

5. Organizing government for privatization

Securing a central location and high-level support	40
Setting clear objectives	40
Developing institutional competence and experience	40
Overcoming the commitment problem	41

A successful privatization program must be located at the center of government, receive support from the highest levels of government, clearly define its objectives, develop institutional competence and experience, and overcome the commitment problem.

Securing a central location and high-level support

Most privatization programs are at the center of government, attached to the president's or prime minister's office, the ministry of finance or treasury, or some other powerful central ministry or department. There are a number of reasons for this:

- Privatization inevitably encounters bureaucratic opposition and political resistance—because privatization changes the status quo. By locating the group responsible for privatization near the center of government power, bureaucratic opposition can be overcome and political issues effectively managed.
- Privatization programs are usually part of a structural adjustment program or result from the government's need to raise revenue. Central ministries are responsible for such initiatives and so have the strongest incentive to make privatization succeed.
- Because privatizations affect so many parties inside and outside government—including line ministries, the enterprise being privatized, labor unions, national and local politicians, and the employees, customers, and suppliers of the enterprise being privatized—they can be extremely contentious. Thus senior officials often must intervene to resolve issues and move the process forward.

Setting clear objectives

Privatization programs should have clearly defined objectives. The government can set these out in policy statements, laws, or decrees or in instructions to the officials administering the privatization program. If these objectives are missing, confusion will develop about why privatization is being pursued.

Given the wide range of interests affected by any significant privatization, trade-offs will need to be made between stakeholder and government wins and losses. Clearly defined objectives are required to make these trade-offs and to prevent privatization from being bogged down in a welter of unresolved issues. For example, governments must make tradeoffs between the interests of line ministries, which may be more concerned about how privatization will affect their policies and authority than about the government's need to restructure the economy or raise revenue.

Developing institutional competence and experience

Government institutions responsible for privatization must gain experience and develop competence with the process. Privatizing state enterprises is difficult, and often requires commercial skills that officials in developing and transition economies do not have. To develop this expertise, a single privatization body should be established to gain experience over time. Spreading the privatization effort over a number of institutions or ministries is a mistake, and will lead to conflicts and undermine the institutional capacity needed in privatization. Moreover, the privatization agency should be adequately funded so that it can hire financial, legal, and other advisers, as required.

In many countries efforts to centralize power, secure high-level support, and focus institutional capacity have been mutually reinforcing. For example, Canada's most successful privatization program was associated with the Department of Finance. Argentina and Mexico also relied on their ministries of finance. New Zealand and the United Kingdom centered their programs in the treasury.

Overcoming the commitment problem

The commitment problem arises because governments may be tempted to deviate from or reverse economic policies over time, and because institutions are not strong enough to prevent such reversals. Commitment problems increase the perceived risk of expropriation and drive out investment. In postcommunist economies, for example, governments face a particularly severe commitment problem because of the vast influence of state enterprises—the linchpin of a powerful coalition of beneficiaries with privileged access to public resources. In addition, governments in transition economies—as elsewhere—have encountered public hostility toward the sale of a country's "crown jewels" to foreign investors.

In some countries the commitment problem is exacerbated by two features of the institutional and legal framework: overlapping jurisdictions and excessive discretionary authority. Many countries have a proliferation of veto-holding agencies, each with the power to obstruct cash sales of state enterprises. For example, privatization powers are often divided between the line ministries responsible for an enterprise and the agencies responsible for the mechanics of the sale and (possibly in another body) the oversight of privatization programs and sales.

There are good reasons for policymakers to prefer discretion to rules if governments are fragmented. Discretion is flexible; rules are not. With discretionary powers, enterprises can be sheltered in friendly ministries or municipalities, offering useful leverage for parties or factions with uncertain political futures. Moreover, discretion is opaque, not subject to the oversight of regulators, courts, and the like.

Although good institutions cannot eliminate a large number of veto holders and an inclination toward discretionary policymaking, they can ameliorate them. Autonomy and rationality in institutional design are of particular importance. Autonomy is the extent to which an institution is insulated from outside interference, and thus from the veto power held by politicians or social groups. Rationality is the degree to which institutional procedures are based on uniform rules that must be followed.