part to the colonial period during which the administration directed the bulk of economic activity. In the post independence years, the state domination of the economy was due on one hand to the absence of the private sector which had neither the required financial sources nor the technical and managerial skills to develop new industries and on the other hand to ideological reasons (socialism was the reaction to the capitalist trend followed by the colonial powers; and besides, ownership by the state was generally seen as the only way to preserve economic independence). The state was forced to assure the development of the country by owning or controlling units that produce and sell industrial, commercial or financial goods to the public.

Among the 300 enterprises wholly owned by the State or in which the state has the majority, 190 met the privatization requirements. These enterprises employ almost 150,000 (12.4%) of the total active population and distribute 700 millions of dollars of wages which represent 22.7% of total amount of wages. The state-owned enterprises production reached in 1988, 4,810 millions of dollars, representing 47% of GNP.

II. The role of the regulatory agency in this process.

The Tunisian government planned the privatization of state-owned enterprises as follows:

- In the first step, the program has fixed the terms of privatization of state-owned enterprises which suffer of financial difficulties; the application of this program is planned to last until the end of 1992.

- The next step deals with divesting participations of the State in state-owned enterprises (even those in whcih the State owns a minority).

- And finally, study the possibilities of privatizing the state-owned enterprises not operating in strategic sectors which have not made losses.

The administrative responsiblities are as follows:

- A state-owned enterprises restructuring commisssion (CAREPP) has been created to evaluate and set specific transfer conditions (pricing, payment terms, employees participation, foreign participation). It proposes specific conditions for each transaction to the Ministerial commission.

- A ministerial commision authorizes the conclusion of any specific transaction. Any transaction becomes effective only upon joint decision of Prime Minister and the supervising minister.

- An implementation commission at the Stock Exchange examines the various measures required in cases of public offerings such as: listing conditions, disclosure and conditions of sale of the stocks.

III. *The possible vehicles necessary for the privatization process and the different strategies to use them.*

The methods and procedures of privatization are largely determined by the objectives of the government, the organization of the state-owned enterprises, the financial conditions and performances of the state-owned enterprises, the sector of activity of the state-owned enterprises, the ability to mobilize private sector resources, the degree of development of the capital market and socio-political factors.

The Law N 9 of 1st February 1989, relating to public enterprise restructuring, sets the overall procedures for the restructuring and privatization of state owned enterprises. It authorises the state to proceed with the transfer of all or part of direct or indirect participation in state-owned enterprises.

Restructuring/privatization under the law includes the basic standard methods:

1. *Private sale of shares held by the Government in a joint stock corporation to a single entity or group;*

2. *Sale of individual assets;*

3. *Mergers, absorptions or splits;*

4. *Sale of all or part of state-owned enterprises by public offering of shares;*

5. *Waiver or sale of the state's preferential subscription rights to new share issues.*

IV. *The possible impact in the distribution of share ownership.*

To encourage the widening of share ownership, special incentives may be granted to employees and former employees. These incentives include priority allotments with favorable payment terms and the distribution of free shares (with limitation on further transfers). Other incentives may be granted such as shares may be paid for up to 50% of their price by surrendering securities (bonds).

RECOMMENDATIONS

Based on the data available, we offer the following recommendations:

Privatization of government owned enterprises in areas where government directly competes with the private sector and which are concerned with non-governmental functions should be initiated and actively pursued by the government.

Inorder to ensure a successful privatization program, several factors must be considered:

First

There must be a clear legal framework that will provide transparency to the process. The support of the Legislative Body is therefore indispensable by way of enactment of a law which will implement and regulate the privatization process. It is necessary to encourage transparency and accurate valuation of the assets inorder to forestall problems which will jeopardize the exercise and to gain wide public support.

The regulatory agency charged with the task to oversee the privatization process must have highly trained professional of unquestionable honesty and integrity. No conflict of interest should be allowed to exist.

Privatization works only if the political leadership of the country is tenaciously supportive of the commitment.

Second

As experience has shown, it is better for the government to choose to sell the assets in stages so as to maximize results by taking advantage of the evaluzation of the previous experience.

Additionally, the government must implement the process step by step. As proven by studies, it is better to make a good sale late than make a bad sale early. Small companies should be privatized first to minimize risks in case an error is made and to gain experience from the faults of the privatization process undertaken.

And if possible, sell the assets in CASH. But above this, the proceeds from the privatization process should have a permanent impact on public finances (like a reduction of public debt) and should not be used to finance current expenditures.

Third

It is advisable for the government to retain some control of the privatized companies inorder to maintain check and balance.

Fourth

There must be a well-studied approach to the implementation of the privatization program. There cannot be a standard formula for priivatizing assets. Each of them is unique in its simplicity or complexity. An asset maybe of low or high value, operational or idle, obsolete or modern, clean or without liens, etc. And each country's portfolio of state owned enterprises is unique.

It will be worthwhile to consider the participation of foreign consultants who can lend their expertise on the field.

Fifth

Considering the state of developing countries, foreign investors should be encouraged to participate to some extent in the privatization process. Of course, the local investors will have to be given the priority.

It is a fact that the participation of new investors especially those of institutional in nature provides significant level of liquidity to the market.

QUESTIONNAIRE ON THE PRIVATIZATION
EXPERIENCE OF DEVELOPING COUNTRIES

Instructions

1. Please answer all the questions in a concise and clear manner

2. Please print all answers. For questions which are not applicable to your country, please state so.

3. Please send your answers to:

Chairman Rosario N. Lopez
IOSCO Working Group on Privatization
Securities and Exchange Commission
SEC Bldg., EDSA, Metro Manila
P h i l i p p i n e s
Fax No. 632-722 0990

not later than February 20, 1993

4. Should you have any question, please get in touch with Chairman Lopez, copy furnished the Secretariat.

5. **As we would like to make a comparative analysis of emerging markets, please likewise answer PART B of this Questionnaire.**

Thank you for your cooperation.

QUESTIONNAIRE ON THE PRIVATIZATION EXPERIENCE OF DEVELOPING COUNTRIES

PART A

I. DESCRIPTION AND SCOPE OF THE PRIVATIZATION AND THE ROLE OF THE REGULATORY AGENCY CONCERNED IN THE PRIVATIZATION PROCESS

1. Has your country had any privatization experience? When and how did it start?

2. What are the objectives of the privatization ?

a. for the government
b. for the regulatory authority concerned
c. for the private sector

3. At what stage of the economic/financial development did the privatization process start in your country?

4. Describe fully your country's privatization experience.

- *type/s and number of corporations privatized*
- *manner of privatization*
- *extent of privatization*
- *value of privatization in US Dollars*
- *foreign participation, if any*
- *other important features of privatization*

5. In the process of privatization which were your government's priority consideration/s?

II. EVALUATION OF THE PRIVATIZATION EXPERIENCE AND ITS IMPACT ON THE CAPITAL MARKETS

1. Evaluate your country's privatization experience with special emphasis to success/es and failure/s.

2. What effect did the privatization process have in your capital markets.

3. To what extent did the privatization process affect the capital markets.

III. ANALYSIS OF POSSIBLE VEHICLE/S NECESSARY FOR THE PRIVATIZATION PROCESS AND THE STRATEGIES TO USE THEM

1. Please state briefly your recommendations, if any or steps to take inorder to ensure a successful privatization.

2. Would you recommend a standard procedure worth following in carrying out a privatization process? Please describe briefly.

3. Is there, in your opinion, any optimal stage of development for a developing country to reach inorder to launch a successful privatization process?

4. What vehicle/s was used by your country to effect privatization?

5. What other possible vehicles could you suggest to effect the same?

6. Were foreign consultants/underwriters employed to effect the privatization? Please give details.

IV. POSSIBLE IMPACT IN THE DISTRIBUTION OF SHARE OWNERSHIP

1. Did the privatization result in widening the base of share ownership. Please explain briefly.

2. How much is the minimum size of investment. Was it affordable by a large majority of the population. Please state details.

3. Did the privatization result in bigger value/volume of stock transaction? Please give details.

4. Did the stock market experience a considerable impact on its transactions by reason of the privatization? Please provide details and statistics.

PART B

1. *Number of securities exchange/s*
2. *Volume and Value of Transactions per month in US dollars for the last three years*
3. *Number of listed issues; Number of actively traded issues.*
4. *Total number of brokers; Number of foreign brokers.*
5. *Transaction and other taxes imposed on securities trasactions.*
6. *Gross National Product*
7. *Per Capita Income*
8. *Domestic Borrowings*
9. *Foreign Borrowings*
10. *Growth Rate*
11. *Interest Rate*
12. *Population*