

Privatization Trends

A Record Year for Initial Public Offerings in 2007

An update of the World Bank Group's Privatization Database shows that in 2007 privatizations in developing countries amounted to US\$133 billion—a record in nominal terms. The high value came from partial privatizations through initial public offerings—mainly in China and the Russian Federation and in finance and energy. The value of other privatization transactions declined overall but grew in infrastructure and the primary sector, thanks to a few large transactions in East Asia and Latin America. Preliminary results for 2008 show a sharp drop in activity as a result of the global financial crisis.

In 2007, 51 developing countries carried out 236 privatization transactions, valued at US\$132.6 billion. Total transaction value was up 26 percent from 2006 and 150 percent from 2005, marking another record year in nominal terms. This result was driven by partial privatizations through initial public offerings (IPOs)—a trend that gained momentum in 2005–06 and took off in 2007, a record year for IPOs worldwide.¹ The 36 IPOs of state-owned companies, though just 15 percent of all privatization transactions in developing countries, raised 75 percent of total privatization value—US\$99 billion, or 37 percent of worldwide IPO value in 2007.² The IPO results came thanks to historic levels of net private capital flows and high GDP growth across regions.

Just two countries, China and the Russian Federation, raised 89 percent of IPO value, accounting for 66 percent of total privatization value, mainly in the finance, energy, and com-

petitive (manufacturing and services) sectors (table 1). Two-thirds of IPOs exceeded US\$1 billion (up from a third in 2006). The average size more than doubled, from US\$1.2 billion in 2006 to nearly US\$3 billion in 2007.³

The 200 non-IPO transactions raised about US\$34 billion, down almost 20 percent from 2006. Russia accounted for 32 percent. Another 25 percent came from just four transactions in the US\$1–4 billion range, in Mexico, Bolivia, Iraq, and the Philippines. The rest came mainly from other transactions in the Philippines as well as transactions in Turkey, Nigeria, China, and Brazil.

Regional highlights

Thanks to IPOs, East Asia led in privatization value, followed by Europe and Central Asia (figure 1). Value increased in Latin America and Sub-Saharan Africa, declined in the Middle East and North Africa, and held steady in South Asia.

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This Note is based on a World Bank Group database that uses transaction values as a proxy for measuring privatization trends. It includes only the values resulting from the full or partial sale, concession, lease, or initial public offering of existing state-owned enterprises or other government assets. For more on methodology, see <http://rru.worldbank.org/Privatization>.



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Table IPO transactions and values in developing countries, 2007

1	Value		Percentage	
	Transactions	(US\$ billions)	of total IPO value ^a	of total privatization value ^a
By country				
China	21	70.2	71	53
Russian Federation	3	17.8	18	14
Other	12	11	11	8
By sector				
Finance	15	57.4	58	43
Energy	4	21.1	21	16
Competitive	9	12.8	13	10
Infrastructure	6	6.1	6	5
Primary	2	1.6	2	1
Total	36	99	100	75

Source: World Bank Group, Privatization Database.
a. Totals are for developing countries only.

East Asia: Chinese IPOs dominated

East Asia raised US\$74 billion (55 percent of the total), up 45 percent from 2006 and 236 percent from 2004–05. The growth came mainly from China’s 21 IPOs, whose combined value of US\$70 billion accounted for 96 percent of regional value. Six of China’s IPOs were in the US\$5–9 billion range, and nine in the US\$1–5 billion range. The two largest, at US\$9.1 billion each, were PetroChina and China Shenhua Energy. Other Chinese IPOs were mainly in finance and

competitive sectors. While Chinese IPOs in past years were mostly H-share offerings on the Hong Kong Stock Exchange, in 2007 A-share offerings on mainland exchanges accounted for roughly 50 percent of the country’s IPO value. China also had 22 non-IPO transactions, totaling US\$1.3 billion, in water, transport, and energy.

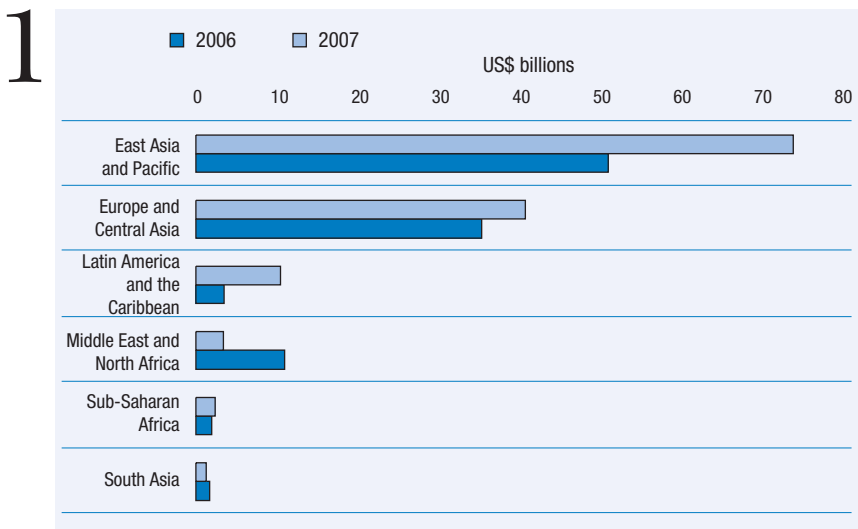
Excluding China, regional value tripled to US\$2.6 billion, though nearly 85 percent came from just three transactions in the Philippines (energy, telecommunications, electricity). A toll road divestment in Indonesia accounted for much of the rest.

Europe and Central Asia: Russia led the way

In Europe and Central Asia value grew from US\$35.5 billion in 2006 to more than US\$40 billion (31 percent of the total). The number of transactions rose by 40 percent to 117. Russia’s share of regional value doubled to 72 percent thanks to its two large banking IPOs—Sberbank (US\$8.8 billion), its largest savings bank, and Venshtorgbank (US\$8 billion)—on the London and Moscow exchanges. These were the top two transactions in the region and among the largest globally. Thanks to 12 electricity sales for US\$10 billion, Russia also ranked as regional and global leader in non-IPO value.

Excluding Russia, regional value declined by half to US\$12 billion. Three IPOs—Romania’s Transgaz (US\$2.6 billion), Turkey’s Halkbank (US\$1.8 billion), and Croatia’s Hrvatske Telekomunikacije (US\$1.4 billion)—accounted for nearly 50 percent. Turkey’s non-IPO sales (in services, real estate, and ports) contributed much of the rest. Even so, Turkey’s total value declined to just half its US\$8 billion in 2006, in part because of a few large transactions in that year and in part because of a slowdown in 2007, an election year. Sales also occurred in Slovenia (banking), Hungary (banking, airlines), and Poland (manufacturing).

Figure Value of privatization transactions in developing countries by region, 2006–07



Source: World Bank Group, Privatization Database.

Latin America: three large transactions

Value in Latin America doubled to US\$10.4 billion, though the number of transactions fell from 17 in 2006 to 10 in 2007. Nearly 90 percent of value came from just three transactions: Mexico’s highway concession for more than US\$4 billion, Colombia’s IPO of Ecopetrol

for US\$2.8 billion, and Bolivia's sale of development rights to the El Mutun iron ore deposits for US\$2.3 billion. Other activity was concentrated in Brazil (a large railway project and two electricity transactions for a combined US\$900 million), Colombia (electricity), Ecuador (ports), and Honduras (telecommunications).

Middle East and North Africa: steep decline

In the Middle East and North Africa value dropped by nearly 70 percent to US\$3.4 billion, while the number of transactions declined from 33 in 2006 to 20. The region had two newcomers: Iraq, with its US\$1.25 billion sale of a 15-year mobile license, giving it a 37 percent regional share; and Libya, with its US\$205 million sale of Sahara Bank. Morocco continued its program with a secondary offering of 4 percent of Maroc Telecom and the sale of a container shipping company for a combined value of US\$800 million. Jordan sold an electricity company and carried out an IPO of Royal Jordanian Airlines, raising US\$550 million. The Arab Republic of Egypt, the main contributor in 2006, saw value plummet from US\$7.6 billion to just US\$310 million in 2007 as public opposition brought its program to a virtual halt. Its value came mainly from the sale of stakes in three joint ventures.

Sub-Saharan Africa: telecoms the leader

Value in Sub-Saharan Africa increased by 26 percent to US\$2.4 billion. Two-thirds came from 12 telecommunications transactions in 11 countries. The rest came from a railway concession in Tanzania and sales in Nigeria in mining, oil and gas, electricity, manufacturing, and real estate (in addition to telecommunications).

South Asia: share issues big

South Asia raised US\$1.34 billion, 80 percent of it from just three share offerings: Pakistan's global depository receipt (GDR) offering of United Bank and IPO of Habib Bank and India's IPO of the Power Grid Corporation of India. Aside from two smaller share issues in Pakistan, other regional activity was negligible.

Sector highlights

Two sectors accounted for nearly 70 percent of total value: finance (banking, insurance, and real

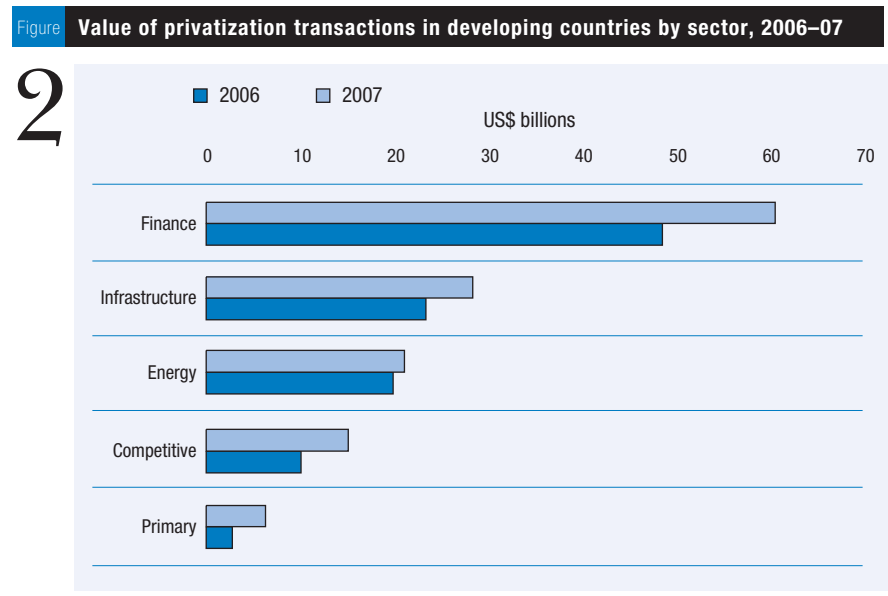
estate) and infrastructure (water, telecommunications, natural gas transmission and distribution, and electricity generation, transmission, and distribution).

Finance: record levels led by IPOs

In finance, transaction value in 2007 reached a record US\$61 billion (46 percent of the total), growing from US\$49 billion in 2006 and US\$25 billion in the previous six years combined (figure 2). Driven by the demand for shares, the need for capital, and the continued opening of markets, IPOs accounted for nearly 95 percent of sector value and most of its growth. Nearly 67 percent of IPO value (US\$38 billion) came from nine Chinese banks and insurance companies, and another 28 percent (US\$16.8 billion) from the two Russian banks, the top two finance transactions. Banking IPOs also took place in Turkey and Pakistan. Non-IPO finance sales occurred mainly in Europe and Central Asia: Turkey and Georgia (real estate), Hungary and Slovenia (banking), and Ukraine (insurance).

Infrastructure: growth in electricity

Infrastructure transaction value grew by 20 percent to US\$28.4 billion (21 percent of the total).⁴ Value in electricity and natural gas tripled, returning to levels of the late 1990s and accounting for more than half the infrastructure total. Nearly 85



Source: World Bank Group, Privatization Database.

percent came from the sale of 12 companies in Russia and Romania's IPO of Transgaz. The rest came mainly from transactions in the Philippines, Jordan, Colombia, and Nigeria.

Transport had only 15 transactions, less than half the number in 2006, but value held steady at around US\$6.7 billion. Nearly 60 percent came from Mexico's US\$4 billion highway concession. Large port and railway concessions accounted for most of the rest: Turkey's Port of Mersin (for more than US\$750 million) and Brazil's Norte Sul Railroad (US\$760 million).

Value in telecommunications declined by nearly half, to US\$5.8 billion, mainly because of smaller transaction size: the top three transactions in 2007—in Croatia, Iraq, and Morocco—generated less than half the US\$7 billion for the top three in 2006. Transactions took place in 23 other countries, nearly half in Sub-Saharan Africa.

Value in water and sewerage grew fivefold (though from a low level in 2006) to US\$950 million. Except for one transaction in Georgia, all activity was in China.

Energy, competitive, and primary sectors: growth from a few large IPOs

Value in energy grew by 12 percent to US\$22 billion, 80 percent of it from the IPOs of PetroChina and China Shenhua Energy and 13 percent from Colombia's IPO of Ecopetrol. Value in competitive sectors grew by 30 percent to US\$15.1 billion, 85 percent of it from nine IPOs, all but one in China. Value in the primary sector grew by 65 percent to US\$6.3 billion. Some 25 percent came from two Chinese IPOs and the rest from two non-IPO transactions (in Russia and Bolivia).

Conclusion

- IPOs grew in importance in 2007, accounting for three-quarters of the transaction value of privatizations in developing countries, with most in China and Russia. IPOs dilute state ownership of companies and may lead to performance improvements, but states retain majority ownership and control. Improving corporate governance is among the main challenges going forward.
- The value of other (non-IPO) privatizations declined overall but grew or held steady in

sectors with major investment needs, such as electricity and transport.

- Preliminary data for 2008 show a big drop in activity as a result of the global financial crisis and the sharp reductions in capital flows to developing countries. IPOs, which began slowing in late 2007, came to a virtual halt. Non-IPO transactions also declined. In infrastructure many new projects scheduled for 2008 were postponed or canceled because of difficulties in securing private financing. Takeovers and nationalizations, previously limited to extractive industries in a handful of countries (Bolivia, Ecuador, Russia, and República Bolivariana de Venezuela), occurred in or threatened other sectors, most notably banking.

Notes

1. While IPOs do not involve outright transfer of ownership or management control, they dilute government ownership and so are included in the database.
2. Global IPOs reached record levels in 2007, with more than 1,830 IPOs raising over US\$270 billion (Ko 2008).
3. The average for 2006 excludes two record-breaking Chinese transactions: the IPOs of the Industrial and Commercial Bank of China for US\$22 billion and the Bank of China for US\$13.7 billion.
4. Value in infrastructure includes only payments to the government through sale revenues and concession or lease fees. It excludes greenfield investments and investment commitments by new owners and operators, which increased in all infrastructure sectors in 2007 and even peaked in some (transport, telecommunications). See Izaguirre (2008).

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