

Exploration of the Impact of Privatisation: Overview and Case Studies

- **Organisation:**
Oxford Analytica
- **Contact:**
Mark Leach
- **Start Date:**
September 2002
- **End Date:**
November 2002
- **Value:**
€47,763
- **Countries/ Regions Covered:**
Romania, Russia, Spain,
Zambia, Nigeria

Background and Objectives of the Commissioned Study

This research seeks to contribute to the effectiveness of the EC's development assistance in regards to privatisation. The research gives an overall assessment of the impact of privatisation and draws the following lessons from five case studies:

Research Findings

- **Romania:** The choice of method and the way by which privatisation is executed are critical to the overall impact of the reforms. Furthermore, proper execution of privatisation programmes requires capable ethical bureaucracy and political leadership;
- **Spain:** Privatisation has delivered substantial benefits to consumers, workers, businesses and the governments. However, the privatisation process failed to break previous monopolies and thus to create competitive markets;
- **Zambia:** While Zambia officially provides a positive model to other developing countries, it also suggests that a failure to separate the spheres between State and market may result in opportunistic behaviour. The study also suggests that privatisation should be seen as part of broader private sector development. Alternative approaches to the privatisation of the remaining parastatals may be more appropriate to meet the needs of the poor and address public concern;

- **Nigeria:** Expectations of the pace by which privatisation could be accomplished and of the saleability of the parastatal sector were unrealistic. Furthermore, deregulation has been more effective than privatisation in stimulating private investment;
- **Russia:** The significance of privatisation was greatly exaggerated at the beginning of the market transformation. The actual effects of privatisation are inextricably linked to changes in the wider economic environment.

Main Conclusions

There are general requirements for a successful privatisation, including: a well-paced programme; participation of foreign partners to bring in expertise and effective monitoring; development of market institutions; development of competitive market sectors; and development of effective regulatory authorities.

However, the overall research suggests that while there appears to be a consensus on the positive economic effects of privatisation, some cases demonstrate that the evidence for such enthusiasm is not as strong as expected:

- **Economic effects:** the actual impacts of privatisation are hard to isolate. While privatised firms perform better and their profits are generally positive, the best improvements are in the richer countries. In developing countries improvements usually took place before the act of privatisation itself. At the fiscal level, the research confirms the importance of

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revenues from privatisation. However, it is difficult to separate effects on budget deficit levels from the other reforms taking place. In the area of market development, if the privatised firms are often the most valuable companies in local stock market, it is not clear how far these effects spread beyond the firm itself. Overall, there does appear to be a correlation between privatisation and improved growth.

■ **Effects on employment and equity:**

There is a widespread perception that privatisation has a negative impact on labour. The research

finds that it enhances efficiency more than equity, and it worsens wealth and income distribution. Consumers gain more if the privatised firms are operating in open and competitive markets.

■ **Environmental effects:** Critics of privatisation argue that private investors choose profits over environmental considerations. However, proponents argue that this underestimates the limitations of pre-privatisation structures to promote or protect the environment.

■ **Political effects:** While there is a positive relationship with overall conditions of economic growth and political stability,

the impact of privatisation is profoundly affected by the quality of political institutions and could end up reinforcing power structures or leaving the state vulnerable.

There are many alternatives to privatisation. However, they either have not yielded positive results or the experiences are at a too early stage to assess and thus warrant more research.

The research points toward the need to further the study of the impacts of privatisation.

For further information on this research project, please visit:

EC-PREP website: www.ec-prep.org

Oxford Analytica website: www.oxan.com

Or contact us at the address below:

Emerging Markets Group (EMG) Ltd.

180 Strand

London WC2R 1BL

United Kingdom

Tel: +44 (0)20 7303 2206

Fax: +44 (0)20 7303 3125

www.emergingmarketsgroup.com

EC-PREP is supported by the UK Department for International Development (DFID). In 2001, DFID, in collaboration with the European Commission, launched the European Community's Poverty Reduction Effectiveness Programme (EC-PREP). The main objective of this research initiative is to produce findings and policy recommendations that support and contribute to improving the European Community's effectiveness in attaining poverty reduction targets via its external assistance programmes. The programme has funded 13 Research Projects and 10 Commissioned Studies, which relate to one or more of the six focal areas of EC's development policy. More information about the research funded by EC-PREP can be found on www.ec-prep.org.