UNIT 18 CONCEPT, POLICY AND DIMENSIONS

Objectives

After studying this unit you should be able to:

- Define the term privatisation and what it entails;
- List out the policy objectives of privatisation as adopted by countries;
- Distinguish between non-divestment and disinvestment options;
- List out the various methods of disinvestments and their advantages/ disadvantages.

Structure

18.1 CONCEPT OF PRIVATISATION

Privatisation appeared only in the 1980s, as a result of intensive scrutiny of the role of the state-owned enterprises (SOEs) in developed and developing countries. Many policy makers were disenchanted with the fact that a large number of public enterprises were making losses. The SOE sector had absorbed a large share of governments' budgets in the form of subsidies and capital flows. Governments ran into severe financial problems in the 1980s and experienced inability to raise loans at home and abroad. This forced them to look at radical options for turning around SOE performance. These consisted of two major instruments: (1) SOE reform and (2) Privatisation. These were also insisted upon as conditionalities by the International lending institutions such as the International Monetary Fund and the World Bank.

The market inefficiency of the publicly-owned enterprises, the problems of monitoring them as well as the cost of maintaining them under public ownership lend urgency to change their ownership to the private sector. Some other reasons are (1) shifting development theory, (2) ideologies in the face of SOE losses, (3) collapse of communism in Eastern Europe and former Soviet Union, and (4) some successes of early privatisation such as the experience of UK. Fiscal crises have also led governments to privatise, to stem losses and raise revenue, especially in the face of increasing public debt. Governments have also opted for privatisation, because of their inability to finance needed investments in SOEs. Finally, the initial reasons for state ownership have disappeared; technology and growth have introduced competition requiring entrepreneurship; the capacity of governments to curb excesses of multinationals etc. have also contributed to the move towards privatisation.

Economists have generally held the view that private ownership of the means of production would be better in terms of economic efficiency than public ownership and public management. Ownership of a firm entails changes in property rights and this, in turn, significantly affects the behaviour and performance of the firm by altering the structure of incentives for decision-makers in the firm. Thus, under private ownership, rewards could be linked to the company's share price via share ownership or share option schemes and poor performance could be penalized by threat of take-over by another firm.

Change in ownership *per se* can affect economic performance, all other things being equal. By reducing the number of principals to a single owner, whose over-riding objective is to maximise profits, privatisation greatly simplifies the principal-agent problem and creates potential gains. Allocative efficiency as well as internal efficiency increases with competition. Private ownership has been found to be most efficient - hence privatisation is most suitable - in markets where effective (actual or potential) competition prevails. (Refer Vickers and Yarrow, 1988). Where there are massive economies of scale and scope, high entry barriers or externalities, private ownership performs poorly. The incentive and opportunity to exploit consumers threatens allocative efficiency and the lack of competitive benchmarks leads to internal inefficiency and slack. Thus, privatisation is appropriate where private ownership works best, viz. where is there sufficient competition and suitable regulation.

Privatisation does not mean that the State has no role to play in industrial development. The State has an important role to play in creating market conditions for proper and effective functioning of the enterprises and installing a regulatory regime which will ensure that industries function in a fair manner - and until- competition becomes effective - fostering competition to increase efficiency and reduce cost.

Privatisation involves transfer of three kinds of rights from the State to the private sector: ownership rights, operating rights and development rights. Depending on the form of privatisation chosen, the private sector may acquire any one of these rights or a combination of them. Transfer of operating rights may or may not include a transfer of financial risk. For instance, where a management contract transfers operating rights to the private operator, it does not involve any financial risk for the latter. Should the enterprise fail to make a profit, it is the State which picks up the losses. Corporatization, depending on the terms involved, may relieve the State of both the operating rights and financial risk. An operating concession transfers both operating and development rights, and consequently any financial or investment risk, to the private sector operator. In build-own-transfer schemes, the State transfers development and operating rights (until the asset reverts to the State), including investment and financial risks, to the private sector. Leases are sometimes also designed to transfer both operating and development rights, resulting in enhancement of the existing assets. Build-own-operate schemes entail transfer of ownership, operating and developing rights to the private sector. On the other hand, build-transfer schemes only give the private sector development rights.

Privatisation could, therefore, be defined as the transfer of ownership, operating and/development rights from the public to the private sector; and the application of private sector objectives and disciplines in the operation and management of public enterprises, combined in most cases with the transfer of commercial and financial risks to their management.

Privatisation has been known to have numerous nomenclatures. In India and Pakistan, privatisation is called 'disinvestment'; while in Sri Lanka; it has been termed 'peoplisation'. In the United Kingdom, this concept came to be known as 'popular capitalism'. Chile's attempts in this direction has been labelled 'denationalisation'. Other variants are 'prioritisation' in Australia, 'industrial transition' in Brazil, 'economic democratisation' in Costa Rica, 'partners in development' in Egypt, 'dis-incorporation' in Mexico; 'assets sales programme' in New Zealand, 'transformation' in Thailand and 'restructuring' in Tunisia.Terms such as 'divestment' and 'divestiture' are also used to describe disinvestment. In simple terms, the term disinvestment of public sector enterprises would mean sale of up to 49% of government equity, while privatisation would mean sale of 51% or more of government equity.

18.2 POLICY OF PRIVATISATION

The policy objectives and motives for privatisation have varied with countries and with time. While the motive in industrialised countries in the 1980s could be described as ideological, that in the developing countries was linked to the macroeconomic burden of the Public Sector deficit. In the case of ex-socialist countries, privatisation viewed as an integral element in the process of transition from a centrally planned economy to a market-oriented economy. In the highly centralised states in Eastern Europe and the former Soviet Union, where the state sector accounted for nearly 70 percent or more of GDP, privatisation was instrumental in creating a market economy. In most transitional economies in Asia, where the non-state sector remained a significant component of GDP, privatisation is a method of developing and strengthening the private sector.

Objectives of privatisation have been almost similar across all countries in as much as they centre around the benefits to be obtained from rebalancing the relative roles of the public and private sectors in order to increase the economic efficiency and productive power of the economy. All of them have believed that the private sector enterprise has more vitality than the public sector and that resources would be put to better productive use if they are transferred to the private sector and made subject to market incentives and discipline. In many countries, especially countries in transition, this has meant a significant change in strategies for economic growth and development.

However, specific reasons for privatisation vary with each nation, depending on the nature of the political set-up, level of development, growth of capital market, political ideology, and special features such as nature of social compulsions. Objectives of privatisation have been dictated by fiscal, social or a combination of several factors, depending on local priorities.

The following are the objectives of privatisation in countries which have so far taken up the privatisation programme:-

a) to promote economic efficiency by fostering well-functioning markets and competition;

b) to redefine the role of the State in order to allow it to concentrate on the essential task of governing and to withdraw from activities which are better suited to private enterprise, where original objectives of a public enterprise are fully achieved or are no longer valid due to technological advancement or to eliminate unfair competition with private enterprises;

c) to reduce the fiscal burden of loss-making public enterprises, in order to help regain fiscal control and macroeconomic stability;

d) to reduce public debt;

e) to release limited State resources for the financing of other demands, for example, in the area of education.

(f) to generate new investment, including foreign investment;

g) to mobilise domestic resources for development, and deepen domestic financial development; and

h) to spread and democratise share ownership by encouraging share ownership by individuals, making employees share-owners and by raising productivity through incentives for holding stock. (UNCTAD, 1995).

Promoting Economic Efficiency

Private sector ownership could increase economic efficiency by exposure of management and labour to market incentives and allow decisions on resource allocations to be determined by private sector responses to relative price signals. In well-functioning markets, relative prices give signals regarding the relative scarcity or abundance of various resources, and about the needs of consumers and other users of products and services. This leads to efficient allocation of scarce resources and thus serves the objective of economic efficiency.

Competition and Regulation are also necessary to achieve efficiency gains. In case public enterprises are functioning in non-competitive markets, competition or even threat of competition could be introduced to effect efficiency. (example: Telecommunications industry in the U.K., Malaysia and Singapore). Where competition is not possible or desirable, regulation by an independent regulatory authority would be needed to assume the role of surrogate competition and bring about needed efficiency (example: Chile and the UK).

Redefining the Role of the State

The relative roles of the public and private sectors have to be rebalanced so that the State can concentrate on its core functions, such as ensuring order and security and providing efficient public services, including essential infrastructure, education and social protection and the promotion of well-functioning markets, while leaving the running of the enterprises to the private sector. This calls for ideological commitment on the role of the State, and this may not be forthcoming in many countries on account of its political ramifications.

In countries where the State continues to be sole or majority shareholder in public enterprises, governments enter into contract with the enterprises setting out performance targets and allow them operational and functional autonomy.

Reduction of Fiscal Burden

In many countries, one of the important objectives of privatisation has been to reduce the financial burden of loss-making state owned enterprises in order to help regain fiscal control and macroeconomic stability. These financial burdens have often been found to be responsible for monetary instability and macroeconomic imbalances in many countries, whatever be their level of economic development.

Reduction of Public Debt

Privatisation serves to reduce public debt and associated fiscal burdens of debt service with the aid of financial resources mobilised through sales of government equity. Debt reduction can, by contributing to healthier public finances, allow more capital to be made available at lower cost for private investment, thus promoting private sector-led growth.

Release of State Resources

By reducing the fiscal burdens of loss-making enterprises and by reducing the level of public debt servicing, privatisation enables the State to release the limited resources for priority areas such as projects for reduction of poverty.

Generating New Investment

New investment, particularly foreign investment brings in new technology and management skills, as well as new partners and their access to better and profitable markets. This has been the main objective of privatisation in developing countries of Asia and Africa. Privatisation frees the enterprise from budgetary constraints and political interference from the State, allows it to raise private capital and enter into alliances with strategic partners.

Mobilising Domestic Resources

Privatisation could also serve to mobilise domestic resources for development that have hitherto been untapped. In some countries (for example, Argentina) privatisation programmes have succeeded in bringing back domestic investment which had earlier been driven abroad by factors such as macroeconomic instability and excessive state intervention in the economy. These resources have been in the form of financial capital, entrepreneurial talent and other human resources. The success achieved by the UK privatisation programme in tapping domestic resources has been an object lesson for many developing countries.

Spread and Democratise Share Ownership

Privatisation has been known to help spread and democratise share ownership by allocation of a proportion of shares to small investors and to employees and creation of a new group of stakeholders in the well-being of the national economy. This has been the objective behind the voucher or mass privatisation in transitional economies of Europe. It is an intermediate objective which serves to further wider political and economic objectives in as much as it helps to mobilise domestic resources for investment which might otherwise be held in non-productive forms. This also helps demonstrate that privatisation need not necessarily mean providing of benefits to large foreign companies. Giving employees a stake in the success of their enterprises can bring about changes in labour attitudes, improve labour-management relations and enhance productivity. Employees have stood to gain substantially in privatisation programme in the UK, and many of them became very wealthy individuals.

18.3 DIMENSION OF PRIVATISATION

Privatisation is to be understood not merely in the structured sense of who owns an enterprise, but in the substantive sense of how far the operations of an enterprise is brought within the discipline of market forces through measures such as liberalisation and deregulation. Privatisation encompasses a broad spectrum of possibilities, between denationalisation at one end and market discipline at the other. Broadly, it may consist of disinvestment and non-disinvestment options.

Non-Disinvestment Options

Non-disinvestment options could be viewed as an intermediate step towards ultimate sale of the enterprise by demonstrating the commercial viability of the public enterprises to be sold. They could even be important measures in themselves and could be considered as alternatives to disinvestment. Non-disinvestment options range from corporatisation to management contracts and involve removal of subsidies, as well as the exposure of the public enterprise to private sector discipline and competition. The main types of non-disinvestment options are as follows:

a) Organisational, financial and operational restructuring, together with commercialisation and corporatisation;

b) Privatisation of management (management contracts, leases or concessions);

c) Contracting out; and

d) Joint ventures between public and private enterprises.

Restructuring

Restructuring means making changes in the public enterprises allowing it to operate more efficiently and/or rendering it more attractive to potential investors before divestiture takes place. Thus, the purpose of restructuring is to enhance the value of the public enterprise. Broadly, there are three kinds of restructuring:

1) Organisational and Labour Restructuring i.e. the reorganisation of the public enterprise into more rational or smaller units and any necessary labour shedding;

2) Financial Restructuring i.e. writing off excessive debts of the public enterprise; and

3) Operational Restructuring: i.e. the infusion of new investment or technology into the public enterprise.

Organisational Restructuring usually involves splitting up the public enterprise Monolith into smaller units or independent companies pursuing major product lines. These units or independent companies could be allowed to stay in the same family, in which case, the monolith converts itself into a holding company with some reduction in centralised managerial behaviour. Some labour shedding may result in such restructuring. The purpose of the Organisational restructuring is to put the public enterprise on a sound financial and commercial footing, and to increase the net worth or sales value of the public enterprise (example: France, the Netherlands and New Zealand).

Financial Restructuring concerns the treatment of the debts of the enterprise. It allows an enterprise saddled with accumulated losses to “clean up” its balance sheet. If disinvestment is contemplated, financial restructuring prior to the sale can help put a public enterprise on a sound financial footing, thus enhancing its sale value. Where debt liabilities are large, the State may have no other choice but to absorb them (example: Argentina and Portugal).

Operational Restructuring involves new investment in order to upgrade the enterprise’s physical capacity or technology. Experience has shown that where the public enterprise is to be divested, operational restructuring should be left to be undertaken by the buyer. The reason behind such a move is that the government cannot second guess what the potential buyer would do and may therefore end up doing the wrong kind of changes, leading to heavy losses.

Commercialisation

Commercialisation is the introduction of commercial principles and objectives into the management and operations of a public enterprise. This may involve removal of subsidies, and exposure of the public enterprise to market disciplines in addition to a hard budget constraint. Commercialisation can be achieved through contract plans or performance agreements. These are negotiated agreements between the government, acting as the owner of the public enterprise, and the public enterprise itself. The contract spells out the obligations and responsibilities, such as production goals, quality of services etc.

Corporatisation converts the public enterprise into a legally and economically independent legal person with a board of directors, while government retains its equity ownership. Corporatisation can stimulate economic efficiency, by adopting private sector accounting principles, management principles based on competition and rewards linked to performance.

Privatisation of Management

The aim of privatisation of management is to increase the efficiency of a public enterprise through introduction of private sector disciplines and management techniques. Some of the methods of privatising management is to grant a management contract, a lease or an operating concession to a private sector operator. This could be an end in itself or could be used as a preparation for disinvestment.

Management Contracts

A management contract is an agreement by which a public entity contracts with a private firm or individual for the operation of a public enterprise. Here, only operating rights (not ownership rights) are transferred to the private operator. The public entity continues to make financial provisions for the operating costs and investments. Management contracts are used especially where the government hopes to revitalise a loss-making public enterprise by introducing private sector management methods (example: Hotels in Niger and Togo, Agro-industries in Cameroon, Cote d'Ivore and Senegal, manufacturing industries in Ghana and plantations in Sri Lanka).

Leases

A lease is a contractual agreement where the owner of an asset (lessor) grants another party (lessee) the right to use the asset and to profit from it for an agreed period of time in return for payment of rent. Leasing can take many forms, the main being operating leases, financial or capital leases and sale and leaseback agreements. In the operating lease, the lessor is generally required to maintain and service the leased assets and the lessee has a right to cancel the lease before the expiry of the lease agreement. Financial or capital leases do not ordinarily provide for maintenance service by the lessor; they transfer the risk and benefit of ownership and have a longer duration. Under a sale and leaseback arrangement, a firm that owns fixed assets, sells them to another party and simultaneously executes an agreement to lease the property back from the buyer for a given period. In this way, the seller not only receives the purchase price but retains the use of the assets. Leasing can bring new technical and managerial skills to the enterprise, allowing its assets to be used more efficiently. It may also be a feasible alternative where it is politically difficult to divest a public enterprise. Though leasing, Government sheds the responsibility of operating the enterprises along with risks involved but retains ownership (example: Electricity supply and water supply in Cote d'Ivore and Guinea; road transport in Niger, mining operations in Guinea, port management in Nigeria, steel mills and refineries in Togo, manufacturing industries in Ghana, and hotels in Cote d'Ivore and Niger).

Concession

Concession involves the transfer of operating and development rights to a private operator by the State. The State can grant concessions directly or through the public enterprises. Unlike leases, the holder of a concession has responsibility for capital expenditures and investments. Consequently, this method has been preferred by many governments (example: Argentina).

Contracting Out

In contracting out, a public authority contracts a private firm to perform some specific service in the place of a public entity or in competition with it. This would involve decision of an enterprise to acquire an input from outside sources instead of producing it itself (e.g. promotion of ancillary units to produce spare parts). Contracting out is a form of operating concession. It may be used when disinvestment is not desirable or feasible for political or economic reasons. Contracting out has proved to be an important method of privatising social services. It has been mainly used in the USA where advantages of reduced cost have been noticed.

Joint Ventures

Joint ventures could be defined as an association of two or more natural persons or legal entities collaborating in an enterprise and sharing the risks and benefits of the joint venture. A joint venture agreement defines the business relationship between the partners. This partnership usually involves a foreign partner who may provide the capital and the know-how.

Joint ventures have been found to be advantageous to both the government and the private, often foreign partner. Whereas the foreign investor gains through access to local markets, government contacts, knowledge of local business conditions and lessens the risk of expropriation though participation of the host country, governments stand to gain because the public enterprise would now get access to the foreign partner's international distributional networks, thus facilitating access to export markets and also access to foreign technology, capital, and management.

However, joint ventures have not been used as a popular method of privatisation because the private investor often favours setting up a new venture rather than participating in an established public enterprise, especially if the latter has been unprofitable. The Jamaican government disinvested two hotels by means of joint ventures involving both foreign and local partners.

Ownership

Ownership measures could consist of sale of the enterprise in full or infusion of private capital through sale of government equity. The larger the private equity participation, the greater is the degree of privatisation.

Disinvestment Options

Disinvestment of Government equity in public enterprises could be

a) Up to 49%, in which case Government could retain ownership, management and majority shareholding.

b) Up to 100%, in which ownership and management could be transferred to the purchaser of majority shareholding. In many cases, especially in India, disinvestment has been done up to 74% of the equity, leaving Government with 26% of the equity. Such a disinvestment would leave management and control with the purchaser of 74% equity but it would also enable Government to have a major say in matters such as liquidation of the enterprises etc. Government could also be a majority shareholder in case other shares are widely dispensed.

Disinvestment options could be politically sensitive, often creating fears of 'selling the family silver' and of domination of foreign investors. This is especially true of countries where the domestic capital market is unable to absorb the public enterprises' sales without significant depression of asset values. In such circumstances, there may be a feeling that the State assets have been sold to foreigners at less than their market value. Sensitivities could also arise where it is perceived that the sales have benefited certain powerful groups of entrepreneurs or elite, sometimes close to the political powers. Unless disinvestment is handled carefully, it could be discredited and undermined.

18.4 FORMS OF DISINVESTMENT

Disinvestment could take one of the following forms:

1) By public flotation on the stock exchange, either by fixed price or by tender offer with a minimum price;
2) By a management /employee buy-out;
3) By placing with a group of "strategic" investors, or joint venture partners;
4) By a trade or strategic sale, in which a company is sold to a single person or a consortium;
5) By public auctions (usually for small or medium enterprises);
6) Mass or voucher privatisation; and
7) Liquidation, followed by sale of assets (usually for PEs which are not viable).

Public Flotation

Public sale of assets is the most usual method of sale. In an offer of sale, shares are offered to the general public at a fixed price, which is arrived at by making a valuation of the enterprise, usually with the help of financial consultants. In a tender sale, the price is fixed in response to applications themselves, and a minimum tender price is stated. In doing so, other factors such as preferential treatment, if any, to be given to small shareholders, workers, customers etc. are also taken into consideration. The advantage of the tender offer is that there is the possibility of raising the issue price to a higher level. The disadvantage is that it is often too sophisticated for the small investor, at whom the offer is aimed. There is a third alternative i.e. a combination of fixed price and tender offer, for example, in British Airports Authority, part of shares were offered at fixed price and part as tender offer, with minimum tender price equal to fixed price. The disadvantage in both fixed price flotation and tender offer is that the company needs established commercial track record prior to sale. Therefore, flotations involve long-term preparation, and privatisation, in such cases, has to be planned many years ahead.

Management Buy-out

Privatisers could also consider solutions such as management/employee buy-outs (MBOs) and employee stock ownership schemes (ESOPs) in order to overcome labour unions' objections to privatisation. In the former, a combination of labour and management gains a controlling interest in the firm being privatised, often by means of leveraging. In the latter, a financing technique permits employees of a firm to acquire ownership of all or part of the firm's stock without personal investment on their part. The stock may be a new issue or a transfer of existing assets, such as would take place in privatisation. An ESOP fund is created by borrowing from banks, and the fund is used to acquire the company's stock. Each employee participant receives an allocation of stock to a personal account, and as the ESOP loan is repaid (by the employer contribution to the plan), the plan's trustees allocate to each employee his share of the total. ESOPs have, up to now, been a peculiarly an American initiative.

Management/employee buy-out has the advantages of causing minimum disruption to the company; it is quick and involves less disclosures than a public flotation, thereby reducing the amount of preparatory work prior to sale. To be successful, a management buy-out must satisfy the following three conditions:

1) management must have experience, competence, and commitment.
2) company must have a strong cash flow from which interest payments can be met;
3) the company must have a solid asset base to secure borrowing in the capital market.

Management buy-out is best suitable in the case of small privatisations. Some examples of such buy-outs are:

1) sale of Vickers shipbuilding and Engineering Limited, a subsidiary of British Shipbuilders, to management and employees, and
2) privatisation of National Bus company subsidiaries and the National Freight Corporation.

Placing

In a private placement, the company or a controlling stake is sold to a limited number of investors (generally institutional investors or joint venture partners). In a private or direct placement, the State negotiates the terms of the placement directly with the investor. Private placement has lower flotation costs and greater speed. This is an useful option in which the timing of the sale is an important objective. A part of a company could be placed with institutions (i.e. sold to clients of sponsoring bank), to satisfy short-term fund raising requirements, with the possibility of a public issue at a later date. It is an appropriate method of disinvestment when enterprises are not large enough to warrant a public share offering or when the public enterprises are in poor financial situation and could be turned around only by means of the transfer to the private sector investors who have the experience and know-how. The disadvantage of placing would be that the objective of wider share ownership would not be satisfied and it may be also politically unacceptable.

Trade Sale

Trade sale to a domestic or a foreign company is the quickest route to privatisation, as the public enterprise will not necessarily need to demonstrate commercial track record. Potential purchasers will, however, need to demonstrate commercial factors such as buying up the enterprises' market share, if operating in a competitive environment or the opportunity of providing unique product or service. For overseas purchasers, this could provide opportunity to enter the otherwise closed domestic market. Where such sale takes place to an investor who is prequalified for tendering by virtue of possessing certain strengths such as new technologies, access to finance or markets or management which are required by the enterprise, this is categorized as 'strategic sale'. This method of disinvestment would have the advantage of speed. Competitive bidding in some form is preferable to a negotiated sale for all types of disinvestment. Such bidding improves governments' selling price, and creates pressures for transparent processes.

Public Auctions

Public auctions are normally used for small or medium-sized public enterprises which do not require technology transfers or other special inputs. This makes the process very transparent, and maximises the proceeds from privatisation, provided that adequate number of competing buyers can be assembled for the auction. It is for these reasons that this process is politically more appealing than other methods of privatisation such as private placement. However, auction prices may be affected by the number of persons present when a sale is made. Adequate publicity is needed before the auction to ensure the interest of competing buyers. Public auctions have been mainly used in numerous countries of Central and Eastern Europe for small privatisations such as hotels, shops, repair establishments and restaurants.

Mass Privatisation

Mass privatisation (also called voucher or coupon privatisation) has been widely used in the countries in transition of Central and Eastern Europe. Mass privatisation is based on the population-wide distribution of vouchers or certificates free of charge or for a nominal fee. Usually, these vouchers are distributed to all adult citizens. The rationale behind this type of privatisation is that, in these countries, ownership of assets of the means of production was considered as belonging to the people as a whole, represented by the State.

In some countries, voucher holders can exchange vouchers for shares of privatised enterprises (e.g. Russia, the Czech Republic and Slovakia), whereas in some others (e.g. Poland), voucher holders use their vouchers to buy certificates issued by investment funds, but not shares of privatised enterprises directly. There are other variations of this procedure in other countries, such as whether or not vouchers are freely tradable, whether or not foreigners could participate and whether or not cash could be used in addition to vouchers.

The advantage of mass privatisation lies in the speedy transfer of assets from the State to individual shareholders. “Peoples capitalism” has been introduced through this method, by creating wider share ownership. This creates popular support for the privatisation process and contributes to the building of broad-based consensus for privatisation. It also contributes, albeit indirectly, the development of capital markets.

The disadvantage of mass privatisation is that it creates diffused control of the privatised enterprises, and lack of managerial skills. The ills of the public enterprises, such as undercapitalization, indebtedness, outdated equipment and technology, insufficient competition and poor management are not addressed through mass privatisation.

Liquidation

The government may wish to liquidate the public enterprise and sell its assets instead of selling it as a going concern, especially when the enterprise is not viable. Liquidation occurs mainly where it is more advantageous for the State to sell individual assets instead of the entire enterprise since its break-up value is higher than the company’s current market value as a going concern or when prospective investors are not willing to buy the enterprise as a going concern. Liquidation has been used as a form of privatisation in Poland, particularly with small and medium-sized firms.

Activity

a) Define the term Privatisation. Illustrate your answer with recent examples.

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b) List out three basic policy objectives in disinvestment.

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c) List out three forms of disinvestment.

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18.5 SUMMARY

Privatisation as a world wide phenomenon appeared is 80s in the process to bridge the gap between the public enterprises and private enterprises. Privatisation emerged as a means to overcome the problems related to the state owned enterprises in the developed as well as the developing nations. State owned enterprises do have a certain role to play in the privatisation process but privatisation emerged as a method of developing and strengthening the private sector. In this unit an effort has been made to discuss the different dimensions of privatisation alongwith different forms of disinvestment.

18.6 SELF ASSESSMENT QUESTIONS

1. What are the different policy objectives Privatisation? Discuss.
2. How far do different methods of disinvestment help achieve the policy objectives?
3. Privatisation is not an end in itself but a means to the end discuss.
4. Discuss the role of state in privatisation process.

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