

**Discuss the challenges of privatizing state – owned enterprises in the transition countries – What extra challenges might they face compared to other countries?**

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Privatization, which is the “deliberate sale by a government of a State – Owned Enterprises (SOE) or assets to private economic agent”, is a part of the restructuring process underway in transition economies and other developing countries as a move towards market economy. Privatization is, as empirical studies suggest, brings a long term increase productive growth. Moreover, the sale SOE’s will generate revenues for the governments, which is the driving force for privatization by governments in most countries.

There are different methods of privatization, namely

- Privatization through restitution: The return of property to former owners could be complicated in the absence of prove of ownership
- Privatization through the sale of state property: Either as direct sale or Share Issue Privatization (SIP). The choice will depend on the degree of development of the capital market
- Mass or Voucher privatization
- Privatization from below

The process of privatization requires the realization of a number of preconditions and these are:

- Setting up of a structure of privatization (example legislation)
- Providing of adequate performance records of the SOE
- Developing any necessary new regulatory structure
- Determining the appropriate post – sale relation between firm and the government

Assuming all the preconditions are fulfilled, the challenges of privatization are;

- When to privatize
- Decision on the speed of privatization: privatize rapidly (“big bang” in formerly Soviet Block) or slowly (China)
- Restructuring of SOE before or after sale
- Determination of prices for assets: Auction or negotiation
- The how of the transfer of control (all or part) in Share Issue Privatization (SIP)

The extra challenges faced by the transition countries in the process of privatization in comparison with similar process in industrialized countries or non – transition countries is that privatization in transition economies is a part of the all-inclusive change from centrally planned communist system to market oriented system of allocation resources and organizing production. This process had been complicated by the poorly developed capital markets in all the transition economies and the break up of Soviet union in formerly Soviet Republics.