

### 3. Second phase—moving to sale

Step three: Privatization plan	<b>20</b>
Step four: Obtaining approval	<b>22</b>
Step five: Sale	<b>22</b>

As noted, the second phase of privatization involves three steps: preparing a privatization plan, obtaining legislative approval (if needed), and selling the enterprise (figure 2).

#### Step three: Privatization plan

Once a government decides to privatize a state enterprise, it should prepare a privatization plan with its advisers. This plan should include a communications plan (to build public support and attract investors); a plan to resolve the public policy issues surrounding the privatization; a plan outlining the method of sale, the steps required to reach sale, and a timeline; and draft legislation or executive orders. In addition, if the government is using different financial advisers for the sale than it used to prepare for privatization, those advisers (sales agents) should be hired at this point.

#### Communications plan

The government should develop a communications plan before it starts the sale process. This plan should be designed to build public support for the privatization and teach the public about features of the privatization that require public participation (for example, how to purchase shares). The plan also should provide ministers, public officials, and company executives with question and answer material so that the government can provide coherent, coordinated, and accurate information to the media and public on the aims, rationale, and progress of the privatization.

#### Public policy issues

Before the privatization can proceed to the sale phase, the government must resolve any public policy issues the

privatization raises. These may be wide-ranging, but common ones include:

- The regulatory regime, if any, that the government needs to put in place.
- An environmental statement identifying who will bear environmental liabilities (if any).
- Restrictions or conditions on foreign participation in the sale.
- The role of employees in the privatization—for example, participation in an initial public offering, preferential subscription rights, discounts to sale price, and so on.
- Restrictions or conditions on the sale—for example, golden shares.
- The government's plan for managing residual share-holdings.

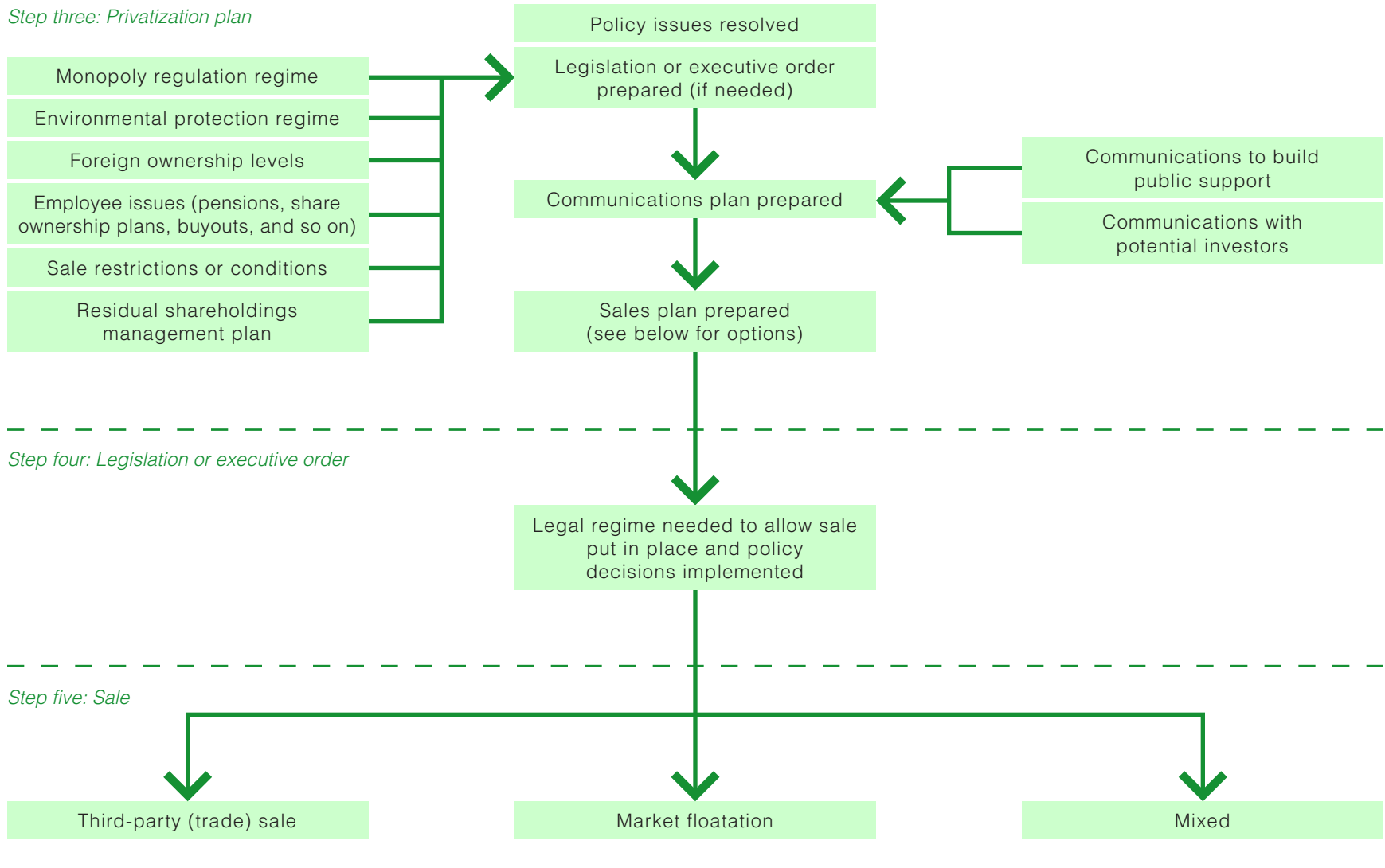
#### Sales plan

The sales plan should state how the government and its financial advisers or sales agents will carry out the sale. The plan should contain the steps and timeline for the sale, covering the timing and method of sale, responsibilities of government officials and advisers, production of sale documents (for example, information memorandums prospectuses), legal tasks and timeline, and the composition and hierarchy of the placement syndicate and underwriting syndicate (if an initial public offering is being used).

#### Draft legislation or executive orders

If legislation is required for the privatization, including for matters such as regulation, it should be drafted at this point. Any executive orders or decrees needed for the sale of the state enterprise should also be prepared.

Figure 2 Second phase—moving to sale



#### **Step four: Obtaining approval**

If legislative or government approval is required, the government should obtain it at this stage. Legislation should be passed before the sales transaction starts; the sales process becomes needlessly complex if legislation is pending when the company is brought to market. A communications exercise is needed to provide parliamentarians with objective information on the aims of the government and the reasons for privatization.

#### **Step five: Sale**

The issues that arise during the sales transaction will vary according to whether the privatization is a public offering, trade sale, negotiated sale, or mixed sale. An initial public offering requires the enterprise being privatized to be of sufficient size and quality to justify a public sale of shares. (In addition, the markets in which the shares are being sold must be mature enough to absorb them.) Enterprises that do not meet these requirements are sold through a trade sale (third-party sale) of assets or shares using an open bidding (auction) process. A negotiated sale to a strategic buyer is another alternative, though in most cases the government will receive less than it would through an active, open bidding process. Finally, governments can use a mixed sale, combining a trade sale with a public share offering, particularly if a strategic buyer is being sought for a significant block of shares.