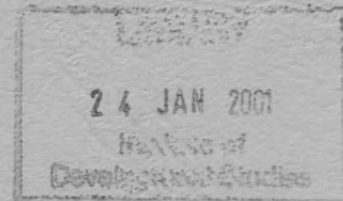


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# W O R K I N G P A P E R



## ***B O T S W A N A I N S T I T U T E F O R D E V E L O P M E N T P O L I C Y A N A L Y S I S***

### **COMPETITION, PRODUCTIVITY AND PRIVATISATION**

Summary Report

on a seminar sponsored by the Commonwealth Secretariat  
and organised by Botswana Institute for Development Policy Analysis

&

Botswana National Productivity Centre  
Gaborone, Botswana (21-23 April, 1997)

Prepared by

***Abdalla Gergis***

BIDPA Working Paper No. 13

August 1997

**4TH FLOOR, TSHOMARELO HOUSE, BROADHURST MALL  
PRIVATE BAG BR 29, GABORONE, BOTSWANA  
TEL: 371750 - FAX: 371748**

## **Abstract**

This report is a summary of proceedings and presentations during a policy seminar on "Competition, Productivity and Privatisation" organised by Botswana Institute for Development Policy Analysis (BIDPA) and Botswana National Productivity Centre (BNPC) and sponsored by the Commonwealth Secretariat. The seminar was held in Gaborone, Botswana (21-23 April, 1997).

## **Keywords**

Privatization  
Productivity  
Competition

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**BOTSWANA INSTITUTE FOR DEVELOPMENT POLICY ANALYSIS**

*Policy Seminar on*

# ***Competition, Productivity & Privatisation***

*(Gaborone, Botswana: 21-23 April, 1997)*

***Summary Report***

*Prepared by*

***Abdalla Gergis***  
***Senior Research Fellow***

***August 1997***

## TABLE OF CONTENTS

<b>Executive Summary</b>	<b>2</b>
<b>Introduction</b> .....	<b>5</b>
<b>Understanding privatisation</b> .....	<b>7</b>
What is it and how to do it? .....	7
Why privatise? .....	11
<b>Institutional framework for privatisation</b> .....	<b>12</b>
Creating an enabling legal and regulatory framework .....	12
Financial Sector Reform .....	15
Corporate Governance .....	17
<b>Improving public sector performance without privatisation</b> .....	<b>18</b>
The Tanzanian case .....	19
The case of Singapore .....	22
<b>Privatising under public ownership</b> .....	<b>23</b>
The Dairibord Zimbabwe Limited .....	23
<b>Privatising ownership</b> .....	<b>25</b>
Restructuring and Sale of PEs: Kenya Airways Case Study .....	25
<b>Comparative Commonwealth privatisation experiences</b> .....	<b>28</b>
The Jamaican Experience .....	28
The Malaysian Experience .....	30
The Zambian Experience .....	34
<b>Privatisation in Botswana</b> .....	<b>39</b>
The BOCCIM Report .....	39
Panel Discussion .....	43
Closing Remarks .....	44

## Executive Summary

A three-day policy seminar on *Competition, Productivity and Privatisation*, organised by Botswana Institute for Development Policy Analysis (BIDPA) and Botswana National Productivity Centre (BNPC) and sponsored by Commonwealth Secretariat, was held 21-23 April, 1997 in Gaborone, Botswana. The seminar provided a unique opportunity for Botswana public policy-makers and private sector leaders to share ideas and experiences with African as well as other counterparts from Commonwealth countries in the area of public sector reform in general and privatisation in particular. The main points and lessons learnt through the seminar discussions are summarised below.

*The need for privatising is perceived to be less pressing in Botswana* than in other African countries. Botswana's comfortable financial situation and lack of external pressure for privatisation has led policy-makers to believe that they can take their time to consider how privatisation should be done in Botswana.

A logical approach is to first monitor the activities and measure the performance of public enterprises and, in some cases, of particular components of such enterprises. Having identified the scope for improving productivity and enhancing efficiency and effectiveness, the next stage would then be to determine whether and how selected features of private enterprise could be introduced so as to achieve better results. This may take the form of introducing greater competition into areas previously served by entrenched monopolies, or it may take the form of selling to the private sector some peripheral activities of government, or public corporations or it may entail the establishment of commercially determined performance targets for public enterprises.

*Privatisation must be well defined* in any privatisation programme. Privatisation may be used to refer to:

- the transfer of ownership from the public to the private sector;
- the leasing of such assets while maintaining public ownership;
- the transfer of management of public entities to the private sector through management contracts;

- contracting out (out-sourcing) of public services to the private sector;
- deregulation and liberalisation.

*Potential benefits and costs of privatisation must be critically examined and evaluated.* Privatisation plans should identify ways to overcome or mitigate the worst potential impacts of privatisation and structural transformation and to support and reinforce positive outcomes.

In the early stages, it is important to develop the technical skills needed to execute a privatisation programme. Rather than making elaborate lists of enterprises to be privatised, identify three or four agencies and use them to demonstrate and learn the process of privatisation. It would also be useful to have a closer look at the experience of other similar countries.

Having determined privatisation goals and prospects, a *privatisation plan* should be developed clearly stating the scope, magnitude and procedures for privatisation. It should also identify the privatisation agency and its responsibilities and how institutions will be developed to support implementation. Privatisation requires a managerial set-up that ensures speed, transparency and consistency of implementation. This entails developing a *strategy for managing the programme* and choosing the appropriate methods of privatisation.

The *choice of privatisation method* depends on several factors including the objectives of the government; the financial condition and performance record of the state-owned enterprise (SOE); and the ability to mobilise private sector resources, particularly through the domestic capital market.

Privatisation involves a lot of contractual arrangements and monitoring mechanisms which require strong *institutional capacity*. During the *implementation of privatisation*, governments must pay special attention to protecting the interests of workers who will be displaced by restructuring and divestiture of SOEs.

Competition is the best regulator and as such it should be encouraged wherever possible. As part of the privatisation process, it is prudent for governments to review commercial and business laws with a view to identifying any weaknesses in their *enabling and regulatory functions* so that the appropriate remedial action can be taken. Among the laws that will require review are those relating to ownership and transfer of

immovable commercial property; the prerogatives of the state in determining the use of land; environmental protection; types, formation, organisation and limited liability of companies; various types of commercial contracts; intellectual property; securities and stock markets; banking and financial services; the fiscal regime; competition and restrictive business practices; insolvency; labour law; accounting and accounting standards; and dispute settlements and procedures.

The *legal steps needed to prepare an enterprise for privatisation* will depend upon the pre-existing legal form of the enterprise in question. If a public enterprise is being run as a department of government or other integral unit of the government, it will be necessary to "corporatise" the enterprise. In Commonwealth jurisdictions, this will usually mean turning the government department or other such unit into a limited liability company.

*Financial sector reform* is necessary to integrate segmented money and capital markets, create competitive markets and contribute to successful privatisation by enabling the private sector to play a leading role in economic development and helping to breakdown the inertia about state ownership.

The key issues of *Corporate Governance* in the privatisation process which are subject to debate are the range of responsibilities, the extent and the degree of duty of care of the Board of Directors of a company to the shareholder / stakeholder. This relates to the amount of trust, reliability and confidence the public has in the private sector to manage the affairs of public services which are transferred from the public sector to the private sector.

The performance of public sector institutions has been disappointing, to say the least, in many developing countries. While privatisation is among the *policy options for public sector reform*, other reform mechanisms can also be powerful tools when properly implemented.

*The Tanzanian experience* shows that improving individual and collective performance requires changing peoples' attitudes and values, together with a complete overhaul of management systems. In Tanzania, problems have been identified and strategies have been developed to overcome them. These included increasing the involvement of the private sector in service delivery as it continues to grow and mature and taking initiatives to improve the performance of the public sector workforce.

Judging from *experience in Singapore*, harnessing the quality (combining quality and productivity) of staff seems like a good idea that can be successfully done. But it involves conviction, determination and tenacity. Top management must be willing to listen, supervisors must be willing to change, and staff at the operating level must be willing to trust the organisation.

The lesson learnt from *Dairiboard Zimbabwe Limited* case study is that the development of strategic alliances is one way of enhancing the operational effectiveness and efficiency as well as productivity of state enterprises. The essence of turnaround is to focus on core-business activities and sharpen competitive advantages. *Out-sourcing* (contracting out) or sub-contracting is one avenue through which competition and productivity can be enhanced. Dairiboard Zimbabwe Ltd has successfully contracted out non-core activities and *franchised* its depots.

*Commercialisation* was not the goal of the restructuring but rather a necessary step towards privatisation of *Kenya Airways*. The success of the Kenya Airways commercialisation and privatisation experience can be attributed first and foremost to the Government's political will and clear objectives and sense of purpose. The three other factors are the choice of the top management, the choice of a competent privatisation advisor and the choice and use of a competent strategic partner.

*The Jamaican experience* confirms that:

- Privatisation must be a part of a comprehensive reform programme.
- Privatising public utilities requires a new regulatory framework.
- Privatisation will only succeed if the process is transparent.
- Underdeveloped capital markets in themselves are not major impediments to privatisation.
- In the early stages, it is important to develop the technical skills needed to execute the privatisation programme.
- Old company laws require updating.

- Foreign participation in privatised enterprises must be carefully considered and planned.
- In a small country, a centralised privatisation institution is advisable.

*Malaysia's privatisation policy* has proven to be successful due to several factors:

- The acceptance of the privatisation programme by both the Government and people.
- Privatisation is based on the Malaysia Incorporated concept, that is to foster close co-operation between the private and public sector to achieve economic development.
- The Government is concerned with the viability and performance of the companies that undertake privatisation projects.
- The privatisation program is broad-based covering various sectors of the economy.
- Malaysia's privatisation process is transparent.
- The Privatisation Action Plan is made public and thus the public has full knowledge of entities to be privatised.
- To encourage the private sector participation, various incentives have been given.
- The conversion of SOEs into a corporatised entity in cases where direct privatisation may not receive full support initially.

In *Zambia*, the policy is that investors may not purchase SOEs if they are not able to meet the financing requirements of capital investment and working capital for the enterprise. Given the lack of domestic finance, creative methods to allow Zambian participation in the privatisation programme were designed. These included:

- allowing Zambian individuals, management and employees to defer payment for the purchase of shares.
- setting up a Privatisation Trust Fund (PTF) to promote broad-based local participation. The PTF has been set up as a warehousing arrangement whereby the minority

percentage of the SOE shares reserved for Zambians are retained in trust. The shares are transferred to the PTF at no value. Zambian individuals and institutional investors are the sole potential buyers of the primary share offers.

The Zambian Privatisation Agency has a Social Impact Department that explains the process of privatisation and workers rights to all employees who are to be affected by the programme. Informing the general public on the issues of privatisation has also been an important element in the programme.

In *Botswana*, the Government does not yet have a policy on privatisation and that has been a subject of debate among the politicians and others as well. The legal framework needs to be changed, if privatisation is to be seriously considered. The statutes establishing parastatals will have to be changed to make them into companies under the Companies Act.

A recent report by BOCCIM recommended six areas which the process of privatisation in Botswana should address:

- Changing relations between the Government and parastatals.
- Restructuring parastatals where necessary.
- Restructuring commercially oriented government departments.
- Changing the roles of local councils.
- Removing any obstacles at each stage of transactions.
- Selecting an appropriate method of sale.

However, most of the report's recommendations are of a general nature corresponding to hypothetical situations. They do not suggest a specific policy action as a logical response to an identified problem.

## Introduction

Botswana Institute for Development Policy Analysis (BIDPA) and Botswana National Productivity Centre (BNPC) organised a three-day policy seminar on *Competition, Productivity and Privatisation*. Sponsored by Commonwealth Secretariat (Management and Training Services Division), the seminar was held 21-23 April, 1997 at the Gaborone Sun Hotel in Gaborone, Botswana.

The seminar provided a unique opportunity for Botswana public policy-makers and private sector leaders to share ideas and experiences with African as well as other counterparts from Commonwealth countries in the area of public sector reform in general and privatisation in particular. The participants from outside Botswana included privatisation experts and staff members of the Commonwealth Secretariat and privatisation practitioners from Jamaica, Kenya, Malaysia, Singapore, Tanzania, Zambia and Zimbabwe. Botswana participants included: *Permanent Secretaries and/or representatives* from the Office of the President, Ministry of Finance and Development Planning, Ministry of Mineral Resources and Water Affairs, Ministry of Works, Transport and Communications, and Ministry of Commerce and Industry; *heads of parastatals and/or representatives* from Botswana Housing Corporation, Botswana Development Corporation, Botswana Power Corporation, Botswana Telecommunications Corporation, Water Utilities Corporation, Botswana Meat Commission, University of Botswana, Air Botswana and Bank of Botswana; *politicians* from different political parties; and *Private Sector representatives* from Botswana Confederation of Commerce, Industry and Manpower (BOCCIM), Botswana Chamber of Commerce and Industry (BCCI) and Botswana Federation of Trade Unions (BFTU).

In his introductory remarks, **Mr. Jan Isaksen, Executive Director of BIDPA**, pointed out that Botswana's route to privatisation was likely to differ from that of many other African countries. The need for privatising is perceived to be less pressing in Botswana than in other countries on this continent. The fact that public enterprises are small in number and relatively well run is part of the reasons. Other factors are related to the fact that Botswana's economy has relatively been well managed at the macro level. This has meant less need for advice from the international community about what Botswana should or shouldn't do. Nevertheless, right from the start - if one reads through the Botswana's development plans starting from number one - Botswana has had a strong

policy on promoting the private sector role in economic development.

The perceived need for taking measures towards privatisation has become more and more pronounced as the public sector became a major source of GDP growth and is now too big in the opinion of many Batswana. Botswana's particular situation has led policy-makers to believe that they can take their time to consider how privatisation should be done in Botswana. Botswana's Confederation of Commerce and Industry and Manpower (BOCCIM) has played a prominent role in the privatisation campaign. This seminar serves as an addition to BOCCIM's contributions by highlighting not only what is good about privatisation but also what is bad and how to make it successful.

**Mr. Max Mwanahiba of the Commonwealth Secretariat** highlighted some of the Commonwealth's basic characteristics. The Commonwealth is mostly concerned in the development of human resource capacity in member countries. Since human resources are the most critical assets in any country and in any organisation, the Commonwealth believes that it is making a useful contribution to the growth of Commonwealth countries through human resource development.

The commonwealth is a voluntary association of independent sovereign states consulting and co-operating in the common interest of their peoples to promote international understanding, world peace and sustainable development. The association at present consists of 53 member countries from different races, religions, languages and cultures. It is a cross-section of the international community both north and south from six continents, a quarter of the world's population and it is part of the intrinsic fabric of contemporary multinational relations. Some of its members are among the highest income per capita countries and others among the lowest; some are large and others are very small.

The Commonwealth is the second largest multinational community outside the United Nations. Its diversity is considered a source of strength. The Commonwealth Secretariat draws on that strength and acts as a link complementing member states, co-operation and serving as an enormously variable melting pot of common experiences. Member countries are linked together not by any form or charter as in the UN system but by shared vision of a community of equals consulting and co-operating with one another for the common good of its peoples. Most important for this seminar, member countries are linked together by a set of guiding principles which



were first pronounced in Singapore in 1971 and have been reiterated at various Commonwealth heads of governments meetings in Zimbabwe 1991, Cyprus 1993 and most recently in New Zealand 1995.

The principles arising out of those declarations have been a set of priorities which include public service reform, and restructuring and privatisation of state-owned enterprises. The Commonwealth Secretariat has sought to foster collaboration through the exchange of experiences between member countries as they face common challenges of improving public service performance and implementing public service reform and privatisation. The Commonwealth has been at the forefront of pioneering the concepts of technical co-operation among developing countries. Countries at similar stages of development are best placed to identify not only their own but also each other's problems and to work together towards the solution of those problems.

The Commonwealth Secretariat has considerable comparative advantages in playing the role assigned to it. It provides a uniquely positive environment for collaboration and learning from successful experiences. The many cultural ties arising out of a common heritage have facilitated sharing of problems and achievements between public servants, political leaders and corporate executives across the Commonwealth. The Secretariat has developed an integrated portfolio of services designed to respond to the needs of member countries for technical assistance. These include applied research, practical programs which generate information, ideas, case-studies, models, and issues which member countries share together. These ideas, models and issues are discussed at policy workshops such as this one, where the accumulated knowledge is disseminated, consensus is built, and appropriate reform policies and programs are initiated within member countries. The workshops and seminars, in turn, generate papers, cases and resource materials which are published. The Commonwealth Secretariat also provides specialised training to build a stock of knowledge and skills required for the implementation of specific public service reform and privatisation programs. It provides short-term policy advisory services to assist member countries in the actual implementation of their reform programs. In addition, it provides technical experts who render services from one week to two years or more to assist member countries to undertake these reform and privatisation programs successfully.

This seminar provides a unique opportunity to address the principal concerns and to consider policy options and strategies of how to implement and manage the

process of reform towards a new public administration and privatisation of state-owned enterprises to the best advantage of Botswana. The Secretariat stands ready to provide further assistance at the request of the government of Botswana.

The Minister of Mineral Resources and Water Affairs, Mr. David Magang, officially opened the seminar. He indicated that when Botswana obtained independence in 1966, there was very little private sector and the government had to intervene in the creation of public enterprises to provide various goods and services.

The 1980s, however, saw a global sea-change in global thinking, with growing acceptance that socialist systems and associated repression of market forces, contributed to economic failures, while free markets and private enterprise encouraged competition resulting in greater efficiency and relative economic success. Naturally, these global shifts in thinking had profound effects on the policy dialogue between on the one hand the multilateral agencies of the first world such as the World Bank and the International Monetary Fund, and on the other hand the governments of the developing world. The multilateral agencies insisted upon public sector reform as an integral part of their structural adjustment programs.

For various reasons, Botswana stood very much on the side line of the wind of change which occurred in the 1980s. Through a mixture of good fortune and good macroeconomic management, Botswana's economy was becoming stronger during the last three decades. Botswana had no need for structural adjustment programs and therefore no need to accept the policy conditions which accompanied such programs.

Even though there is no external force pressing privatisation upon Botswana, there is a growing realisation that in certain cases and under certain conditions it may be a useful policy instrument which can be used to the national advantage and the logic is as follows:

- If productivity can be improved and efficiency can be enhanced, we will have a better chance of attracting investments which can lead to sustainable diversification of the economy.
- Some public enterprises are not as efficient as they should be and their workers are not as

productive as they might be, for instance, in a more competitive commercial environment.

- Hence the need to investigate ways of commercialising the activities of public enterprises and to consider whether private ownership will perform better in various kinds of market structures.

If we can harness the benefits of privatisation while avoiding the worst of the problems which go with it, we may find that privatisation is a policy instrument which can be used to promote economic development, improve the production and distribution of services, streamline government structures and re-invigorate industries which have hitherto been owned or controlled by the state. In a nutshell, therefore, the role of government should shift away from owning and doing towards co-ordinating and facilitating productive activities. This is not to say that there will be a wholesale sell-off of all public enterprises. Rather, the issue is one of how best to balance the respective strengths and limitations of government and private sector so that they complement each other to the maximum advantage of the nation as a whole. In this area, the Botswana government will adopt the approach of first identifying and analysing the nature of the problems and then selecting from various policy options those which seem more likely to solve them - preferably without generating a whole new set of problems in the process.

There is a need to first monitor the activities and measure the performance of public enterprises and, in some cases, of particular components of such enterprises. Having identified the scope for improving productivity and enhancing efficiency and effectiveness, the next stage would then be to determine whether and how selected features of private enterprise could be introduced so as to achieve better results. This may take the form of introducing greater competition into areas previously served by entrenched monopolies, or it may take the form of selling to the private sector some peripheral activities of government or public corporations, or it may entail the establishment of commercially determined performance targets for public enterprises. In considering commercialisation and possible privatisation of some public enterprises, the government will move cautiously and pragmatically.

Botswana is in a position to learn from the experience of others to avoid their mistakes. For example, we can learn about what happens when a public monopoly is transferred into private ownership without proper safeguards for the consumer; that commercialisation may result in the discontinuation of

loss-making services but if those services meet vital social needs, special measures must be taken to safeguard the interest of those affected. We should identify those areas where private markets are simply impractical and there is a genuine case for public provision. There are so many interesting aspects of this debate which must be developed.

## Understanding Privatisation

The first session of the seminar focused on answering three basic questions: What is privatisation? How to privatise successfully? and why privatise?

### What is it and how to do it?

In addressing the first two questions, Dr. Abdalla Gergis, Senior Research Fellow at BIDPA, first remarked that despite a slow beginning in the 1980s, the pace of privatisation appears to have accelerated during the 1990s. Experience has shown that the main challenge for governments pursuing privatisation is to manage the transformation process efficiently.

To start, the issue of **privatisation must be well defined**. The verb "*to privatise*" has been used to describe the action of making something private, or giving control of something to the private sector of the economy which has been controlled by the public sector. Privatisation can thus mean many different things. It may be used to refer to:

- the transfer of ownership from the public to the private sector through the sale of all or some of the assets of public enterprises (PEs) or other public entities - often termed divestiture to distinguish it from other forms of privatisation;
- the leasing of such assets while maintaining public ownership;
- the transfer of management of public entities (without transfer of ownership) to the private sector through management contracts;
- contracting out (out-sourcing) of public services to the private sector; involving private suppliers in activities previously provided by the state;
- deregulation and liberalisation of entry into activities previously restricted to public sector entrepreneurs and removal of

constraints imposed upon competition against public enterprises.

While the reasons for privatising PEs differ from one country to another, among the objectives of privatisation that have often been cited in privatisation programmes are:

- relieving the financial and administrative burden of the Government in undertaking and maintaining a constantly expanding network of services and investments in infrastructure;
- promoting competition, improving efficiency and increasing the productivity of enterprises;
- accelerating the rate of economic growth by stimulating entrepreneurship and investment;
- reducing the size of the public sector, with its monopolistic tendencies and bureaucratic support, in the economy;
- increasing popular participation in the ownership of national assets (democratising ownership);
- increasing government revenues and reducing budget deficits;
- developing capital markets.

These goals may and often do conflict. Thus, a strategic Government task is to balance conflicting objectives. Clarity of objectives is especially important for success of privatisation efforts. The overriding goal, however, should be efficiency enhancement and promotion of competition.

While managing privatisation is a complex task, lessons of world experience provide guiding principles to improve its implementation in countries which are new to the experiment.

**Potential benefits and costs of privatisation must be critically examined and evaluated.** Privatisation plans should identify ways to overcome or mitigate the worst potential impacts of privatisation and structural transformation and to support and reinforce positive outcomes.

Having determined privatisation goals and prospects, a privatisation plan should be developed clearly

stating the scope, magnitude and procedures for privatisation. It should also identify the privatisation agency and its responsibilities and how institutions will be developed to support implementation.

Privatisation requires a managerial set-up that ensures speed, transparency and consistency of implementation. This entails developing a strategy for managing the programme and choosing the appropriate methods of privatisation. The strategy should also consider ways in which the government and the private sector will:

- provide a clear direction for privatisation and link it with broader structural and sectoral reforms;
- establish and sustain high-level political commitment to privatisation and supportive structural reforms;
- assist implementing institutions and participating organisations in developing the capacities to carry out changes effectively. These institutions include government agencies, labour unions, investors, PEs, legislators, business leaders and consultants;
- gain the co-operation of important stakeholders to overcome resistance to change and build coalition of support for reform.

The choice of privatisation method depends on several factors including the objectives of the government; the financial condition and performance record of the PE; and the ability to mobilise private sector resources, particularly through the domestic capital market. Different methods of privatisation result in different outcomes.

If privatising ownership is the objective, the following are the most common modes of enterprise divestiture:

- de-nationalisation or returning enterprises to former private owners;
- reorganisation of an enterprise into separate entities or into a holding company and several subsidiaries in preparation for selling;
- offering shares on the stock market to the public at large (emphasising widespread distribution of ownership or "popular

capitalism") or to domestic and foreign investors;

- direct or private sales of enterprises or shares to domestic and/or foreign investors;
- management and/or employee buy-outs; and
- liquidation of PEs by dissolving their business completely.

If divestiture is not the immediate goal of privatisation, or privatisation of ownership is not politically feasible, and the goal is to transfer management and operations to the private sector while maintaining public ownership, then the following methods could be used:

- out-sourcing or franchising production, or provision of services needed by the Government, to private firms;
- contracting with private firms to manage the operations or lease the business of the public enterprise;
- partnerships between public and private companies for provision of public services, infrastructure and other projects.

If the goal is to restructure PEs and make them run like private firms without transfer of ownership or management control to the private sector, then the most appropriate method is:

- commercialisation of activities by eliminating subsidies to PEs and requiring cost recovery for public agencies, eliminating their monopoly status and requiring them to follow the same rules as private firms in their commercial activities.

If the objective is to reduce or eliminate the public sector role in providing goods and services and promote competition by encouraging private sector provision, methods may include

- deregulation and liberalisation of activities, and removal of price controls and barriers to entry; and
- government incentives for the private sector and NGOs to provide public services.

Clearly, each of these methods has its advantages and disadvantages that may be affected by political, economic and social conditions.

Privatisation involves a lot of contractual arrangements and monitoring mechanisms which require strong **institutional capacity**. A strong institutional capacity means the capacity of Government to design and implement credible contracts that promote sustainable growth with both public and private agents. Successful contracting depends on reasonably stable rules of the game, reliable information for monitoring, incentives for the principal and agent to adhere to the contract and mechanisms to resolve conflicts. The challenge is therefore to examine the adequacy of existing institutional capacity to implement the privatisation policy. Institutional weaknesses should be identified and amended and care must be taken in choosing activities to be privatised and methods of privatisation accordingly.

It is essential that governments move quickly to strengthen institutional capacities to facilitate privatisation. These include

- programmes to foster and support an effective system of property rights, financial institutions, labour markets, legal institutions that can legitimise business transactions and adjudicate or resolve business conflicts effectively, and marketing and distribution channels.
- programmes to accelerate private sector development by providing incentives and support for developing small and medium-sized enterprises, restructuring large companies and attracting foreign investment.

Procedures must be developed to carry out the transformation process in an effective manner. This entails redefinition of government's role in economic activities from controlling and producing to facilitating and regulating. The redefinition of the role and responsibilities of Government implies a restructuring of activities and procedures.

During the **implementation of privatisation**, Governments must pay special attention to protecting the interests of workers who will be displaced by restructuring and divestiture of PEs, providing training, employment and social assistance, and health insurance for those in transition from one job to another while they are unemployed and social security for those who are retiring. Employee ownership

schemes can be used to elicit support for privatisation; research shows that they can also enhance productivity, although profit sharing and bonus schemes are more powerful incentives.

**Transparency** must obtain in every privatisation transaction. The larger and more visible the transaction, and the less competitive the market for the enterprise's goods or services, the greater the importance of transparency. Not only transparency has to be emphasised but it has also to be publicised.

Privatisation has many enemies, and together, they pose a formidable challenge to its supporters. In designing a privatisation programme, government should therefore take into account the potential obstacles that can undermine or complicate the management and implementation of the privatisation process.

**Three important factors** contribute to privatisation success; privatisation agency conditions, country conditions and enterprise market conditions. In order for the privatisation agency to be successful in carrying out its task, it should have a strong political backing and high degree of financial and managerial autonomy. The Government must create mechanisms to guarantee the agency's financial accountability, assure transparency of its procedures and encourage private sector participation in the privatisation process to protect the public interest.

Country conditions are determined by the overall macroeconomic policy framework and the capacity to regulate. Privatisation will yield more immediate and greater benefits the more market-friendly the overall policy environment. For example, the outlook for undertaking privatisation in an uncertain environment characterised by high inflation is poor, for the same reasons that private sector investment tends, under the same circumstances, to be dormant - prices lose their ability to transmit signals that improve the allocation of resources. Privatisation would therefore be more successful if it were part of an overall policy reform programme that induces greater competition, both domestic and international, and macroeconomic stability.

A well functioning legal framework is also very important for successful privatisation since privatisation of enterprises operating in non-competitive markets requires that a regulatory system be in place to protect consumers. The privatisation process is also easier if the enterprise is operating in a competitive or potentially competitive market and the environment is market-friendly. For enterprises operating in non-competitive markets, the

process is more difficult, especially where capital markets are thin as is the case in poor countries.

In order to draw a road map for public enterprise reform for a country like Botswana, the first question to ask is whether Botswana's public enterprises need reform. If the answer is yes, the next question would be whether Botswana is ready for such reform. If not, enhance readiness by creating the necessary environment as discussed earlier; if yes, then do enterprise level analysis identifying problem areas. For the enterprise under investigation, market conditions must be examined; whether competitive, potentially competitive or monopolistic. In the case of competitive or potentially competitive markets, transparency needs to be ensured in privatisation transactions if divestiture is possible. In the case of monopolies, adequate regulations must be in place if divestiture is possible and desirable. If divestiture is not desirable or not possible, contractual arrangements with the private sector should be considered. If contractual arrangements are not possible, other public enterprise reform measures would be needed. These include un-bundling large firms, encouraging competition, elimination of subsidies and transfers, restricting soft credit, ensuring managerial and financial autonomy, and finally using performance contracts.

**In conclusion**, privatisation is neither a panacea for public sector ills nor sufficient to ensure economic efficiency. Generating improvements in enterprise performance involves much more than simply a change in ownership through divestiture. Bringing about improvements in the performance of enterprises is not just a question of economics, but also involves issues of organisation, institutional building and political will.

In the final analysis, privatisation is just one facet of the larger policy issue of PE reform and private sector development. Its contribution should be seen as helping to further this development, as countries attempt to adjust towards more efficient and sustainable growth-oriented economies. Political commitment to encourage the expansion of the private sector as an instrument of economic and social development is therefore essential to the success of privatisation policy.

*The case for privatisation rests less on fine-tuning the net benefits and more on a vision of changes in the roles of the public and private sectors as well as in the particular sector in which the enterprises selected for privatisation operate. For this to occur, privatisation must take place within a macroeconomic and sectoral environment that induces greater competition, both*

domestic and international. Unless effective competition and/or regulation are introduced, the privatisation of firms with market power brings about private ownership in precisely the circumstances where it has least to offer.

Clear privatisation objectives and strategy are essential for success. This involves identifying and resolving policy trade-offs; establishing the appropriate scope, pace and sequencing of privatisation and choosing the right privatisation methods. Implementation involves decisions on restructuring PEs prior to sale, pricing of assets and shares, financing of sales and the institutional machinery for managing privatisation.

### Why privatise?

Answering this question, **Mr. Mike Bazett of Coopers & Lybrand**, stated that privatisation is simply one of many performance improvement tools. As such it should be selected for use in order to address a specific problem to deliver specific objectives. The gap between where you are now and where you want to be defines the problem you are trying to solve. However, as privatisation is a single tool among many, it may or may not be the right tool for overcoming the problem.

Many public sector organisations around the world can be described as:

- acting as the dead hand of government;
- politically influenced;
- having too many staff;
- monopolistic; and
- having under motivated, inefficient staff with poorly defined and confused incentives.

As a result, these organisations:

- are often loss-making;
- have a poor image; and
- provide inadequate services with inadequate quality at high cost to the tax payer and customer.

The vision for many public sector organisations is to provide quality goods and services, have a good

image and possibly, depending upon the area, to be profitable. To achieve this vision a government department, agency or parastatal may wish to become:

- commercially managed;
- uninfluenced by politicians;
- with sufficient staff;
- competitive; and
- with motivated, efficient staff with clear, strong incentives.

Having seen where the public sector often is and where we want it to be, we now need to review what privatisation can deliver.

Typical privatisation objectives include:

- increased efficiency and effectiveness of the public service;
- funds for government;
- improved service quality;
- reduced borrowing for government;
- developed or strengthened capital markets and extended domestic share ownership;
- elimination of loss makers and subsidies; and
- raised international profile of the country, attracting foreign capital and expertise.

Whether privatisation always works is hard to prove from anecdotal evidence. However, it should be noted that by 1997, the majority of the world's governments had initiated some privatisation and some such as the UK, New Zealand, Chile, Mexico and Argentina had implemented substantial programmes.

Botswana's vision 2016 clearly sets out where Botswana wants to be. To achieve these visionary goals, two linked elements have been clearly articulated in the National Development Plan 8. First, diversification of the economy. Second, improvements in productivity.

A strategy to help move Botswana towards its vision and overcome some of its problems has been put forward by the Botswana National Productivity Centre. This strategy contains three key elements:

- A radical reform of the public sector to improve its efficiency, improve its services to customers and to reduce its size. This will enable government to concentrate upon its core business only, and free up skilled and experienced labour to drive the private sector.
- Focus on small and medium enterprises to build up the private sector and create employment.
- Improve customer service.

To bring about these three changes requires a comprehensive **performance improvement strategy**. It is clear from the previous discussions that privatisation as a policy that pervades government thinking can form one important element of this strategy. However it would be one tool amongst many that the Government should employ.

Many countries have been forced into privatisation programmes by IMF or World Bank officials due to financial pressures. Botswana is in the privileged position of not requiring urgent additional funds. This does mean that Botswana have the opportunity to carefully review the present position, their desired position and consider what role privatisation should play. The disadvantage for Botswana is that the lack of urgency may result in delay. There is an opportunity to move to the next phase of Botswana's development but a tremendous amount of work and careful planning is required. The danger for Botswana is that today will always be for discussion and tomorrow for action.

There are five broad messages of this presentation:

- Remember the tax payer and customer. While constructing and implementing a privatisation programme, do not lose sight of the tax payer and the customer of public goods and services.
- Privatisation is complex, it is not a panacea or a single event. Seek advice from those who have passed this way before and learn from their mistakes.

- Privatisation can be a remarkably powerful tool to improve efficiency and effectiveness and produce higher quality goods and services at lower cost.
- It is difficult to prove that privatisation works but a great deal of evidence points that way.
- Privatisation appears to be a useful tool that Botswana could use to help improve its productivity and assist with its diversification to achieve sustainable development.

### **Institutional Framework For Privatisation**

The institutional environment for privatisation requires:

- Creating an enabling legal and regulatory framework .
- Financial sector reform
- Corporate governance

### **Creating an enabling legal and regulatory framework**

In addressing this issue, **Dr. Kofi Date-Bah (Legal Advisor at the Commonwealth Secretariat)** stated that, as part of the privatisation process, it is prudent for governments to review commercial and business laws with a view to identifying any weaknesses in their enabling and regulatory functions so that the appropriate remedial action can be taken. Among the laws that will require review are those relating to ownership and transfer of immovable commercial property; the prerogatives of the state in determining the use of land; environmental protection; types, formation, organisation and limited liability of companies; various types of commercial contracts; intellectual property; securities and stock markets; banking and financial services; the fiscal regime; competition and restrictive business practices; insolvency; labour law; accounting and accounting standards; and procedures for settlement of disputes.

It is not essential to enact specific legislation to facilitate the implementation of the privatisation programme, but such a legislation is often useful in focusing the minds of those in charge of the programme on the critical issues. Some of these issues relate to the route of establishing a privatisation

agency. Such an agency may be established administratively or by a statute.

The decision to adopt the route of establishing a privatisation agency by statute implies early resort to the legislature in the privatisation process. The statute enables the authority of the agency to be explicitly and transparently set out so that prospective investors know exactly where to stand in relation to it.

Because most privatisation programmes of any significant size will find resorting to public issues of securities useful, an enabling and regulatory framework for securities is usually essential for developing and/or strengthening the domestic capital market. Where no regulatory system exists for securities, steps will need to be taken to put one in place as part of the mechanics of the privatisation process.

Among the objectives of government regulation of the securities market are:

- the protection of investors from fraud, dishonesty and unfair practices;
- ensuring that market operations in securities measure up to the rules of the market place; and
- enforcing particular public policy objectives.

These objectives are compatible with varying degrees of self-regulation, depending upon national circumstances. Self-regulation is often effective since the governing body of a stock exchange or other securities market is usually a repository of special expertise and likely to have greater insight into the daily operations of the market than any government body.

Given the need for both a degree of self-regulation and of regulation by Governments, the critical issue is how to structure a regime of co-regulation which is balanced and allows efficient market operations without undue government interference but at the same time enables Government intervention to protect the public interest.

In Botswana, a legal infrastructure for the regulation of securities exists, which makes the public issue of securities available as one of the privatisation techniques on offer. The Botswana legislature has formulated a regulatory framework for securities which is contained in the Botswana Stock Exchange Act 1994 which established the Botswana Stock

Exchange (BSE) as a corporate body. The Act provides for the affairs of BSE to be managed and controlled by a committee. It also provides for the appointment of a Registrar to establish the Register of Stockbrokers. Regulatory authority over the securities industry in Botswana is shared between this registrar, the Committee of the BSE and the Minister of Finance and Development Planning.

The Botswana Stock Exchange Act came into force at the end of October 1995 at the same time as the publication of regulations made under it to give the BSE operational guidance. Currently only one stockbroker has been licensed under the Act and as of February 1996, there were 12 listed companies on the BSE with a market capitalisation of US \$ 395 million. An issue which may be worth considering in relation to privatisation in Botswana is whether the Government should initiate movement towards more self-regulation by the BSE and, if so within what time frame.

Public policy issues involving anti-competitive practices need to be considered in relation to the privatisation process. This is because once a public enterprise has been privatised, its subsequent behaviour as well as the behaviour of other private sector business units in relation to mergers and acquisitions needs to be within the regulatory framework addressing critical issues in this area. Measures and institutions to regulate anti-competitive behaviour of firms need to be in place.

There are two levels of regulatory need: first, there is the need for regulatory control to ensure that mergers and acquisitions or privatisation activities do not result in anti-competitive effects, or other effects that may be otherwise against the public interest. Secondly, there is the regulatory need to foster investor protection by ensuring that shareholders in target companies are treated fairly and equally.

The legal steps needed to prepare an enterprise for privatisation will depend upon the pre-existing legal form of the enterprise in question. If a public enterprise is being run as a department of Government or other integral unit of the Government, it will be necessary to "corporatise" the enterprise. In Commonwealth jurisdictions, this will usually mean turning the Government department or other such unit into a limited liability company. If the enterprise is already in the form of a limited liability company, the legal hurdles to its privatisation will be less, unless the business in question needs to be broken up into different units or a new regulatory framework needs to be put in place for its post-privatisation operation. Even if the enterprise is already a limited liability



company, the promoters in government of the privatisation will need to determine what legislative or other authorisation will be needed to enable the partial or total transfer of its ownership to the private sector. For example, if the enterprise to be privatised is a Government Department or a statutory corporation, the legal mechanics for the transfer of its assets and liabilities to a limited liability company will need to be worked out.

The need for regulation arises when there is no genuine competition, or when a privatised firm is likely to enjoy monopoly power as is the case when public utilities are privatised.

The legal and institutional framework for regulating particular privatised utilities will depend on the kind of regulation chosen by Government. For instance, **the rate of return regulation** of a privatised utility will imply ordinarily the establishment of a tribunal to serve as a forum for proceedings to determine the enterprise's costs, revenues and rate of return. This form of regulation is usual in the USA, Canada, the Caribbean and elsewhere. It allows the enterprise in question to set prices such that, over a defined period, a maximum rate of return on capital (or some other measure of assets employed) can be earned, but no more. It requires the regulatory body to judge, often in a judicial or quasi-judicial manner, the appropriate rate of return, to measure the capital base and allowable expenses, as well as revenues. The regulatory burden of this system is quite heavy since the accounting system of the whole business has to be virtually replicated and monitored by the regulatory body.

**Price index regulation** for monopoly services is an alternative regulatory system pioneered in the UK. This form of regulation provides that the maximum overall price increase for a basket of monopoly services that have been identified shall be limited by reference to a specified criterion. This criterion might be the movement in an index of the cost of living or of industrial costs. In the UK, the Retail Price Index has been used. The system operates as a price cap on the general level of consumer prices for the services in question. If the capping formula is set for reasonably long periods of, for instance, four or five years, the impact of it on the privatised utility is to set it as an efficiency target. If the company is able to reduce costs, its profitability will be enhanced. This kind of regulation is not predicated on the establishment of a quasi-judicial regulator. The burden of regulation is lighter in this system than in rate of return regulation, provided that the prescribed formula serving as the criterion stays in place for a reasonable period of say four or five years before reassessment. This is because

only gross revenues need to be periodically computed. While the regulator will still monitor investment and costs, its policing of the price cap would not depend upon these difficult assessments. The legal and institutional framework needed to give effect to such a regulatory system would differ from that needed for a rate of return approach to regulation.

A government which privatises its utilities will need to fashion regulatory institutions to police monopolistic pricing and other abuses associated with monopolies. In the African context, licensing control of privatised utilities may be a prudent way forward. The licence can be a flexible instrument of regulation. The conditions attached to the licence can be so framed as to lay the necessary obligations on the licensee. For instance, in most African countries it would be unrealistic to impose a licence condition requiring a telephone company to provide a service to every customer who requests it (the so-called universal service obligation). However, it may be desirable to make the telephone company commit itself to undertake capital expenditure for the expansion of the telecommunications network according to a phased development plan whose implementation would be an enforceable obligation of the licence. Thus, within the framework of the licence, obligations tailored to fit the particular circumstances of the country, the industrial sector and the company concerned can be negotiated. It then becomes the obligation of the regulator to police the licence conditions thus negotiated.

**An issue for discussion in the African context** is whether the regulator should be one official with a supporting bureaucracy, as is the practice in the UK, or whether it should be a collegial body as is the case in the US, for instance, in relation to regulators such as the FCC. Another issue is whether the regulator should reach its major decisions only after public hearings or whether administrative consideration of regulatory issues, as in the UK, is adequate. These are issues which may need to be resolved differently in different countries. Also for consideration is whether in the context of African economies, each privatised monopolistic sector, such as telecommunications or electricity etc., should have its own dedicated regulator, or whether the regulatory functions for the different sectors can be brought under the umbrella of one regulator overseeing all privatised monopolies. In an economy where trained specialised manpower is scarce, it may make sense to opt for the umbrella regulator. Among the range of functions that such an **umbrella regulator** would carry out would be:

- the making of recommendations to the Minister on the grant of licences in respect of

the privatised monopolies under its jurisdiction;

- the enforcement of licensees' obligations under the licence and under relevant statutes;
- tariff regulation within the terms of the licence or any relevant statute;
- monitoring quality of service and prescribing service standards under enabling authority under the licence or statute;
- acting in an advisory role to the Minister on policy matters relating to the privatised monopolies; and
- investigation of complaints by consumers.

Many of the decisions that a regulator will make in the exercise of these functions will be important ones requiring "due process". In other words, those affected or likely to be affected should be given an opportunity to make representations to the regulator before those decisions are taken, or alternatively, they should be allowed to challenge such decisions after they have been made.

### Financial Sector Reform

Financial sector reform improves activities of the financial system (financial institutions, money and capital markets, financial instruments, and regulatory and supervisory systems), helps to restructure service-based economies, and improves the effectiveness of macroeconomic policy measures.

Capital Markets mobilise longer term savings, facilitate investment, improve financial efficiency by reducing the cost of capital, and facilitate the privatisation process through access to international capital markets.

Following a historical review of the main issues in financial sector reform, **Dr. Rancee Jayamaha - Economic Advisor at the Commonwealth Secretariat**, discussed the objectives of financial sector reform (FSR) emphasising its importance in integrating segmented money and capital markets, creating competitive markets and contributing to successful privatisation by enabling the private sector to play a leading role in economic development and helping to breakdown the inertia about state ownership.

Among the pre-requisites for successful financial sector reform are:

- strong political commitment to reduce interventionist policies;
- reasonably conducive macroeconomic environment and expanded scope for formal financial sector activity;
- financial repair: elimination of weak financial conditions of state-owned institutions arisen due to inappropriate cash management, conflict of interest over ownership, outmoded technologies and financial services, over-staffing and high administrative costs;
- realistic and moderately stable relative structures of prices; prices should generally not be very different from world prices;
- realistic levels of interest rates: stimulate adequate savings while avoiding disincentives to investments and capital market development;
- strong financial structures: removal of administrative controls and establishment of appropriate supervisory and regulatory framework;
- greater awareness of the need for reform by the public and the need to obtain outside support (technical assistance from donor agencies) and private sector co-operation; and
- appropriate timing of reform and adequate human and managerial capacity.

If these pre-conditions (fiscal discipline and macroeconomic stability) are not satisfied, financial sector reform will result in high interest rates as experienced by many countries; Chile and Turkey in the 1980s, for example.

The scope of financial sector reform extends to include

- establishing market oriented interest rates and removing financial repression (all Latin American countries, Korea, Indonesia,

Thailand set market oriented interest rates at the beginning of FSR);

- restructuring of insolvent institutions through government initiation or leaving banks themselves to solve problems;
- increasing competition in the financial system: within the banking sector; between banking and non-banking financial institutions; between money and capital markets; and equity markets and captive sources of funds (South Africa);
- opening the domestic financial system to international capital flows, foreign direct investment in particular;
- promoting debt securities markets (primary and secondary) and private securities markets;
- changing structure and operations of the financial sector and avoiding market failures;
- improving bank supervision and reviewing legal and regulatory framework for bank and non-bank financial institutions;
- improving accounting, auditing and reporting standards;
- improving payment and clearing systems;
- improving debt recovery procedures; and
- linking financial sector reform to other reforms.

It is difficult to isolate the impact of financial sector reform on capital market and privatisation because financial sector reform has been carried out simultaneously with other policy changes and reforms. However, evidence indicates that it

- helps to sustain high savings rates (New Zealand, Malaysia) and improve financial services;
- establishes confidence in capital market transactions; enhances long term finance for enterprises; attracts foreign investment and provides new avenues for deficit financing;

- introduces sophistication to capital market transactions through securities trading, clearing and settlement systems;
- guides and leads liberalisation of capital accounts; and
- helps to diagnose enterprise financial / management problems.

The implementation of financial sector reform requires political commitments to pursue the reform policies, in particular decisions to close down loss-making institutions or to reform them.

The choice between rapid and gradual / phased financial sector reform depends upon country conditions. If there is financial repression, the issue is whether the country can live with it and for how long can reforms be postponed? Countries which had a relatively developed institutional set-up have adopted a "big bang" approach (New Zealand in 1984/85 and UK 1986). Countries which had continuously high savings rates (Japan and Korea) and most countries in Asia adopted a gradual/phased approach. Rapid reform without appropriate pre-conditions can lead to undesirable consequences (Latin America). The nature of markets (i.e. the intensity of the existence of unofficial/informal market); the state owned financial sector being very large (war-torn and highly repressed economies e.g. Sierra Leone and Mozambique) cannot continue to postpone financial sector reform for very long. In Asia and the Caribbean, reforms were considered to be a process. In Africa the process has just begun and Uganda appears to be in the lead. Kenya too is adopting a gradual method.

Financial liberalisation has been most successful in environments in which macroeconomic stability is established. Almost all Commonwealth countries have attempted to establish macroeconomic stability prior to deregulation of exchange controls. Many of them, first, liberalised their current accounts and then the capital accounts.

Most financial sector reforms, world over, have been initiated by central banks and in some cases by ministries of finance. The experience indicates that the guardian of the financial system has to be in the centre of financial sector reform, not only as a regulatory authority but also to maintain macro stability and a credible financial system. The deepening and modernisation of capital markets do not always happen automatically. They must be helped by co-ordinated policy effort.

## Corporate Governance

A sufficient institutional framework needs to be in place before the privatisation process is widely commenced. Mr. Michael Gillibrand, Commercialisation Advisor at the Commonwealth Secretariat, explained that the fundamental issue is the transfer of responsibility for safeguarding public interests after ownership and control are transferred from the government to the private sector. This relates to the amount of trust, reliability and confidence the public has in the private sector to manage the affairs of public services which are transferred from the public sector to be provided by the private sector.

Conventional assumptions are that public interests and consumer interests are safeguarded sufficiently by a combination of legal, institutional and economic forces. These include

- **Laws:** Company law, trading laws, contract law and criminal laws.
- **Competition:** Market forces, competition policy and monopolies commission.
- **The Regulator:** Sectoral or general regulator, which is a proxy for competition.
- **Standards and Specifications:** Product and quality standards.
- **Established Practices of Good Management:** Experience and reputation of private sector management.
- **Free Press and Media:** Scope for public complaints in the press and role of investigative journalism.
- **Ultimate Sanction of Parliamentary Questions and Enquiry:** Investigative role of MPs.

However, experience in both the OECD and developing countries has demonstrated that these institutions are not always in place, nor extensive enough, nor up-to-date, nor swift enough, nor sufficient for the special cases of privatised organisations with a high degree of public interest;

- most developing countries lack many of these basic institutions, whereas

- OECD countries have renewed debates on Corporate Governance.

There is no single **definition of Corporate Governance** nor clear consensus about what it means. However, the *objectives of Corporate Governance* encompass:

- Creation of wealth through ensuring efficient management for shareholders, management, staff and stakeholders.
- Compliance with the law.
- Prevention of abuse (leading to promotion of best practice)
- Promotion of company and country competitiveness.
- Promotion of good corporate citizenship (known as Corporate Community Investment in the UK and Business Partnerships in the US).

The *functions of Corporate Governance* encompass:

- The duty of care of the Chairperson and the Board.
- Supervision of the management team.
- Overview of the internal structures and relationships of the enterprise.
- Overview of the external operational relationships of the enterprise (customers and suppliers).
- Management of the public and civic responsibilities and relationships of the enterprise with shareholders, the public interest (however defined), the host community, the government and the environment.

The key issues of Corporate Governance in the privatisation process which are subject to debate are the range of responsibilities, the extent and the degree of *duty of care* of the Board of Directors of a company to the shareholder / stakeholder. What should these be? Should they be primacy to the shareholders with basic standards of health and safety for the staff and customers, and social contribution maintained through taxation, as set by government through law and

regulation? What are appropriate benefits to management/executive directors? Should recognition be given to a limited group stakeholders (shareholders, staff, customers), a wider group of stakeholders (shareholders, staff, customers, suppliers, host community), extended stakeholders with many public interests (environment, national development interests, social welfare) or international as well as national public interests? Who should set these principles and standards for the Boards of Directors or markets? (the government through legislation? the government through board representation? the government through contractual forms (contract of sale to private owners, or performance contracts)? self-governing institutions for sectoral or national operations? independent (un-elected) regulators? professional institutions? the companies themselves?

The private sector institutional infrastructure extends far beyond the basic pre-requisites of company and contract law, regulator, and financial sector laws and regulations. The network of the private sector and privatisation institutions includes:

- The enabling regulatory, legal and financial (banking and capital markets) framework.
- Real market competition (or a strong regulator as proxy).
- An effective investor community, willing and able to participate in corporate governance through company managers and continuous active shareholder interest.
- Effective economic monitoring institutions and systems, in the government or universities or private sector, capable of assessing long term impacts of corporate behaviour.
- Standards and Specifications Bureaux.
- Professional Institutes of Directors and Management, dealing with the issues of corporate governance and providing director training.
- Chambers of Commerce and Industry Associations.
- Professional Institutes for the key service industries: Accounting, Banking, Law, Company Secretaries.

- Non-Government organisations directly concerned with public interests, consumer welfare and corporate behaviour (Consumers Association, Small Shareholders Associations, Rotary and Lions Clubs).
- Free Press.
- Institutional and Political Efficacy.

What are the implications for the managers of the privatisation process?

- Establish a basic network of institutions, whether or not there will be transfer or ownership.
- Ensure that the institutions have a sufficiency of deterrence.
- Introduce training for directors in their new functions.
- Open the debate on Appropriate Governance in the country.

Decisions on appropriate action lie with each country according to the prevailing needs. Improved Corporate Governance is needed whether or not the country opts for privatisation. The main task is to

- build capacities for corporate governance (a) develop management as a profession, (b) develop corporate directorship as a profession (c) establish and strengthen institutions to nurture a cadre of directors (Institute of Directors, Institute of Management / Business Schools, Professional Institutes: law, accounting, company secretaries) and "Business in the Community" societies;
- encourage debate to form national consensus on good corporate governance (seminars, articles in journals and newspapers); and
- Consider government incentives (tax breaks for community investments, adjustments to procurement and privatisation sale price).

### Improving Public Sector Performance Without Privatisation

The performance of public sector institutions has been disappointing, to say the least, in many developing

countries. While privatisation is among the policy options for public sector reform, other reform mechanisms can also be powerful tools when properly implemented.

### The Tanzanian case

For the last thirty years, the public sector in Tanzania has been the dominant engine of socio-economic development due to the socialist path the country took soon after independence in 1961. However, the country has over the past decade been steadily undertaking major reforms of its public sector. **Mr. D. A. Ntukamazina, Executive Chairman of the Civil Service Reform Programme in Tanzania**, explained that these reforms aimed at revitalising and improving the performance of public sector institutions while at the same time creating an enabling environment for the private sector to assume a leading role in socio-economic development.

The basic agenda has been to streamline and downsize the machinery of Government, requiring a fundamental shift towards only doing what must be done by Government. Privatisation programmes are only a partial response to this policy shift. There have been three major areas of reform initiatives; the Civil Service Reform, the Parastatal Sector Reform and the Financial Sector Reform.

On financial sector reform, the Government has allowed private, mainly foreign, banks to operate in Tanzania and the existing national banks are being forced to restructure themselves, adopt business-like systems and practices, and improve performance in order to compete with these new banks. The restructuring has entailed a review of the mission and vision, structures, functions and management systems. In order to remedy the bad performance and rescue some of the limping parastatals, Government opted for privatisation through joint ventures, divestiture, management buyouts and complete sale. Although it is early to assess impact of the privatised industries on the performance of the economy, there are already some visible positive trends.

Performance contracts are seen as the alternative option to privatisation of strategic parastatals. Such contracts are geared to ensure that these parastatals operate efficiently and with commercial orientation, especially where there are no obvious market-based competition pressures to improve performance i.e. the parastatal has monopoly status in the delivery of services. Under such a performance contract, for example, the Board of Directors, management and

employees of the parastatal and the Government (Parent Ministry) agree:

- on verifiable performance improvement indicators, and benchmark performance at target levels;
- that the management and staff would part with a given percentage of their regular salaries if set targets of services improvements are not met;
- that if the performance of the parastatal falls below some benchmark levels, then the Board of Directors could be dissolved, and the employment of top management terminated.

The major challenge with the option of performance contracts will be to ensure the capacity and commitment of the Government ministries to exercise the necessary surveillance and enforce the contract agreements. In this regard, the effective use of this option could depend on the successful reform of the civil service.

The Civil Service Reform was sparked off by a Public Expenditure crisis. A joint World Bank Government study in 1989 on public expenditure revealed the nature of the crisis. The Civil Service engaged itself in too many functions, its structures were rigidly bureaucratic, the workers were frustrated and de-motivated by low remuneration packages while personnel records were in shambles. The Civil Service needed complete overhaul to revitalise it so that it could play its new role of being a catalyst and facilitator of the development process whose main engine would now be the private sector.

The Civil Service Reform in Tanzania was officially launched in July 1991. In July 1993 the government embarked on the implementation of a comprehensive reform programme comprising six components, namely:

- (1) Organisation and Efficiency Reforms.
- (2) Pay Reform.
- (3) Personnel Control and Management.
- (4) Capacity Building.
- (5) Retrenchment and Re-deployment.
- (6) Local Government Reform.

Through the civil service reform programme, it is anticipated that the performance and efficiency of the public sector can be improved without privatising.

The Civil Service Reform Programme has five broad initiatives:

- (a) Downsizing
- (b) organisation and efficiency reviews
- (c) executive agencies programme
- (d) local government reform
- (e) changing the attitudes of civil servants.

#### **Downsizing**

The public expenditure crisis that prevailed in the early 1990s persuaded the government to start the reform through cost containment measures i.e. downsizing the service through reduction of functions and retrenchment of surplus staff. While in 1992 the Civil Service establishment stood at 355,000 (i.e. both Central and Local Government), the retrenchment which started in 1992/93 has brought down the number to 275,000 in February 1997. That is a reduction of more than 20 percent of the civil service workforce, and net of recruitment that have continued in such key social service areas as education, health and internal security. These latter areas have been exempted from a total freeze on government employment which was imposed in 1992.

#### **Organisational and Efficiency Reforms**

The Organisation and Efficiency Reforms (O&E) aim at streamlining ministerial structures, rationalisation of functions and systems and the hive-off of functions that are not core to the functioning of government. The guiding policy and principle for the O&E reforms is the government decision to withdraw from direct production and direct delivery of services.

#### **Executive Agencies Programme**

By mid-1994, the Government decided to re-designate eleven central Government organisations as "Executive Agencies". These agencies were selected on the basis of their potential to generate revenue, either by trading, or by charging fees for the services they provide. By way of example, they included the Registrar of Companies, the Government Printer, the Central Medical Stores and the Directorate of Civil Aviation.

This allows large departments performing public functions to be broken down into manageable units in which the role and objectives are much clearer. Executive Agencies are Government organisations established to perform essential public functions that do not have to be carried out by the central management of Government Ministries. The aim has

been to reduce the interference with the operational aspects of service delivery, thereby creating an environment where accountability can be made to work, and enhancing job satisfaction, motivation, and therefore performance.

This involves giving agencies autonomy from the central civil service bureaucracy, particularly with respect to the control of their personnel and financial resources. This will allow them to decide how to manage their operations to meet their objectives; i. e. become output rather than input focused.

Agencies will become more business-like in operation. In particular they will need to be more "customer focused"; install and use modern management systems and methods, including business planning, commercial style financial accounting, systematic measurement of output performance, and deliberately seeking feedback from customers and other stakeholders.

Agencies will be headed by Chief Executives who will be recruited by open competition. This will not only introduce transparency to the appointment process, but also widen the pool from which selection can be made. This improves the prospect of finding 'the best person for the job'. Chief Executives will be employed on term contracts, with duration of up to five years.

Principal Secretaries will be charged with the strategic management of the agencies under their ministries, and with advising their ministers on the acceptability of agency performance. To assist them in this role, advisory boards, comprising a few of the agency's main stakeholders, will be set up. These boards will be as small as possible, should include private sector representation, and in normal circumstances meet two or three times per year to consider policy, plans and budgets, and to review performance. Members of the board would also be involved in Chief Executive selection.

The staff of these Agencies will form a new category of public servant and therefore be outside the civil service. This will simplify the process of allowing Agencies to introduce terms and conditions of service specifically designed to meet their needs.

Agencies will be allowed to exploit their new commercial approach in managing their business, by (where appropriate) competing with the private sector.

Proper financial management will be essential for the agency concept to succeed. As government Agencies,

their accounts will be audited by the Office of the Controller and Auditor General whose report will be published alongside the agency's annual report and accounts, and be made available to Parliament's Public Accounts Committee.

Although the early agencies had difficulties establishing themselves, some significant improvements have been realised. For example, in its second year of operations as an Agency (1995/96), the Directorate of Civil Aviation exceeded an independent forecast of revenue by 77% (or TSh 1.3 billion). The Registrar of Companies has achieved an average increase in its surplus (revenue minus expenditure) of 20% and forecasts the same for next year. In its first half year of operations the Tanzania Revenue Authority exceeded its tax collection performance targets by 5% on the mainland and 10% in Zanzibar. Compared with the same period of the previous year the improvements were 40% and 64% respectively.

These and similar improvements elsewhere are attributed, at least in part, to changes in attitude through the motivational effect of working in an organisation that has more control over its financial affairs. Staff feel that revenue collected is not just being swallowed up by an ever hungrier Treasury, but will be applied to improve their organisation, and eventually feed through into better pay and conditions. Management also deserve credit for improving their systems of monitoring and control, again a shift in attitude, this time towards taking more care because more attention is focused on their personal contribution to the organisation's performance.

#### Local Government Reform

The local government reform also promises to improve performance in service delivery without privatising.

The present local government system is just an appendix of the central government. It depends on the government for most of its resources. It has been assigned critical responsibilities like overseeing primary education and primary health but without a corresponding revenue base. The central government through the Prime Minister's Office makes the major decisions for local authorities.

The new Local Government Reform Agenda aims at strengthening local authorities and reversing the present situation by making Local Authorities largely

autonomous institutions with more resources including finance and staff.

The Regional Administration in Tanzania is being significantly trimmed through a reduction in functions, staff and assets. It will no longer involve itself in actual implementation. It will, instead, facilitate service delivery by the local authorities.

The newly adopted local government reform agenda has six main reform components:

- Institutional and legal framework.
- Restructuring of local authorities.
- Improving governance.
- Strengthening financial management.
- Human resources development and management.
- Programme management.

The reform agenda aims at **improving the performance of the Local Authorities** through:

- making local authorities more autonomous in managing their administrative, personnel and financial affairs and determining their own priorities;
- making the local authorities operate in a more transparent and democratic manner reflecting enhanced accountability to the people they are supposed to serve;
- making the staff responsible and accountable to their councils in terms of appointment, performance and discipline;
- enhancing the capacity of the councils in terms of staff who are better trained in relevant skills;
- enabling the local authorities to have more financial resources through the rationalisation of the revenue base and more grants from the government and the donors.

In addition to the above efforts the government has already adopted the shared vision for local government which is decentralisation by devolution



i.e. giving full powers and authority to the local authorities to manage their own affairs.

### Changes in the Attitudes of Civil Servants

Civil servants are being exhorted to operate and manage public affairs in a businesslike manner. Also, they are constantly being reminded of their new role, i.e. that of a facilitator of the private sector. They are being challenged to create an enabling environment for the private sector to operate smoothly. They are urged to know who is their customer and to strive to satisfy him or her. The aim is to build a results-oriented managerial culture in the Civil Service.

### Concluding Remarks

Improving individual and collective performance requires changing peoples' attitudes and values, together with a complete overhaul of management systems. In Tanzania, we have identified the problems and are developing strategies to overcome them. These will include increasing the involvement of the private sector in service delivery as it continues to grow and mature. But in the meantime the initiatives described earlier to improve the performance of the public sector workforce must be used.

### The case of Singapore

In his presentation, Mr. Lim Hup Seng, Deputy Secretary of the Public Services Division in Singapore, started by indicating that the key issues facing the Public Service in Singapore are how to meet the aspirations and demands of a generation that has not known difficult times, and how to position Singapore in a world economy that is open and highly competitive. Hence, the title of the presentation "Harnessing the Quality of Staff". *Quality* is simply a word coined to combine quality and productivity.

The Public Service needs to anticipate demands, influence developments, and lead the way forward. Its people must have the right attitudes and the right approach.

While the future cannot be predicted, we must be prepared for it as it comes. If systems and design were the value-added of the industrial revolution, creativity will be the value-added of the knowledge revolution. And if the private sector were to be the engine of growth built upon innovation and enterprise, the public sector leadership in Singapore felt that Public

Service must appreciate and understand these attributes through living them.

The question is how to organise people so that they will be receptive to change and how to motivate them so that they will involve themselves actively in the process. The lack of competition in public service activities and a public that does not know the inner departmental workings mean that nothing will improve beyond the minimum necessary to keep the public satisfied.

Recognising this problem, a "Public Service for the 21st Century" programme (PS21) was introduced in May 1995 to prepare the Public Service for the challenges ahead. PS21 has two basic objectives:

- to nurture an attitude of service excellence in meeting the needs of Singaporeans with high standards of quality and courtesy; and
- to foster an environment that induces and welcomes continuous change with continuous improvement while paying attention to the morale and well-being of public officers.

There are four elements in PS21 - quality service, organisational review, staff well-being, and something called "EXCEL".

EXCEL is an acronym standing for "Excellence through Continuous Enterprise and Learning". There are two critical components in Excel; Work Improvement Teams (WITs) and Staff Suggestions Schemes (SSS). These two components are core to the PS21 movement because they induce an attitude of seeking continuous improvement in work; and as the officers get involved in seeking such improvement, they become much more receptive to changes.

WITs are not different from Quality Control Circles or QCC referred to in management literature. They are teams of officers who meet regularly - over and above their normal workload - to discuss work-related situations that can be improved. The common tools used by WITs: the PDCA (Plan-Do-Check-Action) cycle approach, brainstorming, matrix diagram, cause and effect analysis (fishbone diagram), data collection and analysis, check sheet, graphs and charts, stratification, the Pareto Diagram, histogram, scatter diagram, force-field analysis, and method analysis are invaluable in helping the members understand the management process. While none, or only one or two, of these tools may be used for the first few projects because the solutions are so obvious, they will come

in useful as the teams move into problems that are more complicated and where solutions are not so obvious. The teams learn in the course of their discussions how to brainstorm ideas, how to handle varieties of opinion, how to seek solutions based on data, how to sort out priorities and how to build consensus.

Continuous top management attention and interest is necessary to keep the WIT movement alive, as also participation in WIT Conventions and project presentations to management. Participation in WITS is not entirely voluntary; it is regarded as an integral part of work life. Just like assigning new employees to their place within the organisation structure, they are assigned to their WIT. If they do not wish to participate, they can ask to be excused, but would first have to listen through the reasons for the WIT movement so that they may make an informed decision.

SSS is not unique: many organisations have staff suggestions schemes, but what makes SSS different is the approach taken in encouraging and processing the suggestions. This approach is based on the belief that an environment that encourages alertness on the part of staff to possibilities of improvement, no matter how small, is much more important. Staff are unwilling to offer suggestions or take initiatives for improvement if they perceive a high chance of rejection. The bigger the potential improvement, the more radical an idea it is likely to be, and the more fearful they will be of rejection. So an environment that is open to suggestions of any shape or form is more likely to bring in the really big and radical ideas.

An award is given for every sensible suggestion made. Most awards are at a token level of about \$2. Awards are given based on the usefulness, implementability and potential cost savings of the suggestion. Suggestions from teams score double the awards for individuals. If two or more persons put in the same suggestion, all of them are rewarded because if so many people have the same idea, it is likely that the proposed improvement will enjoy broader support.

Good ideas must be carried through to implementation. If a suggestion is not taken up, the suggestor must be told why. If a department fails to ensure that suggestions are processed in timely fashion and results fed back early to the suggestors, enthusiasm will drop very fast. To overcome some unhappiness on the part of officers who have to implement suggestions put in by others, some ministries also reward the implementor, who gets the same-sized award as the suggestor.

Few people intrinsically welcome change. Change is discomfoting and even threatening, but it is something management has to continually work at. Often the most difficult barrier is the middle level manager. Top management understands the need to change. The people at the operating level often want to be involved: they like to improve their work environment, believe they know what can be done better, desire to take pride in their work. But they perceive their supervisors as not welcoming change. What is needed is neither bottom-up management nor top-down management but middle-up-down management, where middle-level managers see the strategic organisational viewpoint and also appreciate the concerns and difficulties at the operating level, and actively work at building congruence in interest between the two levels.

Judging from experience in Singapore, harnessing the quality of staff seems like a good idea that can be successfully done. But it involves conviction, determination and tenacity. Top management must be willing to listen, supervisors must be willing to change, and staff at the operating level must be willing to trust the organisation. No officer can be expected to pursue productivity and quality if he believes it may be at the expense of his livelihood, his family, or his health. But getting the most out of the abilities of people will be well worth all the effort.

## **Privatising Under Public Ownership**

### **The Dairiboard Zimbabwe Limited**

The case study of Dairiboard Zimbabwe Limited was presented by **Mr. A. S. Mandiwanza, Chief Executive, Dairiboard Zimbabwe Limited.**

Previously known as Dairy Marketing Board, Dairiboard Zimbabwe Limited is a Public Enterprise, which in July 1994 was transformed from a parastatal to a Commercialised company in which the Government of Zimbabwe is the sole shareholder. The Government has now approved the privatisation of Dairiboard.

The Dairy Marketing Board was set up on October 1, 1952. The main objective of the Dairy Marketing Board was to create an organisation that would facilitate:

- the regulation and registration of all milk producers;

- the orderly reception of milk from all registered producers;
- the manufacture of dairy products, and
- the marketing of milk and dairy products.

In the first twelve years after Independence, Dairiborad operated at a loss. As a result of government price control policies, the company sold its products at prices that did not allow sufficient recovery from the prices paid to producers. Trading deficits grew, forcing Dairiboard to rely on government subsidies for financial support.

With the introduction of the Economic Structural Adjustment Programme in 1990 and the introduction of a market driven pricing structure, management was able to effectively manage the supply/demand equation. Thereafter the deficit progressively declined.

The company's turn-around year was 1991/92; from a deficit in 1990/91 of \$57 million to a near break-even in 1991/92. The major contributing factors in achieving this turn-around were related to cost reduction strategies such as:

- shedding of non-core, non-profitable activities;
- shedding of collection of milk from farmers to factories;
- franchising of door to door delivery of milk and ice-cream vending.
- franchising of depots and rural delivery services;
- franchising of canteen and laundry services;
- introduction of value-added products and a deliberate shift from primary commodity products;
- automation of information systems; and
- introduction of competitive conditions of service.

In July 1994, Dairiboard Zimbabwe Limited was **commercialised**, in order to sustain the viability and profitability of the company whilst allowing it to

operate under the deregulated environment. This was achieved by:

- restructuring the Financial structure
- focusing on the core business of manufacturing milk and milk based products
- enhancing efficiency and effectiveness

Since the transformation programme, Dairiboard Zimbabwe Limited has continued to operate profitably and registered a 13% return on sales in 1994/1995, completing its transformation from a subsidy dependent parastatal

In October 1996, Government announced its approval for the **Privatisation of Dairiboard Zimbabwe Limited**. Government's main intention on privatisation is:

- to relieve the financial burden on the fiscal budget;
- to earn revenue; and
- to attract private investors towards facilitating the sustainable / profitable growth of Dairiboard Zimbabwe Limited in a competitive environment.

**Current status of Dairiboard Zimbabwe Limited:**

- Highly profitable company projecting Z\$85 million annual profits by end of June 1997.
- Unencumbered balance sheet with less than 8% debt.
- Government converted all loans to equity (debt/equity swap) and now earning dividends as well as tax.
- Staff conditions of service now market related with performance bonuses directed at the best outcome for the company.
- High producer confidence.
- Sales turnover Z\$940 million with a capitalisation of Z\$400 million.

**The lesson** is that development of strategic alliances is one way of enhancing the operational effectiveness

and efficiency as well as productivity of state enterprises. The essence of turnaround is to focus on core-business activities and sharpen competitive advantages.

**Out-sourcing** (contracting out) or sub-contracting is one avenue through which competition and productivity can be enhanced. Contracting out is an arrangement whereby one company spins off to the other entity (usually the smaller economic operator) its inefficient operations, enabling the established company to concentrate on its core business whilst leaving it to the more flexible and versatile small scale sector to handle varied activities which take up time and expense but make little or no contribution to the bottom line. This relationship results in an improvement in productivity, quality and competitiveness.

**Franchising** is a system for the distribution of goods and services to the customer whereby the owner (franchiser) of a well established product, service or business format, grants a new entrepreneur (franchisee) the right (franchise) to undertake business in a prescribed manner over an agreed period of time in a specified plan or territory using the business trade marks, products, services and business systems developed by the franchiser. In return for the rights granted, the franchisee pays the franchiser a financial compensation, usually an initial franchise fee and ongoing royalties. Dairiboard Zimbabwe Ltd has successfully privatised and franchised its depots.

The key issue in privatisation is to ensure that it is done as transparently as possible to enhance acceptability and broad participation. One can not afford to go wrong when privatising a state enterprise, because there will be many obstacles along the way. When the government announced last year that DZL will have to be privatised, several issues had to be tackled:

- debt equity swap; all loans from government were swapped and Share Certificates were issued; and
- a program of the privatisation exercise had been put together as transparently as possible. All our merchant banks (12 in the country) were interviewed and given a mandate defining clearly the areas they must address when they are preparing their bids. A consortium of three merchant banks was selected. They were given a specific responsibility for the privatisation program.

The government has announced 6 areas which have to be targeted for the privatisation program:

- Participation of the general public; the public must buy shares in the company.
- Large scale producers must buy shares in the company. Because of vertical integration issues, linkages with the major supplier of raw materials are important.
- Milk production dairies have to be democratised and broadened.
- Company staff have to participate and buy shares.
- The government is mindful of potential Stakeholder groups who have been disadvantaged because of the past regime. A National Investment Trust was set up to buy shares on behalf of potential investors in the rural area.
- The issue of strategic investor or the technical partner. The role of the strategic or technical partner is only in the context of provision of brand leadership and the technical expertise in marketing.

## Privatising Ownership

### Restructuring and Sale of PEs: Kenya Airways Case Study

The privatisation of Kenya Airways in April 1996 was the first privatisation of an airline in Africa. It was hailed by the Financial Times as 'an object lesson for Africa' and as 'an example from which other African countries should learn'. Although Kenya was the first country to privatise its airline, it is by no means the only country that has considered it. Air Zimbabwe, Ghana Airways, Air Tanzania and South African Airways have been considering privatisation. Zambia took the more radical measure of completely liquidating Zambia Airways, making it the only country in Africa that has a completely privately owned airline.

In discussing the Kenya Airways case study, **Mr. David Namu**, Administration Director of Kenya Airways, pointed out that the success or failure of plans to privatise, commercialise and improve productivity in a corporation would very much depend on what the government of the day thinks

about change. The partnership between the Kenyan Government, Kenya Airways and the Kenya Airways Privatisation Team is a model of how open and well supported communication between Government and implementing advisors can make the risky process of privatisation possible and successful.

Kenya Airways was formed as a State-Owned Enterprise (SOE) under the Companies Act following the break-up of the East African Community in 1977, incorporating many of the staff and assets of the old East African Airways.

#### Privatisation Policy

In a 1986 "Sessional Paper on Economic Management for Renewed Growth" the government stated its commitment to privatisation for the first time stating that it was going to get out of activities that would be best handled by the private sector and to restrict itself to providing an enabling environment through regulation. However, policy action started with the publication of the 'Paper on Public Enterprise Reform and Privatisation' in 1992. This paper defined the responsibilities of the Parastatal Reform Committee which had been set up in 1991. It also defined the functions of the newly upgraded semi-autonomous Department of Government Investments and Public Enterprises which was going to supervise the restructuring of strategic enterprises.

The stated objectives of the public enterprise reform program were:

- to enhance the efficiency and performance of the public enterprise sector.
- to reduce the financial burden of the sector on Government, and
- to achieve these objectives through the introduction of reforms that will enforce financial discipline, ensure managerial and financial autonomy, and set up adequate accountability and appropriate incentives, all toward the aim of having public enterprises operate on commercial principles.

More significantly for Kenya Airways was the fact that it was one of the 45 out of 207 non-strategic public enterprises identified for the first phase of the privatisation program.

Prior to 1992, the governments policy towards Kenya Airways involved a mixture of both commercial and socio-political objectives. These

were spelt out in the National Development Plan as follows:

- To operate as a viable commercial venture.
- To promote the image of the country.
- To promote tourism and business.
- To promote export of Kenyan products.
- To earn Foreign exchange for the country.
- To create additional employment opportunities through improved productivity.

#### Restructuring and Commercialisation

Having been established under company law in 1977 with ownership vested in the Permanent Secretary, Treasury and one share held in trust by the Ministry of Transport, the government did not have to go back to parliament to seek the amendment or repeal of an enabling statute for privatising Kenya Airways.

A few changes were made to the Company's constitutional documents including amending the Memorandum and Articles of Association to place it on a similar footing to publicly quoted companies. These changes were also made to increase the share capital in preparation for sale, in recognition of the enhanced value of the company following the write-off of debts and commercialisation, and finally to create headroom for future capital issues.

It also became necessary to arrange for a legal audit of the Company to be undertaken to establish at an early stage in the process whether there were any legal impediments to the privatisation.

In April 1991, the government dismissed the entire Board and Chief Executive of Kenya Airways and appointed a new Board with Philip Ndegwa as the Executive Chairman and David Namu as the General Manager. Their terms of reference were simple and specific: to revive or liquidate the airline and not to rely on the financial assistance of the Treasury in the process.

The new management decided to call in Speedwing, a consultancy firm which has been involved with the privatisation of British Airways, to do a study on all aspects of the airlines operations and make

recommendations. The Speedwing Study found the following:

- The management skills, organisation and culture were not suited to a commercial profit-oriented enterprise.
- Operational performance was not measured or controlled.
- Financial control was very weak with late and inaccurate reporting and poor accountability.
- Existing computer systems did not support the business adequately.
- Marketing and revenue generation were a major area of weakness.
- Technical skill levels were good but poorly utilised.
- Customer service standards were low with limited measurement and control of quality.
- Productivity was not routinely measured and appeared to be low.
- In every function there existed an untapped source of expertise and enthusiasm, particularly at middle and lower levels.

The following recommendations were made:

- The following appointments should be made:
  - An airline experienced Chief Executive with a clear mandate to implement the recommendation of the Speedwing Report,
  - An airline experienced Finance Director with a clear mandate to introduce new financial systems, controls and accountability, and develop proper budgetary planning, control and reporting systems, and
  - An airline experienced Marketing Director and carry out a major overhaul of the sales and marketing activity.
- A radical restructuring of the management and organisation of the airline, including a

detailed review of staffing levels in each function.

- A Performance Improvement Programme to continuously improve the operational performance and reliability of the airline should be introduced.
- Managers should be clearly accountable for the performance in their areas of responsibility.
- A new computer system department should be created and a complete review of the future needs of the airline carried out. An implementation plan should be developed.
- A comprehensive research programme designed to identify the needs and views of the airline's staff, travel agents and customers should be carried out.
- A comprehensive customer service training programme for all staff in the airline, based on the research, to achieve a cultural change within the airline should be implemented.
- A customer service quality improvement programme should be introduced.
- Productivity measurement and control standards should be introduced and standards based on internationally accepted levels of productivity set.

Two additional recommendations were presented:

- If privatisation was planned within the next 2 years, the airline should start behaving like a private sector company now.
- A 5 year business plan should be prepared as soon as possible in order to demonstrate a track record of achievement against this plan ahead of privatisation and to form the basis for any negotiations with prospective investors.

Following implementation of the above recommendations, success of the commercialisation phase was demonstrated by a shift from losses of US \$ 30 million in 1992/93 to profits of US 7 million in 1993/94, US \$ 17 m. in 1994/95; US \$ 19.9 million in

1995/96 representing 12% net margin on sales of US \$ 166 million in 1995/96.

### Privatisation

Commercialisation was not the goal of the restructuring but rather a necessary step towards privatisation of Kenya Airways. The privatisation process started with appointing the International Finance Corporation (IFC) to act as the privatisation advisor in April 1994. The IFC recommended the creation of the Kenya Airways Privatisation Committee as a sub-committee of the board, headed by Mr. Ndegwa to conduct the myriad tasks of the privatisation, in order for its members to be able to devote the time necessary to master the details of plans and negotiations and thus to be able to brief government decision-makers thoroughly whenever necessary. Its other members were the board members representing the Ministries of Finance and Transport, and the Attorney-General's Chambers, along with the airline's managing director and finance director. The company secretary and the head of the IFC advisory team were non-voting members.

It also recommend that the Government should assume the airline's past debts and acquire a strategic partner. Specific selection criteria were developed by the management and KLM was selected.

The external debt arrears were assumed by Government and the liability of Kenya Airways for this debt waived by the foreign lenders through moving the debt from Kenya Airways to Government. The debt outstanding to Government was converted into equity and shares issued to the Treasury for US \$ 30 million. A shareholders' agreement between the Government of Kenya and KLM was signed which provides for KLM to protect its 26% interest in Kenya Airways during any subsequent share sales or issues. KLM also agreed not to dispose of any of its shares for at least 5 years. The remaining shares are distributed as follows; 23% for Government, 3% for employees, 14% for emerging market funds and 34% for the Kenyan public and Kenyan institutional investors.

The industrial relations problem has been seen as one of the causes for the depressed share price of the airlines shares due to investor uncertainty. The management has dealt with these issues through press briefings and a number of lectures given by the directors to various groups explaining the privatisation process and its rationale.

The success of the Kenya Airways commercialisation and privatisation experience can be attributed first and foremost to the Government's political will and clear objectives and sense of purpose. The three other factors are the choice of the top management, the choice of a competent privatisation advisor and the choice and use of a competent strategic partner.

## Comparative Commonwealth Privatisation Experiences

Shared experiences in the Commonwealth demonstrate in a practical way the ideals of mutual systems of co-operation and strengthening the lateral needs among Commonwealth countries. In sharing experience, it is important to recognise the fact that there are similarities as well as diversity which enriches the Commonwealth as a group of countries.

### The Jamaican Experience

The Jamaican experience was presented by Mr. Cezley Sampson, Executive Director, Mona Institute of Business, University of the West Indies, Jamaica. Jamaica experienced 30 years of GDP growth at 5% per annum up to 1974. This was based on mining where Jamaica became the second largest producer of bauxite in the world. After 1974, with socialism, everything disappeared. So there is a lesson for Botswana not to repeat some of the mistakes that Jamaica has made. In terms of rankings of countries based on proceeds from privatisation over the period 1988 – 1992 as a percentage of GDP, Chile, Malaysia, Jamaica, UK and New Zealand have been the 5 leading countries in the world in terms of privatisation. In terms of the level of activity in privatisation, in Africa, the leading countries are Guinea and Libya.

Unlike Malaysia or New Zealand and Australia, Jamaica had corporatised enterprises as early as in the 1960's. Most of the firms were registered as limited liability companies when they were in the hands of the private sector prior to 1960 and later the government took them over. Therefore, except for the airports and the water commission, which were statutory corporations, there was very little need for any new legislation.

The structural adjustment programme was first introduced in 1977. A conditionality of a second programme in 1981 was privatisation. The government at the time decided to follow a case by case method. For the first five years, very little happened and the World Bank, the IDP and USA put a lot of pressure on the government to speed up the

privatisation programme; otherwise access to financing would have to be withdrawn.

The first major case of privatisation in Jamaica was the commercial bank. The government, at the time, selected a profitable company and decided that it would float a significant portion of the shares on the Jamaica Stock Exchange. The strategy adopted was to ensure that there was a wide cross section of the public participating in the share transaction and a whole range of devices were developed to ensure that employees participated. The criticism was that the shares were underpriced. But the strategy of the Prime Minister, at the time, was to demonstrate that privatisation could be carried out in a small developing country through the Stock Exchange. Shortly after the shares were sold, there were significant capital gains. The small investors, taxi drivers and helpers who participated in the share purchase felt that privatisation was a win/win situation because they were able to see immediate tangible gains.

In the process of carrying out the privatisation, the National Investment Bank of Jamaica provided a technical support arrangement but it did not carry an overall mandate. There was a privatisation committee which reported directly to the Prime Minister. No policies or procedures were set out and the socialist government which came into power in 1989 criticised virtually all privatisations that took place and committed itself to reverse most of the transactions.

Later, a central privatisation point was set up in the National Investment Bank and the reporting relationship was much more clear. Clear objectives were established in terms of what a privatisation programme was all about and new procedures were established. All concerned parties: the enterprise, the Ministries, the Ministry of Finance participate in the programme. For each transaction, there was an enterprise team which was made up of representatives from the key ministries and agencies. At the point of doing the actual negotiation, a small negotiating team was established to carry out the actual negotiations. Thus there was a move from a very informal arrangement in the early stages to a highly organised and structured programme and, interestingly, the socialist party, which had vowed to reverse most of the previous privatisations, ended up aggressively pursuing privatisation.

The previous government had said that infrastructure and utilities were not to be a significant part of the privatisation activities, and yet it was the socialist government that decided to include them. Utilities are now privatised: water, railways and even the ports.

The only thing not up for privatisation was the beaches.

**What are the lessons?** In a small developing country, the Stock Market can play an important role in the privatisation process. When privatisation started, about 10 or 12 companies were listed on the Stock Exchange, but with the privatisation of the commercial bank, the telecommunication company, the cement company, the value of local stocks significantly increased on the Jamaican Stock Exchange. The question of sequencing is also very important. Privatisation must be structured as part of a structural adjustment programme. Opening up the economy for competition is a central feature of privatisation. The competition legislation was very important after 30 years of regulated environment and restrictive practices. It was necessary to remove those monopolistic and restrictive business practices by introducing Anti-Trust Legislation.

Competition is the best regulator and as such it should be encouraged wherever possible. There is serious criticism of the UK strategy with respect to privatising the monopolies. Many economists have now come to the view that it is not so much ownership that is critical in the privatisation strategy, the focus should be on the structure of the industries, particularly the larger ones and carrying out the necessary un-bundling to facilitate as much competition as possible in industrial sectors like Telecommunications and Electricity. It is competition which is going to drive efficiency and benefit the consumer. This strategy helped the government of Jamaica to clarify the role of the state and allowed the government to focus on education, health and infrastructure facilities. It also helped to clarify property rights. Most of Commonwealth countries introduced the same 1948 Companies Act which they inherited from the UK. The Companies Act had to be revised.

In Jamaica, both the workers and the middle class felt that they benefited from privatisation. Furthermore, privatisation and liberalisation have unleashed a tremendous entrepreneurial surge in the Jamaican society.

As part of the privatisation programme, Africa will need to pay attention to the whole question of fostering entrepreneurship and small business development. Universities should be developing some programmes and courses for enterprise management, enterprise culture, developing business plans, etc. if the local economy is to be open to a new global environment. Of course, local conditions will differ from country to country. Experiences of



different countries should be studied and their practices be adjusted to the local situation.

The results of privatisation in Jamaica have generally been positive. In the first ten years over 50 companies were transferred to private ownership. Of 70 entities and assets listed for divestment in Ministry Paper # 34 in 1991 more than half were divested by 1995, and a further 26 added to the list were programmed for privatisation. Excluding the privatisation of land and municipal services, proceeds from divestment over the period 1981-1995 amounted to US \$275.5 million. Several major corporations in banking, telecommunications, airlines, mining, agriculture and manufacturing have been removed from the public sector.

Privatisation has been very successful, particularly in the cases of firms operating in competitive markets. The experience has not been so successful in the monopoly areas primarily because not much attention was given to the regulatory requirements. Utility regulations followed more the price-cap procedure rather than the American public utilities rate of return structure.

The lessons to be learnt from the Jamaican experience are that:

- Privatisation must be a part of a macroeconomic and structural adjustment programme. Sequencing therefore becomes a critical problem. In the earlier part of the reform exercise, there is need to prepare SOEs for divestment. This may take the form of commercialisation, corporatisation or organisational, financial and operational restructuring.
- Privatising water, electricity or telecommunications companies requires new legislation to set up regulatory frameworks on how prices are going to be determined in those privatised utilities after they have been transferred from the public sector to the private sector.
- Privatisation will only succeed if the various sectors in the society perceive individual benefits and if the process is transparent.
- Underdeveloped capital markets in themselves are not major impediments to privatisation. The general public can be responsive to new investment initiatives and

measures should be built into the process to encourage smaller investors.

- In the early stages where the learning process is important and there is need to develop the technical skills to execute the programme, long and ambitious lists of enterprises to be privatised can be counter-productive. Success is going to be measured against the list. The selection of a critical number of enterprises and demonstrating that privatisation works may be preferable to a grand strategy.
- Old company laws which do not define property rights, accountability, and reporting responsibilities will require updating.
- Foreign participation in the investment process must be carefully considered and planned.
- The institutional mechanism and the level of leadership provided are also critical to success. In a small country, a centralised institution is advisable.

### The Malaysian Experience

Presenting the Malaysian experience, Mr. Abdul Rahman Baba, Principal Assistant Director, Privatisation Section, Economic Planning Unit, Prime Minister's Department, Malaysia, said that the privatisation policy was launched in 1983. The policy reflected the Government's commitment to reduce its presence in the economy, reduce the level of public spending and allow market forces to govern economic activities.

Privatisation was adopted by the Government to meet five main objectives:

- relieve the financial and administrative burden of Government.
- improve efficiency and productivity through the introduction of competition, freeing of Government enterprises from civil services rigidities and the introduction of incentives to employees.
- facilitate economic growth - through higher efficiency and profits, the Government will be able to gain additional revenue particularly in the form of corporate tax to

finance projects under its socio-economic development plan.

- reduce the size and presence of the public sector in the economy.
- help meet the national development targets of restructuring the ownership pattern in the economy.

The methods used in Malaysia's privatisation exercise varied; for a few projects a combination of methods have been used as follows:

- sale of equity as in the case of national automotive company (PROTON), Malaysia Airlines and Malaysian International Shipping Corporation (MISC);
- sale of assets as in the case of Public Works Department's quarries in Selangor and Perak, and Maritime Academy. (As for ports, movable assets are sold upon privatisation);
- lease of assets, for example Port Kelang, where the immovable assets are leased; other examples are Malaysia Airports Bhd., and National Railways (KTM) Bhd.;
- management contracts, for example the privatisation of the Management of Kedah and Selangor Water treatment plants;
- build-operate-transfer (BOT), built-own-operate (BOO) and build-operate (BO). Examples are the Kelang West Port, North South Highway and other road projects, National Sewerage Project (BOT) and independent power generation plants (BOO);
- other modes of privatisation include the build transfer (BT), land development, management-buy-out (MBO), reverse take-over through equity swap, and joint ventures.

So far, a total of 408 projects have been privatised. During the Sixth Malaysia Plan (1991-1995) 204 projects were privatised of which 56.4% were Federal Government projects and 43.6% State Government projects. Of the total, 138 represent existing projects involving the taking over of Government's functions

by the private sector while the rest represent new projects.

The privatisation programme in Malaysia is broad based, covering all sectors of the economy. In terms of sectoral distribution, the privatised projects were mainly in the construction sector accounting for 22.5% of total projects privatised, followed by manufacturing sector 15.2% and service sector 11.3%. Some major privatised projects are the Ports of Kelang and Johor, the Second Link to Singapore, Malaysia Airlines, Kuala Lumpur Light Rail Transit (LRT), the national power company (Tenaga Nasional Berhad), while the seaports of Bintulu and Penang have been corporatised. Most of the projects privatised during 1991-1995 were through the sale of equity method (46.1%), 16.2% through the sale of assets method, and 10.3% through BOT.

Privatisation has reduced the financial burden of the Government. The sale of Government-owned equity has generated more than RM22.0 billion in terms of proceeds. In terms of operating expenditure, the Government has been able to save some RM6.9 billion annually from privatised projects. As for capital expenditure, savings are estimated at RM96.2 billion. The main financial relief comes from the savings on BOT infrastructure projects as these represent the amount the Government would have to provide as capital expenditure if the projects had not been privatised.

Privatisation has also enabled the government to reduce the size of the public sector and relieve its administrative burden and responsibility with respect to recruitment, promotion and training of personnel. To date a total of 98,000 public sector employees have been transferred to the private sector.

There are indications that privatisation has led to increased efficiency of the privatisation entities. Kelang Container Terminal (KTC) used to handle about 19 TEUs an hour before privatisation but currently it is handling over 31 TEUs an hour, while the average length of time that each container remained in the dock declined steadily from 8 days to 2.8 days. This performance has placed the terminal at par, if not better than many other ports in the world in terms of container movement. Since its privatisation, Telekom Malaysia Berhad (TMB) has instituted several improvements, such as marketing of new services. At the same time, the number of direct exchange lines per employee increased by over 55%. Similarly, Tenaga Nasional Berhad (TNB), has instituted many innovations which have greatly enhanced its efficiency and productivity as reflected

by its annual profit which has reached RM 1.9 billion in 1994 without tariff increase.

The privatisation of highways has resulted in a much faster rate of highway construction in the country, thus reducing infrastructure bottlenecks. Privatisation has enabled many infrastructure projects to be completed earlier such as the construction of the 882 km North South Highways, which has been completed 15 months earlier than scheduled.

In order to increase efficiency, the Government has also introduced competition, especially in natural monopolies such as energy and telecommunications sectors. In the telecommunications sector, the Government has licensed six other companies, apart from Telekom Malaysia, to provide basic telecommunications services. For the energy sector, five other companies, apart from TNB are already in operation in Peninsular Malaysia through licenses to generate issued by the Government.

Privatisation has helped to accelerate economic growth; resources released as a result of efficiency gains are being utilised for further corporate expansion.

As privatised entities are being listed on the stock exchange, ownership of these public companies is spread to a wider community and has increased participation of employees in the ownership of the companies through MBO and sale of equity. The policy is that 5% of the company's equity is reserved for employees. At the same time, 30% of the share of privatised projects is reserved for the indigenous or Bumiputera participation. Bumiputera promoters have played an important role in the development of new projects.

The provision for foreign investor's participation in the privatisation exercise to a maximum of 25% of equity signifies the importance of promoting the transfer of technologies and skill upgrading through privatisation. Foreign participation is allowed in cases where the technology needed is not available locally, or where international linkages and markets are necessary. For instance, the privatisation of the North South Highway has exposed Malaysian to new skill and expertise in the construction of highways, enabling the United Engineers Malaysia Berhad (UEM) to complete the construction of the North South Highway earlier than scheduled. Through the projects, designers and local engineers have acquired knowledge and skill in highway design and construction. In the case of Tenaga Nasional Malaysia Berhad (TNB), due to stiff competition particularly with the introduction of the Independent Power

Producers (IPPs) generation systems on a build-operate-own mode, TNB faces an urgent need to shift its management style and skills. To cope with the challenges, multi-skills retraining programmes are being undertaken in adapting to the new environment of corporate management. Similarly, Telekom Malaysia Berhad (TMB) has gained significantly after privatisation, enabling it to introduce new services and has marketed aggressively the services that were hardly known prior to privatisation. These include network upgrading to enhance capacity, and quality of services through investment in modern and state-of-the-art technology. This has led to modern telecommunications services necessary for corporate advancement now available in Malaysia.

To overcome the legal constraints, the government has taken a very pragmatic approach by amending the relevant laws and regulations to facilitate privatisation. The bulk of the legal obstacles with respect to land matters, for example, have been removed through various amendments made to the Federal Constitution in 1987. Legal constraints with respect to personnel have been surmounted by amendments made to the Pensions Act, 1980 which has instituted pension rights for public sector employees who have opted to be transferred to the private sector. For some entities the provision within certain laws of incorporation prohibited the privatisation of SOEs and government departments. In order to accelerate the privatisation program, various successor company acts and amendments were made, such as the Telecommunications Act, Electricity Supply Act and the Malayan Railway Act. The introduction of the Ports Privatisation Act has facilitated the privatisation of ports. Existing legislation will continuously be reviewed and appropriate amendments will be made to facilitate the privatisation process. A comprehensive review of all the relevant laws is in progress. The objective is to formulate a single legislation, which will be a general legislation governing the privatisation of all SOEs and Government departments including subject matter under the State List as per the Ninth Schedule of the Federal Constitution.

In implementing the privatisation program, due attention is given to the absorptive capacity of the capital market, as it exerts heavy demand on private sector financial resources. The capacity of the capital market to mobilise domestic resources and provide for trading of asset ownership is important as privatisation stock issues are often large compared to other equity issues. Successful flotation of privatisation stock issues is also dependent on the level of other private sector demand in the capital market. To avoid crowding-out effects of the capital market, only one or

two 'flagships' are targeted per year followed by smaller entities to enable the majority of the population to participate. During 1991-1995, 24 privatised companies were listed on the Kuala Lumpur Stock Exchange. Currently 31 privatised companies have been listed and contributed about 20.5% of total KLSE market capitalisation. Among the major privatised companies listed are: Telekom Malaysia Berhad (TMB), TNB, Petronas Gas, Malaysia Airlines System (MAS), Malaysian International Shipping Corporation (MISC), PROTON and EON.

With the introduction of new guidelines for the listing of Infrastructure Project Companies (IPCs) by the Securities Commission, the privatised IPCs would be able to raise financing in the capital market in the form of equity to undertake projects. Hence, the IPCs are eligible to be listed on the KLSE without having to meet the track record requirements, provided that these companies are awarded a concession or licence by the Government or State agency, in or outside Malaysia, with the remaining concession period of not less than 18 years. For existing IPCs, the concession or licence period required is not less than 15 years. Other requirements include, among others, the project cost being not less than RM500 million and the project must be able to generate income sufficient to give a suitable return to its shareholders.

Malaysia's privatisation policy has proven to be successful and the success can be attributed to various factors:

- The determination and commitment to the privatisation programme is strongly evidenced by its acceptance by both the Government and people as an instrument of economic management.
- The Malaysian privatisation programme is unique in many ways. First, it is based on two objectives, to allow the private sector to lead economic growth and the public sector to provide conducive environment. The privatisation is based on the Malaysian Incorporated concept, that is to foster close co-operation between the private and public sector to achieve economic development. The private sector is encouraged to submit proposals for privatisation and the approval for privatisation is based on the merit and the benefits that both parties will reap from the project. The Government's stance has always been that the project to be privatised must not fail and that the Government is committed to ensure that the privatised project will succeed. The returning of privatised projects to the Government, due to the failure of the private company to fulfil its obligation, should not arise. Therefore companies that undertake privatised projects have to be carefully chosen with a proven track record in terms of expertise and financial strength. At the same time, these companies are required to implement a "vendor and umbrella program" so as to provide opportunities to other local companies to participate in privatised projects.
- The Government is concerned with the viability and performance of the companies that undertake privatisation projects. For most of the major privatisation projects, merchant bankers and consultancy services have been employed to undertake studies on viability of projects before privatisation. Careful consideration is given to the projected cash flow of companies after privatisation to ensure their capabilities to undertake the project in the long term.
- The privatisation program is broad based covering various sectors of the economy such as telecommunications, energy, infrastructure, ports, hospitals, hotel resorts, etc. It has also incorporated strong provision for employees protection as manifested in the procedure requiring inclusion of "no less favourable terms of condition of service" and an assurance of no retrenchment within the first five years except on disciplinary grounds. In cases of privatisation which involved public listing, the employees are given 5% share equity of the privatised entity.
- Malaysia's privatisation process is transparent. The administrative machinery established to implement the programme is based on the principle of centralised planning and decentralised implementation. The setting up of the Privatisation Section at the EPU creates a separate entity that handles privatisation projects objectively, based on careful considerations and set policies and guidelines, as well as procedures as provided in the Privatisation Master Plan. The Government has established the Privatisation Committee at the Federal level, with the Privatisation Section at the EPU as the secretariat. The permanent members of the Privatisation Committee are representatives of the relevant central agencies such as the

Federal Treasury, the Attorney General's office and the Public Services Department, as well as other stakeholders from the various relevant ministries that have interests in the privatisation project. All proposals for privatisation, either government initiated or private sector-initiated, are evaluated by two sub-committees, namely the technical committee and the financial committee. Evaluation of privatisation proposals has to undergo a stringent process, whereby the financial committee, headed by the EPU or Treasury, will evaluate the financial proposals, while the technical committee, headed by the relevant ministry, will evaluate technical proposals. The overall evaluation of the proposal is integrated by the Privatisation Committee at the EPU, which will then submit its recommendation to the Government for a decision.

- The Privatisation Action Plan is made public and thus the public has full knowledge of entities to be privatised in the near future.
- To encourage the private sector to participate in privatisation especially for BOT projects, various concessionary terms have been given, such as tax incentives and soft loans. This is to ensure a reasonable return to the investor so that the project is viable and at the same time the tariff rate charged to the public is fair and equitable. Generous initial terms have been given to the affected employees in privatised entities in order to ensure the success of the projects as well as to provide added encouragement and attraction to the employees to be transferred to the private sector. Experience has demonstrated that privatisation has not resulted in lay-offs, and has in fact resulted in improved terms and condition of service. This has helped considerably in changing the employees' outlook on privatisation. Most of the unions have now become very supportive of privatisation.
- Another special feature of Malaysia's privatisation programme is the conversion of the SOEs into a corporatised entity at the initial stage of privatisation in cases where direct privatisation may not receive full support initially, as in the case of Sabah Electricity Board. The corporatised entity, fully owned by the Government will be first transformed into a commercial enterprise under the Company Act. This step will

enable the agency and its workforce to adapt to corporate work culture as well as transform it into a commercial entity having its accounts run on commercial lines. Examples of corporatised entities are the ports of Bintulu and Penang, and the National Heart Institute.

The pace for implementing the privatisation program will be further intensified as reflected in the Seventh Malaysia Plan for 1996-2000. While the emphasis will continue to be given towards the privatisation of projects in the infrastructure, utilities, and transport sectors, efforts will be made to privatise projects in other fields, including education and training, health and other social services, and R&D.

The Government's involvement in strategic, high-risk and high technology industries as well as in projects which require huge investment and long gestation periods will be continued. Similarly, the Government will continue to hold equity in certain existing companies in order to protect public interests and to monitor the performance of the privatised entities.

**In conclusion**, the pace of privatisation in Malaysia in the initial stage has been slow. However, its success rate is high. The success is measured not so much from the quantity of privatised projects but more importantly from the quality of the privatisation evidenced by continued improvement of efficiency and productivity in the privatised entities.

The underlying factor of Malaysia's strong and steady growth has been partly due to the success of the privatisation programme. Other factors include the macroeconomic stability and conducive environment for private sector participation. The sound monetary and fiscal policies pursued by the Government were able to induce and sustain private sector investment in the economy. Political stability has also provided a conducive environment for the nation to focus its effort on economic development.

The open and increasingly liberal policy adopted by the Government has cleared the path for greater private sector participation in the economy and attracting foreign investment.

#### **The Zambian Experience**

**Mr. Stuart Cruickshank**, Technical Director of **Zambia Privatisation Agency**, reviewed the Zambian privatisation programme that has been implemented over the past few years as an integral part of the structural adjustment programme (SAP). He noted that the SAP was introduced by the

Government of the Republic of Zambia at its own instigation and not as a result of donor pressure. The privatisation programme in Zambia has been recognised as the most successful in Africa if not the whole of the developing world.

The **Zambian reform programme** adopted by the MMD (the Movement for Multi-party Democracy) Government elected in 1991 was based on the belief that Government's role was to govern and that it is the role of the private sector to run businesses. However, the Government recognised that in order to develop a strong and growing economy, an "enabling environment" must be created and the economy liberalised. To this end, import and export controls have been lifted, State monopolies removed, interest rates have been freed up and exchange controls abolished.

The **key objective of the privatisation programme** is to improve corporate governance, thereby obtaining the spin-offs that result from an efficient private sector with the confidence to invest in Zambia's future. The privatisation programme was based on three key principles:

- an independent agency was needed to implement privatisation;
- a programme should be enshrined in an Act of Parliament; and
- the process should be as transparent as possible.

In 1992, the Privatisation Act (No. 21 of 1992) was passed for establishing the **Zambia Privatisation Agency (ZPA)** as the agency responsible for planning, managing, implementing and controlling the privatisation of SOEs. Some minor, but important, amendments were made to the Act as of 1 April 1996.

ZPA's mandate extends beyond privatisation transactions. First, it has a mandate to monitor expected and actual redundancies arising through the privatisation process, and to ensure that redundancies are conducted in the most acceptable and effective manner. To this end, ZPA, with the prior approval of the Minister of Finance, facilitates the funding of redundancies from the companies' own resources or from the privatisation proceeds. Second, ZPA is responsible for approving the disposal and lease of assets in all public enterprises which are scheduled for privatisation. Under Section 5 of Statutory Instrument No. 41 of 1993, those enterprises must apply to ZPA for approval to dispose of or to lease assets and must

later account for such transactions through detailed returns. Proposed capital investment programmes must also be approved by the ZPA and are subject to a number of specific criteria.

ZPA has a Board of 12 members who are nominated by their respective organisations and approved by the National Assembly. Only three of the members are Government officials - the Permanent Secretaries of Finance and Commerce, Trade and Industry and the Attorney General - the remaining nine members are drawn from the following private sector institutions:

- the Zambia Confederation of Chambers of Commerce and Industry;
- the Zambia Federation of Employers;
- the Law Association of Zambia;
- the Zambia Institute of Certified Accountants;
- the Dean of the School of Business of the Copperbelt University;
- the churches in Zambia;
- the Bankers Association of Zambia; and
- the Zambia Farmers Union.

The Board composition has ensured that ZPA is independent and is seen to be so. Although an independent body, the Government recognised the need for the Agency to have a link to the Cabinet and appointed the Minister of Commerce, Trade and Industry to be the Minister responsible to it for the privatisation process.

The Secretariat of the Agency is headed by a Chief Executive and has three divisions namely, the technical directorate, administration, and publicity and marketing. The agency currently employs some 40 professional staff and is supported by seven full-time advisors.

**Transparency** is important not only as protection for the implementers of a privatisation programme, but also because it gives credibility to the process. Some African nations' privatisation activities have frozen through public criticism of corruption and political manipulation - essentially a lack of transparency. In the Zambian case, transparency is achieved both through timely publication of information and through

the use of independent parties at contentious points in the process. The transparency provisions are:

- a requirement of the Act that the following public announcements are gazetted:
  - the divestiture sequence plan;
  - the bidders and the bid prices;
  - successful bidders and reasons for success;
  - price of shares;
  - special conditions of sale.
- a requirement of the Act that a progress report be prepared at six month intervals detailing the activities of ZPA and giving enterprise specific information,
- the practice that all information about an enterprise is published at point of sale, including asset and business valuations;
- a requirement of the Act that valuations are done by independent contractors who must provide a certificate of valuation; and
- a requirement of the Act that negotiations are done by independent negotiators.

In addition to the above, the ZPA holds a monthly press conference at which the press is given the opportunity to question the Agency about any matter concerning the privatisation process. Public fora are also held every few months giving interested parties the opportunity to be informed about all aspects of the programme.

At the commencement of the privatisation programme, the parastatal sector comprised approximately 160 state-owned enterprises (SOEs) covering every aspect of commerce and trade including Zambia Consolidated Copper Mines (ZCCM), the large copper mining enterprise that accounts for approximately 90 per cent of the country's export earnings, as well as other small gemstone enterprises, electricity, telecommunications, air lines, transport companies, sugar processing, breweries, cement, trading companies, fuel, milling, edible oil processing, farms, agro-industries, commercial banks, hotels, dry cleaners, and travel agents. Following its establishment, the ZPA

privatisation programme divided public enterprises into eleven tranches, comprising 137 enterprises for privatisation over a five year period. Initially, the program excluded ZCCM, the utilities and some other parastatals which posed problems if ownership was transferred to the private sector. The programme has been updated since and now includes 159 enterprises including ZCCM and ZAMTEL, the telecommunications company.

After the enterprises to be privatised are tranced to the ZPA by Cabinet, the Agency recommends to Cabinet the method of divestiture to be used. In most, but not all, cases the Cabinet approves the recommended method. The **modes of privatisation** are laid down in the Privatisation Act as follows:

- public offering of shares;
- private sale of shares through negotiated or competitive bids;
- offer of additional shares in a state owned enterprise to reduce government share holding;
- sale of the assets and business of the state owned enterprise;
- reorganisation of the state owned enterprise before the sale of the whole or any part of the state owned enterprise;
- management or employee buyouts by management or employees in the state owned enterprise;
- lease and management contract; or
- any other method the Agency may consider appropriate.

Currently, the ZPA has or is in the process of privatising some 208 enterprises / units. This apparent discrepancy with the figures mentioned previously is explained by the fact that some SOEs consist of a number of productive units which have been or are going to be privatised separately.

Several important questions related to the issue of ownership are raised in every privatisation situation. How much of each enterprise should be reserved for nationals? How much foreign ownership is needed for investment, technology, and management expertise? Should the enterprise be offered through private

placement or a widespread public offer? Does the enterprise need new investment? If so, how can this be mobilised?

In Zambia, early studies indicated that local private capital could provide only one third of the financing requirements to meet the capital investment needs in SOEs and payments for the Government's equity stake in parastatals. Zambian industry needs not only investment from international investors, but also technology, management upgrades and access to markets. Nevertheless, there is a real fear by nationals that Zambia will be 're-colonised' through economic participation by foreigners.

To address the conflicts on a case by case basis, the Government of Zambia decided that the ownership strategy for each enterprise would seek to maximise the aims of Zambian participation and wide share ownership without compromising on efficiency. Early in the process, the Eastern European model for transferring ownership (generally through voucher schemes) rather than ensuring corporate governance was discarded. This model was not considered appropriate because most Zambians are unsophisticated investors and do not have the experience as shareholders of businesses to monitor performance by management.

In Zambia, the best results were expected from strategies to locate a core shareholder who assumes a majority equity stake in each SOE. Core shareholders, because of their capital commitments aim to enhance their investments by managing the commercial risk of the operations and demanding good performance from management. Zambian investors holding minority interests in these firms benefit from the control and monitoring activities of the core shareholder and have time to educate themselves on enterprise performance issues gradually. In employing this concept, the medium to large-size enterprises with profit potential, sustainable markets and a good capital base are offered by a combination of trade sale of a majority share holding (the core shareholder may be either foreign or local) and public flotation of a minority share holding (initial offer is exclusively for nationals.) The core shareholder is identified through a competitive bid process, except where the legal status of the enterprise precludes open competition. There are a number of instances where this occurs, as the Government already had minority partners in the larger, more profitable SOEs. When the previous Government nationalised these industries, it only partially nationalised them, creating forced minorities with pre-emptive rights of purchase. These minority shareholders, because of their long-term involvement,

are strategically placed to become the core investors in a more open investment climate.

The following procedures to promote Zambian ownership are used:

- Small enterprises are only advertised in the local press, and the time frame for preparing a bid is fairly short. This provides local investors a competitive advantage in identifying the request for tender and in preparing their offer.
- Thirty enterprises were selected to give management and employees the right of first refusal. In favouring Zambian ownership, the efficiency objective is not compromised, as bidders must provide evidence that they can operate the enterprises efficiently and gain access to capital. Where the offer from the management and employees does not meet the standards set by ZPA in their evaluation of bids, the enterprises are offered on a competitive bid basis.
- There are approximately thirty enterprises which would be good candidates for some level of public ownership. A maximum of thirty per cent of the share capital of these enterprises is reserved for Zambians. Where the enterprises have minority shareholders, these shareholders are requested to forego their pre-emptive rights for the shares to be offered to Zambians. Most minority shareholders expressed their acceptance, in principle, to this form of Zambian participation, as they too realise the importance of domestic ownership.

One of the problems with ownership is the relative unavailability of domestic capital. In the early stages of the privatisation programme, several attempts were made to persuade either the private sector or donors or both to establish privatisation funds whereby Zambians could have access to capital, both for the purchase of shares and for financing operations in newly privatised companies. Neither donors nor the private sector were forthcoming in setting up privatisation funds and the Government did not have available finance.

A policy, established by the ZPA, is that investors may not purchase SOEs if they are not able to meet the financing requirements of capital investment and working capital for the enterprise. This policy derives from the Government's desire to improve the capacity



of the SOEs. Unfortunately, this policy affects nationals more than outside investors. Given the lack of domestic finance, creative methods to allow **Zambian participation** were designed. These include:

- **Zambian individuals, management and employees** are allowed to defer payment for the purchase of shares. This policy created some implementation problems. Companies which are wholly owned by **Zambian nationals** felt that they should have been given the same advantages as if they were individual **Zambian citizens**. These companies were advised to bid as groups of individuals. From the Government's view, it is desirable to limit the number of enterprises offered on terms in order to reduce its administrative responsibilities to safeguard its investment and to collect its debt. However, in the absence of a privatisation fund, this is the only feasible way to allow credit to nationals.
- The **Privatisation Trust Fund (PTF)** was set up to promote broad-based local participation. The PTF has been set up as a warehousing arrangement whereby the minority percentage of the SOE shares reserved for **Zambians** (up to thirty percent) are retained in trust. The shares are transferred to the PTF at no value. **Zambian individuals and institutional investors** (e.g. pension funds) are the sole potential buyers of the primary share offers.
- Prior to privatisation, the SOE and the holding company were responsible for the payment and administration of redundancies. Where the SOE had sufficient funds, payment was made from the SOE's own resources. Usually, however, the SOE was bankrupt and could not afford to make the payments. At this point, recourse was made to the holding company. In certain instances, the holding company declined to pay either because of a lack of funds or because the payments were too high for them to provide support. Often employees are sent home on a "zero work" basis, where they are paid to stay at home: in the short term, this was a more cost-effective solution. As the funds from privatisation are received, however, these workers are paid and retrenched.
- At the time of privatisation, the responsibility for payment is that of ZPA. ZPA negotiates with prospective owners to limit the redundancies arising at transfer of ownership. Where new owners identify employees that they would not retain, the liability for redundancy payments is paid from the gross proceeds from privatisation. In practice, at the time of privatisation, the enterprises are generally not overmanned to any great extent. This is mainly because of the Government's withdrawal of subsidies whereby the parastatal sector has been forced to retrench prior to privatisation. Generally, negotiations with the potential owners are successful and redundancies arising at the point of sale have been nominal.

**Labour** is a sensitive issue, but this is one area where the Government of Zambia avoided making clear policy statements to address the issue. The parastatal sector was excessively overmanned and any improvement in efficiency would have to be accompanied by employment restructuring, regardless of ownership changes. In addition, there was no safety net in the form of social security, opportunities for alternative income generation activities, training for skills, or entrepreneurship development. In the design stage of the privatisation programme, financing redundancy payments was identified as a potential problem and therefore provision was made, in the Privatisation Act to authorise the use of the proceeds from privatisation to make such payments to employees. There was a great deal of confusion in the initial stages, as the ZPA was seen to be responsible for the administration of the redundancy programme. In the absence of clear policy guidelines, ZPA developed ground rules to cater for the process:

Two labour problems that were not foreseen created implementation problems in the privatisation process. The first was that employees did not understand that their contracts of employment were with the enterprise, as a corporate entity, rather than the owners. Employees demanded payment of terminal benefits as according to them, their contracts were being closed with the parastatal sector and new contracts entered into with the private owners. This perception arose from the fact that employees were apparently seamlessly transferred from one parastatal enterprise to another. In addition, workers were suspicious of the private sector and did not believe that the terms and conditions of their contracts would be honoured. In fact, one of the conditions of sale is that employment conditions must be equal to or better than before. It should be noted that the ZPA has a Social Impact Department that explains the process of

privatisation and workers rights to all employees who are to be affected by the programme.

The second problem was that employees viewed privatisation as a means to force redundancy offers from the enterprise. Employees and their unions tried to negotiate an agreement that all employees be made redundant and thereafter the workers could take up employment with the new owners if they wished. This was clearly impractical as the Government could not afford to pay terminal benefits, let alone redundancy packages. There is no legal basis for this except where the identity of an enterprise is being changed. Section 35 of the Employment Act provides that employees shall be entitled to redundancy payments where their contract of employment is altered in any way, unless employees give written consent to the changes.

Post privatisation redundancies are clearly the responsibility of the new owners, who as part of the purchase and sale agreement, agree to honour the terms and conditions of the contracts of employment. Despite the fact that the contracts are with the enterprises and the employees are protected by law, the new owners are requested to confirm their commitment to the employees. This not only forces the new owner to explicitly concur with the provisions in the contracts, but also provides additional comfort to the employees.

Informing the general public on the issues of privatisation is considered an important element within the programme. ZPA has produced programmes both for radio and television discussing various aspects and concerns with the programme. Radio programmes have been broadcast in seven local languages in addition to English. In addition to the normal discussion and panel type programmes, the ZPA has sponsored plays with a privatisation message which have been widely publicised and well received. The programme has been widely marketed throughout the world and has received a satisfactory level of interest.

Until April 1995, the pace of the privatisation programme was very slow with only 13 enterprises/units being privatised. The perceived slowness was due to three key factors, namely;

- the extensive preparatory work in designing and planning the programme;
- the extensive and detailed work required for each transaction; and

- the opposition and interference by ZIMCO.

The ZPA was re-organised in April 1995 with a stronger Board and a new Chief Executive as well as an internal re-organisation. From that time, and with the removal of one of the biggest constraints (ZIMCO), the pace of privatisation has increased. At the end of March 1997, 204 enterprises/units have reached the "agreement to sell" stage. A further 33 are under negotiation.

To-date, after paying creditors as necessary, some \$ 50 million has been transferred to the Privatisation Revenue Account. However, more significantly, more than \$ 200 million of investment has been promised; these promised investments form part of the sales agreements and will be monitored by the ZPA to ensure compliance. The investment figure will be dramatically increased with the privatisation of ZCCM, where it is expected that more than \$3 billion will need to be invested.

## Privatisation In Botswana

### The BOCCIM Report

In presenting the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) report on privatisation in Botswana, Mr. Emang Maphanyane, Chief Executive of the Botswana Housing Corporation, stated that the process of privatisation is at a very early stage; the talking stage and not the doing stage. It was in that context that the BOCCIM, being the prominent private sector organisation, decided to undertake a study on privatisation. The intention was to assist Government in examining the issue of privatisation and processes involved. Subsequent to this study which was carried out by the accounting firm, Coopers and Lybrand, two seminars were conducted. and a report was submitted to Government for the attention of the Vice President and the Minister of Finance and Development Planning.

BOCCIM is yet to receive an official reaction from the Government to the report. Meanwhile, the Government is examining the recommendations of that report and a policy statement on privatisation is expected in the near future.

It is worth mentioning that many parastatals including Botswana Housing Corporation are members of BOCCIM.

Many parastatals and Government departments and agencies have commercial orientation problems and it

was thought that some of them should be examined since it was not possible to examine them all. Ten parastatals were selected and a similar number of Government departments and agencies. The study came up with six areas which the process of privatisation in Botswana should address:

- Changing relations between the Government and parastatals.
- Restructuring parastatals where necessary.
- Restructuring commercially oriented Government departments.
- Changing the roles of local councils.
- Removing any obstacles at each stage of transactions.
- Selecting an appropriate method of sale.

On the first area of concern, it was unfortunate that Government has intervened what would normally be commercial decisions, like advising on investment decisions, and that Government would lean on some of the parastatals to undertake financially un-viable activities especially in the rural areas. It was quite clear that financial flows between Government and parastatals were taking place in a sort of unplanned manner in relation to commercial considerations. The study accepted that as a shareholder and a legal owner, the Government has a right to intervene in the operation of parastatals but only in such a way that it enhances the performance of the parastatals. This was not the case in Botswana according to the study. A framework for the relationship between Parastatals and the Government was proposed as an initial step to possible privatisation. Such a framework should address the issue of division of powers; it happens that in Botswana some of the parastatals are both actors and regulators such as Botswana Telecomms (though this is now changing with the new Regulatory Authority) and the Botswana Meat Commission. Once that had been done it would be possible for Government to determine which parastatals could be privatised and which could not.

Two issues frequently came up in the area of restructuring parastatals. One was whether to establish units of these parastatals in such a way that they can be marketable. For example, if we want to sell Botswana Housing Corporation, what can we sell? BHC has a number of activities: property development, maintenance of buildings, building designs, financial services and so on. So if we want

to privatise BHC, we have to restructure it by creating distinct businesses to be offered for sale separately. The second issue was the returns that Government would get from selling businesses such as these. If a parastatal is to be sold as one body, it will be difficult to establish its real value. It was also important that such marketable units should be of such a size and of such a structure that the citizens will be able to buy them.

Regarding the Government Departments, some of them in Botswana have commercial operations like the Central Transport Organisation or the Printing and Publishing Department, but they do not keep accounts on which commercial decisions might be made. So the study recommended that these Government departments be reorganised to get them to apply commercial accounting; by charging for their services, for instance. Then the Government will be able to establish what it is to privatise. It will be possible to determine whether it would be cheaper to maintain vehicles at City Council or to take them to private garages. Currently the information to make those kinds of choices is not there.

The other consideration regarding restructuring the Government departments was to assess their commercial value. Unless there are some accounts, the Government cannot determine the fair market value of departments that might be considered for privatisation.

On changing the role of Local Councils, the same issues arise. Refuse collection, for instance, staff housing, maintenance, etc., are done by the City Councils. So what we see in the Central Government is duplicated at Local Government level although the politics might be different.

Turning now to the obstacles that might be encountered in the privatisation process, we have policy concerns. The Government does not have a policy on privatisation and that is going to be a subject of debate among the politicians and others as well. The legal framework needs to be changed if we are going to privatise parastatals. The statutes establishing parastatals will have to be changed to make them into companies under the Companies Act.

Privatisation options were also considered keeping in mind the implications or expected consequences of each privatisation method. Here, the Government has to see itself in a different role. It is important that competition be promoted. There are concerns about jobs and job losses as a result restructuring. In the National Development Bank, Air Botswana and Botswana Housing Corporation, restructurings led to

job losses. But the study suggests that there are ways in which such concerns might be minimised or accommodated through such measures as employee buy-outs.

The concerns of investors, particularly international investors, who will be interested in investing in the restructured parastatals and government departments had also to be considered. Namely, what other conditions need to be put in place for international investment and what special incentives for citizens need to be offered?

In Botswana, many parastatals have outstanding debts on loans that have been obtained from Government through the Public Debt Service Fund. How these debts should be handled is an important question. There are proposals which would suggest that this debt should go with the assets when it is privatised and let the new owners continue to repay it to the Government. This happened when the Financial Services Company was privatised, for example.

Care must be taken of the special interest groups such as politicians and the media. Through promotion and other measures the privatisation process can be made attractive to the majority of the citizens.

On the issue of scheduling the privatisation programme, it is important to prioritise. We should make a privatisation plan based on a policy decision by the Government. The study recommended that there should be a committee on privatisation comprising the major Ministries in the country and also members of the private sector. The implementation should be left to mother Ministries. To this committee, a privatisation unit with qualified staff should be created to act as a secretariat and to backup the various Ministries in the privatisation process. Such a technical unit should be based in the Ministry of Finance and Development Planning.

#### Discussion:

**Mr. Cezley Sampson from Jamaica:** I am not too happy with what I heard. I think you have forgotten one very important thing "the learning curve". You are going to make a lot of mistakes. We learned the hard way in Jamaica that in the first three to four years - unless you are going to pay a lot of fees to bring in foreign consultants - there are going to be a few hard battles. Rather than making elaborate plans and elaborate lists, identify three or four agencies and use them to demonstrate and learn the process of privatisation. It would also be useful to have a closer

look at the experience of other similar countries such as Jamaica.

**Professor Mike Faber from MFDP:** I want to talk about the status of the report, its character, the character of its recommendations and then a paradox. The report was commissioned by BOCCIM, which is a private sector organisation though with public sector members, and financed mainly by the USAID. It was handed over to the Minister of Finance and Development Planning in August but its status was a little unclear. Was it just a study which the Government was asked to look at and react to? Was it a position and a set of recommendations by BOCCIM? I was told that the recommendations had the support of the Executive Committee but I found out from some of the members that they didn't agree with those recommendations.

The character of the report is in two parts. First there is a sort of general set of principles suggesting that a commercial approach to running the public sector as a whole should be adopted. There should be an arms length relationship between Government and parastatals. Parastatals should have more independence but they should be monitored and perhaps regulated more closely. A number of Government departments should be turned into parastatals. Accounting should be introduced into Councils. General recommendations such as are these take up about a third of the report and the other two thirds are these fourteen case studies or enterprise profiles and that is the character of the report.

On the character of the recommendations, the impression from reading the press is that there is a widespread set of recommendations for privatisation. But if you read the report carefully, there isn't much in fact. A lot of the recommendations are of the general kind that I have mentioned, and a lot of them take the form of: if Government wants to privatise, it should consider doing it this way or if it is willing to allow things to be determined by market forces this is what should happen. In other words, they are sort of hypothetical recommendations. It also recommends an implementation machinery which is certainly not being criticised but is certainly not being adopted or accepted or perhaps not even considered by Government yet. Now that's not policy, it's simply a recommendation by consultants who were employed by BOCCIM to produce a report.

Finally, the paradox is that if you take these recommendations and they are all fulfilled you will end up not with less parastatals than you have at the moment but more.

**Professor Charles Harvey from BIDPA:** I just want to point out an oddity on the list that we were shown of the candidates for privatisation. The oddity is BMC, because the BMC has always had on its board cattle farmers. In other words the clients of the BMC have been in charge of it as an institution and they have made sure, by and large, that it is an efficient marketing and manufacturing institution and it stands out in stark contrast to most public sector agriculture marketing boards in Africa, which are mostly a disaster. At one time, there were 100 000 employees of the Ghana Cocoa Marketing Board which was about twice as many as there were cocoa farmers. Now the BMC is not like that, though it has, no doubt, some faults. Because it has got farmers on the board, it would not be a priority candidate for privatisation, in my view, for exactly that reason. Now there is a further lesson from that, which is that Government has taken a false analogy from the private sector and said "because we own parastatals, therefore we should appoint the directors" and so the directors of parastatals are, by and large, government officials and the consumers are not represented. How many business consumers of electricity are on the board of the Power Corporation? How many consumers are on any board? So there is a lesson there too, in that government should not just appoint Government people because it owns all the shares. I was in the Gambia once and there was a Gambia Produce Marketing Board. I asked how many farmers were represented on it and the person looked at me and said "well none of course, its a Government corporation!".

**Next Person:** We have heard a lot of debate about the weakness of the public service in Botswana and how it will be a lot better to privatise. I think within the region, our public service is a strong one but our private sector is extremely weak. We have to be very careful about privatising and not go for it just because it is a fashion to do so.

**Next Person:** If we are really serious about privatisation, it has to be an independent body composed of people who know what business is all about and who can appreciate the need for such activities and sort out priorities. This body has to be directly under the President, otherwise it will just disappear in bureaucratic files. It is quite interesting that we are discussing privatisation now while the whole thing was sparked by the budget speech of about three years ago. It was mentioned strongly in the first year, last year it was also mentioned, but this year I listened carefully and there was nothing about it.

**Next person:** Amongst the list of candidates for privatisation which were examined was the

Gaborone City Council. But most Councils are now fighting to get their financial autonomy to be able to perform to a certain standard. I can understand how commercialising the City Councils or the District Councils could improve their performance but I don't know how the privatisation can affect them. I just want a clarification on how to separate privatisation, autonomy and commercialisation.

**Response from Mr. Maphanyane:** Quite clearly, as can be seen from the comments that have been made, the debate is just starting. I did say in my introductory remarks that the study was intended to be an input into the process of discussing the direction and content of privatisation in Botswana and that the reaction of Government by way of a policy is still being awaited. This report is a product of consultants hired by BOCCIM which is a private sector organisation. That is the status of this document. It is not an official policy of the Botswana Government. Those are the issues that the private sector has put to the country in an effort to assist those looking at this matter in an organised manner. I entirely agree with our colleague from Jamaica that there has to be learning time. I did point out that there has to be prioritisation of the process taking into account our capacity to manage the process.

I have no concern about the location of the agency. But whether we are not under pressure and should take our time, in Botswana once you take your time it becomes forever. I think we need to have pressure of some sort otherwise we would not move.

Professor Faber is fully aware of the status of the study and whether it is hypothetical or not. The issue of whether one is going to have more or less parastatals, I explained why there will be an intermediate stage of more parastatals. It was felt to be necessary.

On Professor Harvey's comment about BMC; I think the question of whether BMC cannot be made more efficient is debatable but I don't believe that BMC is as efficient as it can ever be. Perhaps, one of the ways of making the private sector strong is to privatise all the Government activities. The reason why the private sector is so weak is that Government is doing the most in taking away its business. I am not saying that Government was wrong to enter into business activities but times have changed and perhaps the public service is also weakened by the fact that it is engaged in so many things. Maybe Government should refocus and do only those things that the private sector cannot do.

The Councillor was concerned about the distinction between the autonomy the Councils were hoping to get and privatisation. I don't think there is any conflict between the two. In fact I believe that privatisation will assist Councils in becoming more autonomous because they don't have to be engaged in collecting rubbish and maintaining vehicles. They will be concerned more about activities that cannot be done the private sector and that will reduce their demand for subsidies from Government because they would not have to provide funding for such activities.

### Panel Discussion

Further discussion of privatisation in Botswana was led by a four member panel, each of which focused on one aspect of the debate. The panel consisted of **Mr. G. Thipe, Deputy Secretary for Financial Affairs, MFDP (as Chair), Mr. D. Namu, Administration Director of Kenya Airways, (as external expert), Mr. G. Kayira, Deputy Resident Representative, UNDP (as specialist in labour issues), Professor M. Faber, Principal Consultant, Public Enterprise Monitoring Unit, MFDP (as an independent expert), and Mr. M. Modisi, Director, P S Construction (as a private sector representative).**

Addressing the issues related to BMC and speaking as an independent observer, Professor Faber, observed the recommendation about BMC in the BOCCIM report was rather curious. It recommends the privatisation of BMC, not because it would necessarily make it any better or serve the farmers or the community or the Government any better but because a privatisation programme needs a few sort of bright stars to start off with. According to the report, "the sale of BMC's core operations by a public issue would be one of the highlights of the privatisation programme of Botswana". Another observation about the BOCCIM report on BMC is that it values BMC at about P 147 million which is a little bit less than US \$ 50 million. It recommends that of the privatisation proceeds 75% should go to Government and maybe because of the size of the issue Government will keep 40% of the proceeds and issue 30% on the Stock Exchange and 25% should be distributed free to farmers. The difference between the price at which farmers sell cattle to BMC and the price at which BMC sells the cattle into its various markets (after meeting all its costs) is what has built up the value of BMC. If so, there is no justification in Government having 75 % because BMC was lent a sum of money by Government to buy the physical attributes from the Commonwealth Development Corporation. BMC has repaid that money and owes Government nothing on that behalf and all the equity value that has been built

up in BMC therefore belongs to the farmers who have actually sold their cattle to BMC.

Another participant asked whether privatisation is going to lead to more or less happiness for workers. The answer is not clear cut because one could also ask whether people living in countries with higher income per capita are happier than those living in countries with low income per capita.

Commenting on privatisation and job security, Mr. Namu said that there is no employer who can guarantee job security. It is the employee who can guarantee himself a job by making a contribution to the company. But workers who fall out as a result of restructuring normally find themselves better jobs.

On the BOCCIM report recommendation of converting some of the Government departments into parastatals, which paradoxically will lead to more parastatals than what we want to dispose of, Mr Seng cited the Singapore experience of converting organisations into corporate bodies and privatised bodies. In Singapore, Government departments were converted into something called Statutory Boards which is not different from parastatals. Thereafter, once the statutory boards have performed well they are converted into corporatised bodies. This was done for many organisations but there was one exercise in particular in which Government hospitals were converted into corporatised bodies without going into a statutory board. It was then realised that because of the Government accounting systems a lot of hospital costs that were being supported by the Government were not factored out. By the time the hospital realised the full cost accounting that goes into supporting the hospital, the actual cost of delivering health care has gone up significantly. And when debt was passed on to the public there was a big outcry. Because of the difference in accounting practice from cash accounting to commercial accounting, particular attention has to be paid and time given for the transition to take place.

The next person pointed out that some issues have been under-emphasised. Is a crisis necessary to promote privatisation? It seems that Botswana is not necessarily facing a crisis. One would suggest that all countries are facing a crisis of the post-Uruguay world, post-Lome Agreement and, many other arrangements under the GATT are ending. This leads to a second issue in terms of the agenda of privatisation. Many countries are now developing a national competitiveness policy to confront this new crisis of the post-Uruguay world. If Botswana is considering a national competitiveness policy, this policy needs to be linked with privatisation. The

intention is to use privatisation not just to transfer operations from the Government to the private sector, but to try to use it as an opportunity to create new private sector capacities which otherwise would not exist. This is a fairly tricky policy. It is being attempted in Mauritius to a certain extent. The final point is the matter of transfer costs and transfer problems in privatisation, particularly re-deployment of labour which appears to be a critical issue. How does one cope with this? It is a reality that it is a very expensive procedure. In the UK for example it was funded by two methods. First through the oil revenues and secondly through the European regional funds. Those were the only facilities which enabled a relatively smooth transfer without serious social disruption. If Botswana is in a lucky position compared to many developing countries, it may be a good idea to consider a possible need for a reserve fund to facilitate a process of transfer and re-deployment of labour.

### Closing Remarks

In his closing remarks, Mr. Lepetu Setshwaelo, Executive Director of BNPC, highlighted the fact that the seminar succeeded in bringing the issue of privatisation into the national agenda and raising the level of debate from pure intellectual talk to a practical level using some case studies from Jamaica, Kenya, Malaysia, Singapore, Tanzania, Zambia and Zimbabwe. It also contributed to improving the knowledge and the understanding of the concept and the practice of privatisation in Botswana.

All case studies were very helpful and instructive of where Botswana should go in this area. The current strategy in Botswana is to look at areas of productivity and competitiveness. It has to do with the challenges of the 21st century as they are looming.

The Vice President in the last two budget speeches has referred to the poor performance of parastatals in Botswana. Some of the case studies presented here were by former public officers at least in Tanzania and Kenya. They were enthusiastic about supporting the issue of privatisation. Had we not been warned that we should get there slowly, we should start tomorrow listening to their presentations. But we have been advised by other experts here that the learning curve is quite a long one, "don't hurry". The problem is that "don't hurry" is inherently a part of Botswana culture. So if you tell a Botswana not to hurry with a project like that, we might just advance with privatisation in the next generation.



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