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**Evaluation of
the Divestiture
and Privatization
Project:**

**Breaking New
Ground with
the Center for
Privatization**

Prepared for U.S. Agency for International Development under contract No.
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William Grant
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LIST OF ACRONYMS

ADC	Amman Development Corporation
AGI	Analysis Group, Inc.
A.I.D.	Agency for International Development
AFR	Africa Bureau for A.I.D./W
ANE	Asia Near East Bureau for A.I.D./W
CDIE	Center for Development Information and Evaluation
CEO	Chief Executive Officer
CFP	Center for Privatization
COP	Chief of Party
EEI	Equity Expansion International
ESOP	Employee Stock Ownership Plan
EY	Ernst and Young, formerly Arthur Young
GOB	Government of Bolivia
GOE	Government of Egypt
GOH	Government of Honduras
GOJ	Government of Jordan
GOT	Government of Tunisia
HCG	Host Country Government
IBRD	International Bank for Reconstruction and Development
IDTI	International Development Training Institution
IFC	International Finance Corporation
IMG	International Management Group
JEA	Jordan Electric Authority
LTA	Long-term adviser
PAS	Public Administration Service
PBDAC	Principal Bank for Development and Agricultural Credit
PD-14	Policy Determination # 14
PID	Partnership in Development
PP	Project Paper
PRE	Bureau for Private Enterprise
Project	Divestiture and Privatization Project
REDSO/ESA	Regional Engineering and Design Support Office/Eastern and Southern Africa
SOE	State Owned Enterprise
SOW	Statement of Work
TCC	Telecommunications Corporation, Jordan
TWG	Technical Working Group, Honduras
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

PROJECT BACKGROUND

In September 1985, the Bureau for Private Enterprise (PRE) entered into a contract with Analysis Group, Inc., now called Scientex, under the Small Business Administration 8(a) program. The objective of the project was to promote privatization and provide A.I.D. Missions with resources to enable them to respond to requests by host governments for help in promoting and implementing divestiture and privatization in their countries.

Scientex established and staffed offices for "The Center for Privatization" (CFP). It initially subcontracted with five companies, later adding one more, to provide specialized expertise to the project. Under the contract, the Scientex consortium has supplied \$6.08 million of core-funded services and \$7.41 million of buy-in services. It has worked for 45 Missions in 49 countries. While Scientex has provided all of the core staff positions, the subcontractors have provided more than 75 percent of the consultants to work overseas.

MAJOR FINDINGS

- 1. The project's major achievements are in its activities to promote and build awareness on the subject of privatization.**

The very creation of a center, with its implications and the perceptions it creates, was an excellent promotional tool for PRE. The CFP positioned itself well to market Missions and Host Country Governments (HCGs).

The CFP's organization of seminars, efforts at stimulating multilateral dialogue, participation in international conferences, substantial networking and marketing with HCGs and Missions in Washington, production of documents, and reconnaissance missions to the field served to actively promote privatization.

While limited direct impact in terms of divestitures can be attributed to these promotional activities, they have changed the attitudes of many HCG officials and Missions by providing a better understanding of the issues involved in privatization.

- 2. The project provided a good mechanism to deliver technical assistance resources to the Missions and HCGs.**

The project provided a flexible and useful mechanism to the missions in the field, through financial assistance and easier contracting, to access technical assistance rapidly. The CFP, through its subcontractors, was able to provide a wide range of short- and long-term technical assistance to 49 different countries.

- 3. The Missions and HCGs played critical roles in the effectiveness of the assistance.**

Missions and HCGs were generally most satisfied with CFP assistance when they maintained close control, supervision, and collaboration with the technical assistance teams provided by the project.

The two successful long-term buy-ins present many of the same characteristics. The governments of Tunisia and Honduras are committed to the process of privatization. In both programs the Missions have established good working relationships with the HCGs. Together, they have taken control of the process and were closely involved with the selection of the long-term advisors. Due to these characteristics, the programs have been effective and, together, have achieved 21 privatization transactions worth about \$75 million.

The project was ineffective in Bolivia, where the long-term assistance was terminated early. The government was not committed, had not established a legal process for privatization, and the HCG implementers did not have a good relationship with the Mission.

4. The CFP was not able to maximize the value of the project's available resources to support implementation assistance to the Missions.

The CFP did not adequately reflect the experience and capabilities of the subcontractors, but relied primarily on the capacity of its core staff. It created much friction with its closest collaborators and resources (the subcontractors, Scientex, and PRE), it avoided planning functions to clarify its targets, and it tried to assume many responsibilities from the subcontractors.

The limitations of the CFP's capacity, due to its relative autonomy, reduced its effectiveness to support its implementation teams. Limited quality control on reports and their slow delivery caused many Missions to be dissatisfied. In many cases the rapport between a Mission and the CFP diminished as the CFP performed more work for the Mission.

The CFP's ability to technically and logistically support long- and complex short-term projects is gradually improving, but has been weak because of the CFP's lack of technically experienced core staff and limited experience supporting teams in the field. This problem has also created some tensions between the Missions and the CFP.

CONCLUSIONS

The Divestiture and Privatization Project has provided A.I.D. with a very good initiation for an important new line of assistance to developing countries. The project has successfully promoted privatization. While there are mixed results from the implementation efforts, it has provided many resources to assist Missions. The project has provided much insight into the important actors and critical conditions necessary for successful privatization. Therefore, the project should be regarded as a valuable experience for future work in this field.

The CFP's comparative advantage lies in promotion and awareness-building for privatization. Its effectiveness in these areas stems from the general nature of promotional activities. They lack specificity, require comparatively little detailed technical knowledge, and there are few external variables which interfere with the CFP's control of the activity.

By contrast, implementation requires more specific technical knowledge and many of the critical variables are beyond the control of the CFP. The project cannot singlehandedly implement privatizations. As the privatization initiative matures, control of the process transfers from the CFP to the Missions and the HCGs. These become the major implementers of the activities.

The CFP achieved mixed results in providing assistance to the Missions. Though it supplied many teams, it had less success helping missions to implement privatization. The CFP adopted an expanded role that reduced the value of the inputs provided by the subcontractors, PRE, and Scientex. By not making full use of the resources available to the project, the CFP's relative inexperience providing technical and logistic support to long-term and complex short-term teams caused them many problems.

A.I.D.'s comparative advantage in privatization assistance is still unclear. Whether A.I.D. should focus its resources on one or more of the different phases of a privatization program or whether it should pursue all phases equally, including the implementation of privatization transactions, still needs to be determined. The preliminary findings imply that A.I.D.'s advantage is in the preliminary phases of developing and implementing a privatization program, but A.I.D. does not yet have a broad base of experience on which to base a definitive analysis.

PRINCIPAL LESSONS LEARNED

1. There are four important conditions for successful A.I.D. assistance to HCG privatization programs: HCGs must be committed to pursuing privatization; Missions must establish a good working relationship with the HCG bureaucracies; the Missions and their HCGs must be able to identify the timing and quality of their resource needs; and they must be able to manage those resources to get the results they expect.

2. The mixture of buy-in assignments with a core-funded set of activities can create conflicting objectives (financial incentives versus technical goals) for the contractor, which can in turn dilute the overall impact of the project. Clear definition of objectives is required to delineate the roles of the members of the core staff and to specify the purpose and role of the buy-ins.

3. Centrally funded contracts comprising a buy-in mechanism and core funding can provide Missions with flexibility to explore and introduce controversial new subjects, like privatization.

4. Awareness-building and the establishment of a process for implementing privatization with a HCG always take longer to develop than anticipated. Legal barriers must be removed, champions must be developed, and a transparent implementation process must be established.

5. Host countries should participate in the technical assistance when studying sensitive issues involved in privatization implementation, such as valuation, to promote HCG acceptance of the sensitive and often controversial results of these studies.

PRINCIPAL RECOMMENDATIONS FOR FUTURE PRE WORK IN PRIVATIZATION

1. A.I.D. should continue to promote privatization worldwide.

2. A.I.D. should continue to analyze the privatization process and A.I.D.'s interacting components to determine its comparative advantage for assisting privatization. As A.I.D. gains further experience in privatization, it must determine whether its scarce resources should go towards implementation of selected privatization transactions -- presumably in countries where conditions are conducive to A.I.D. playing such a role -- or focus on synthesizing the results of past privatization experiences and providing a stream of new ideas to advance the state of the art.

3. To provide continued information to achieve recommendation number two, the evaluation team further recommends that A.I.D./W should focus resources on:

- Providing a clearing house of information on privatization;
- Providing preliminary advisory and strategy design assistance to HCGs through the A.I.D. Missions; and
- Synthesizing privatization experience into state of the art papers that thoroughly, and impartially, analyze the effects, (dis)advantages, and processes for privatization, which go beyond the "how-to" stage reached by the CFP, and conducting some applied research.

4. A.I.D. should continue to promote Mission-funded experimentation with the various implementation steps for carefully selected privatization transactions that reflect the conditions for success stated above. Use of a buy-in mechanism is recommended but must be carefully managed to ensure that the buy-in activities complement, rather than dilute, core objectives.

5. Privatization is becoming a more common activity in development and more privatization expertise is now available. A.I.D. should promote and encourage extensive competition in the supply of privatization services from a wide array of private businesses, beyond those holding the PRE contract.

PART I

INTRODUCTION

PROJECT BACKGROUND

In September 1985, the Bureau for Private Enterprise (PRE) awarded the Divestiture and Privatization Project (contract #DPE-0008-C-00-5085-00) to a consortium headed by Analysis Group Incorporated (AGI), now called Scientex. The major objective, outlined in its scope of work (Appendix 1), is to promote privatization and develop A.I.D.'s capacity "to respond to requests from host governments and the indigenous private sector to promote the concepts of divestiture and privatization." In particular, the project was to:

- Generate policy dialogue on privatization in developing countries; and
- Provide high-quality experts and consultants on a timely basis to assist countries in advancing from dialogue to implementation.

PRE expected the project to also provide it with a "learn-by-doing" lesson on privatization. It expected to manage the project using Scientex and its subcontractors as resources to help it explore ways of promoting privatization and help Missions get involved in privatization activities. Hence, PRE retained management of a major output of the project -- technical assistance -- for itself. (See the discussion on the logical framework in Appendix 2.) PRE did not assign measurable indicators of goal achievement, such as number of privatizations, or measurable indicators of the impact the project would have on host country government (HCG) privatization programs; it only specified a level of effort for the inputs to the project.

The project originally had a two-year contract through the Small Business Administration 8(a) program, funded with \$2.9 million. This has since been amended to extend the termination date to June 1990 with total authorized funding of \$22.8 million, of which \$9.7 million is core funding. Through September 1989, the project had worked in 49 countries, and had provided assistance to PRE to actively promote privatization through seminars, conferences, multilateral dialogue, and development and dissemination of information.

Scientex established offices and provided the core staff which became known as The Center for Privatization (CFP), the common name for the project. The complicated structure of the Scientex consortium and the eventful history of the project necessitate that a distinction be made between the CFP and the project. The CFP is an institution created by the project's core staff, who were hired by Scientex to help PRE manage the project. The project represents the framework to provide and manage the A.I.D./PRE assistance in the field of privatization. Besides the CFP, the project's inputs include the resources of the subcontractors and prime contractor, the buy-in mechanism, and the core funding.

Scientex initially subcontracted with five companies, later adding a sixth, to assist them in providing specialized expertise to the project: Ernst and Young (EY); Equity Expansion International, Inc. (EEI); International Phoenix Corporation; The Aries Group; Ferris, Baker Watts Incorporated; and Public Administration Service (PAS). The subcontractors serve as the major suppliers for technical assistance resources to PRE and Missions.

The project relates to many different actors: Scientex, the CFP, the subcontractors, PRE, A.I.D. Missions, and the host country governments. This provides a very complex environment for the implementation of the project. The interrelationships which developed among these different actors and the roles each has played have significantly affected the success of the project. Appendix 3 provides a more comprehensive definition of each of the actors' background, roles, and responsibilities.

EVALUATION PURPOSE AND METHODOLOGY

The purpose of this end-of-project evaluation was officially "to assess the effectiveness, efficiency, and impact of [Scientex] in fulfilling the objectives of the contract."¹ However, A.I.D. managers expressed interest in a more general evaluation of the effectiveness of the project. The results of the evaluation will help provide PRE with insights on its privatization experience and on the kind of services it will require of future contractors bidding on the follow-on contract.

The evaluation was carried out by a two-person team, William Grant and Micheline Mescher from Development Alternatives, Inc., between September and December 1989. The major focus of the evaluation was on the effectiveness of the project in reaching the expected outputs and meeting its objectives; efficiency and management issues; and the impact and sustainability of the activities.

The team based its findings and conclusions on information gathered from interviews with project personnel, representatives of the prime contractor and subcontractors, consultants, officials in A.I.D./Washington, and representatives from other donor agencies; reports produced under the project; field visits to Tunisia, Egypt, Jordan, and Honduras;² and responses from a worldwide cable to A.I.D. Missions requesting their comments.

The methodology included:

- Performing an issue analysis at the beginning to guide the evaluators in their research (Appendix 5);
- Designing two questionnaires and an interview guide to a) poll the A.I.D. Missions worldwide, b) structure the interviews with the subcontractors, and c) measure the reactions of Mission personnel, consultants, and government officials in the four countries visited to the project and the CFP (see Appendix 6 for the questionnaires and the responses they provoked); and
- Building a structure to guide the written report (Appendix 9).

DEFINITION OF PRIVATIZATION

A.I.D. formally defines privatization in Policy Determination 14, (PD-14: Implementing A.I.D. Privatization Objectives) as "the transfer of a function, activity, or

¹ Scope of work of the evaluation. (See Appendix 4.)

² PRE selected the countries for the field visits based on the extent to which the Missions made use of the project's resources and the varying levels of project's perceived impact in these countries.

organization from the public to the private sector." It also defines the range of forms privatization can take, "some of which involve change of ownership status and transfer of decision-making authority from the public to the private sector (complete or partial divestiture) while others entail only the transfer of decision-making authority (contracting out and partial privatization)."³

A.I.D.'s policy on providing assistance to parastatals is "to be given in the context of exposing the parastatal to market forces and scheduled divestiture of the government interest . . . A.I.D. projects designed to improve parastatal performance must have identifiable benchmarks upon which substantive progress towards divestiture can be measured."⁴

This definition of privatization is interpreted differently by the various actors in the field. PRE focuses on achieving divestiture as the major output, with minimal preparation of companies beforehand. The Missions' positions reflect an approach which is tempered by their desire, and need, to respect local circumstances and HCG wishes. The CFP adopts a middle ground, respecting the conditions under which the Missions must operate but heavily lobbying for PRE's penchant for divestiture. All of these interpretations are in accordance with the general guidelines laid out in PD-14. Appendix 14 discusses the process of privatization and the varying roles that A.I.D. can play in its implementation.

STRUCTURE OF THE EVALUATION

The project has initiated an important new line of assistance to developing countries. The project has successfully promoted and increased general awareness of privatization. While it has had mixed results in its implementation efforts, the project has provided much insight into the importance of the actors -- HCGs, donor agencies, and the private sector -- and their relationships and the conditions necessary for the projects' success. The project should be regarded as providing valuable experience for future work in this field.

The analysis substantiating this main conclusion is presented in the main body of the report. In Part Two the CFP's assistance to PRE and the results in promoting privatization are analyzed. Part Three is the most complex section of the report. In it, the project's results in providing assistance to Missions and HCGs in the design and implementation of privatization activities is reviewed. An analysis is presented of the assistance provided by the project, the role of Missions and HCGs in the process, and the influence of the CFP's role on the effectiveness of the project. The conclusions, the lessons learned, and the recommendations for PRE's follow-on activities in the field of privatization are presented in Part Four.

Some important analyses, on which the findings of the main report are based, have been relegated to appendices in order to present a succinct, readable report. The substantive appendices include the construction of a logical framework for the project (Appendix 2), the questionnaires and the responses they provoked (Appendix 6), the evaluation's overviews of findings from the four country field visits (Appendix 7), the financial analyses of the Scientex contract's cost effectiveness and the impact of the contract on Scientex, including the sustainability of the CFP (Appendix 8), and an

³ Agency for International Development, *Policy Determination No. 14: Implementing AID Privatization Objectives*, Washington, D.C., June 16, 1986, pp. 2 and 6.

⁴ Agency for International Development, *AID Policy Paper: Private Enterprise Development*, Washington, D.C., March 1985, p. 15.

analysis of the various roles PRE and missions can play to support HCG privatization efforts (Appendix 14).

PART II

SUCCESSFUL PROMOTION OF PRIVATIZATION

One of the major accomplishments of the project has been the successful achievement of two of its principal purposes: promoting privatization and building awareness and stimulating dialogue on the subject around the world. At the inception of the project, little was known about the substantive issues of privatization and its implementation. Today, privatization is better understood and people are becoming more aware of the issues surrounding the subject.

To successfully promote privatization, the project had to first identify its clients, attract their attention, and then produce a set of products which responded to their needs. Skillful use of the project's core funding leveraged the skills and capabilities of the CFP's core staff to help implement many successful promotional activities.

The principal targets of promotion and awareness-building are the A.I.D. Missions and HCGs. The HCGs are the focal point of the privatization activity, while the Missions control the budgetary and programmatic process within A.I.D. and sponsor project activities in their countries. The A.I.D. Regional Bureaus are also targets because they serve as the principal A.I.D./W contact with the Missions. In addition, multilateral donor agencies are important targets because they have close links to HCGs.

The CFP successfully established itself as the major resource and focal point within A.I.D. on privatization. This part of the evaluation describes how the CFP used core funds to experiment with, and develop, a series of tools to promote privatization and to build awareness in developing countries, A.I.D., and other donor agencies. The CFP has made very positive and successful strides in reaching A.I.D. Missions, and enhancing their level of awareness of privatization, although it might have been able to perform some of these activities more efficiently with better planning.

CREATION OF THE CENTER

Creating a Center for Privatization was a very successful organizational move on the part of the project core team. It was not called for in the RFP, nor considered in the proposal submitted by the winning consortium, but was conceived by the head of the core team shortly after the project was awarded. The CFP conveyed the impression of an institution with focused skills and experience on privatization, even though it did not have much actual experience when the project first began. The existence of such a "center" attracted much attention from the A.I.D. Missions around the world that were in need of assistance on this subject due to the promulgation of A.I.D./W (PD-14). For Missions with little knowledge on the subject of privatization, to call on the center for guidance on the subject was the logical thing to do. Thus the CFP became a useful promotional tool for the awareness-building process.

TRAINING SEMINARS

The CFP investigated training needs and possibilities by experimenting with a series of seminars aimed at host country government officials. This surpassed the requirements of its statement of work (SOW), which simply stated that it investigate the need for training.

The CFP's activities have resulted in developing expertise in privatization seminars and helping two firms spin off and run their own privatization seminars. The CFP contracted with the International Management Group (IMG), which had already run training seminars on privatization, to update their curriculum, develop new training materials, produce a finished technical manual, and run three seminars for HCG officials. Though they were paid a fixed fee of \$50,000⁵ to develop and modify the curriculum, IMG bore the risk on the actual implementation of the seminars. All three seminars were well attended and IMG made a profit. IMG has subsequently run independent privatization programs both in English and in French.

In September of 1989, the CFP enlisted the collaboration of a new training firm, the International Development Training Institute (IDTI) to run a seminar with greater participant interaction, focused at high-level government officials. The project leveraged A.I.D. core funding with equal investments from PAS, EY, and IDTI. The seminars involved multilateral support, as teams were sponsored by A.I.D., the United Nations Development Programme (UNDP), and the World Bank (IBRD), and the core funds were leveraged by Mission and other donor funding.

The response to the seminars from the field was quite positive. Missions found the seminars useful and HCG officials were very impressed by all aspects of the seminars. The seminars have become the main awareness-building tools available to, and used by, the Missions. In fact, the Egypt Mission contracted IMG⁶ to run a local seminar for Egyptian officials. The CFP's status as part of an A.I.D. project helped promote the seminars because it was able to use A.I.D.'s official channels to advertise the seminars to the Missions.

In sum, the CFP surpassed the task as laid out in its SOW. A total of about 150 HCG participants, mostly senior-level government officials, received training directly under the auspices of the project and more will benefit indirectly from the course development as the seminar implementers, IMG and IDTI, continue to run them.

Therefore, training seminars were used as an effective tool by the CFP. Through them, it leveraged its use of core funds, initiated multilateral collaboration, and developed a good product for successful promotion of privatization.

⁵ There is justified criticism that the manual represents primarily an organized compilation of CFP documents and was not worth \$50,000, particularly since IMG made a profit on the seminars.

⁶ The Egypt Mission did not ask the CFP to participate because they felt that the CFP would have added little value for the additional cost, since the CFP had not been the actual organizer of seminars but simply a facilitator.

INTERNATIONAL DIALOGUE AND NETWORKING

Very few formal channels of discussion exist to explore privatization issues or to bring interested parties together. The political sensitivities in the multilateral donor system make it difficult for a single project or member country to take a leadership role to establish a forum for dialogue. Faced with this problem, the CFP has developed tools to enhance multilateral donor dialogue, varying from organizing informal gatherings to providing technical assistance to United Nations agencies.

The CFP organized a series of eight half-day dialogues over the past four years (See Appendix 10.) These brought together an average of 30-35 practitioners in the field of privatization from A.I.D., the IBRD, the International Finance Corporation (IFC), and consultants to discuss specific privatization experiences. Although participants thought this was a useful mechanism in bringing together experts, the CFP has not been consistent in sponsoring the dialogues. There has only been one dialogue held in the past 18 months.

The CFP has carried on a bilateral dialogue directly with the IBRD relevant to privatization activities in many countries. Since the IBRD has taken the lead role in privatization activities in most developing countries and is willing to devote greater financial resources towards it, close collaboration is essential to promote A.I.D.'s agenda. In the case of Tunisia, there has been good coordination and collaboration between the CFP and the IBRD to assist the Government of Tunisia's program (see Appendix 7C). In the case of Egypt, the government has not focused on or directed a privatization program, so the collaboration has been weak.

The CFP and A.I.D. have collaborated with the UNDP to organize multinational conferences. This leveraged A.I.D. input: with the UNDP's funding, its credibility, its HCG contacts, and its network of offices around the world. Based on the experience developed over the past four years, the CFP has been a major tool used by UNIDO to help stimulate internal discussion and to design a privatization strategy so that UNIDO can respond to the rapid changes taking place in Eastern Europe.

In addition to multilateral donor dialogue, the CFP has provided many Missions and A.I.D. in Washington with links to senior officials in private banks and companies, host country governments, and leading practitioners around the world. These contacts have greatly enhanced the overall development of the privatization program. In Egypt, for example, the CFP's principal consultant to the A.I.D. Mission was able, through his prior experience and personal contacts, to open doors and introduce Mission staff to important local actors in privatization. In many other instances, the CFP has provided important networking functions for A.I.D.

Multilateral dialogue is difficult to initiate, but the CFP has developed tools to facilitate it and has succeeded in developing an extensive network of contacts. Its role as a lead organization for A.I.D. has led directly to increased collaboration among the donors in privatization.

INFORMATION DEVELOPMENT AND DISSEMINATION

Part of awareness-building and promotion is access to information, experience, and case studies on privatization. In addition to the library of reports from country-specific assignments performed by the CFP, the CFP has produced 25 occasional papers on a variety of subjects related to privatization. (See Appendix 11.) The CFP also produces useful, regularly updated material: a privatization database which inventories privatization

activities worldwide, and an **Alumni Update** newsletter which it sends to participants of its seminars informing them of new papers, with excerpts on successful projects.

The CFP responds to requests from Missions for specific information on privatization, pulling together articles and its own reports. While the CFP has developed a good library of privatization materials, the dissemination service tends to duplicate what the Center for Development Information and Evaluation (CDIE) does. Though the CFP is supposedly more specialized in privatization, representatives of Egypt and Jordan preferred the materials from CDIE, claiming the materials were both more timely and balanced. They critiqued the material supplied by the CFP as not being impartial in the privatization debate, playing up only the positive aspects. The imbalanced presentation of privatization issues by the CFP discounted the value of the materials.

While the CFP is gradually developing its library of internally produced documents, these focus on definitions and general discussions of privatization. There are not enough practical papers targeted towards advanced practitioners. They also rarely delve into the deeper issues of privatization requiring applied research and the development of new techniques, nor do they provide an objective discussion of its merits. The CFP's work has not been focused on research, reflecting the preference of top PRE managers who favored "hands on" practice rather than research. One measure of the CFP's lack of visibility and input in the mainstream debate on privatization is that not a single CFP document was even cited in the May 1989 issue of *World Development* which was entirely devoted to the subject of privatization.⁷

The SOW states that the CFP should produce two high-quality papers per year which "distill experience in selected, important aspects of privatization and integrate them into observations and guidelines." The intent of the task was to provide "analyses . . . useful to privatization practitioners and/or governments wishing to privatize." The CFP counts the major documents prepared to fulfill the other tasks under the SOW⁸ (all of which are still in draft) as fulfillment of this research task. While the documents are technically sound, their focus is on the early stages of privatization, and less on distilling lessons learned in the field by CFP privatization practitioners (such as long-term advisers). The upcoming book by L. Gray Cowan, *Privatization in Developing Countries*, funded through a buy-in from PPC, will be the first major document to provide a synthesis of experiences and lessons learned.

The major reports produced by the CFP and its subcontractors such as the marketing handbook, the conference manual, and the strategy guidelines are of high quality. They are technically sound, but present most issues from a distinct pro-privatization perspective and are very general. Many drafts have been circulated for comment, but none are yet in their final form. Several of the occasional papers distributed by the CFP are simply excerpts from other reports. These have not been edited or reformatted. Other papers are rather superficial, hurriedly prepared as discussion pieces, and not of publishable quality (either technically or stylistically). (See Appendix 11 for a detailed bibliography of the papers the CFP is using as fulfillment of its research task, Task 4.)

A problem facing the CFP in the research task is that the CFP's core staff have general backgrounds with no actual implementation experience. While the core staff is conversant with the subject, the real technical expertise lies in the practitioners who are implementing the programs or with the technicians working for the subcontractors

⁷ *World Development*, Vol. 17, no. 5, 1989. Published by Pergamon Press, Great Britain.

⁸ *The Manual for Privatization Conferences*, the *Country Privatization Strategy Guidelines*, and the *Privatization Marketing Handbook*.

involved with implementation. The most useful implementation manuals⁹ and the case study on Honduras have been prepared by the subcontractors' staff because this is where the technical expertise lies. This means that the CFP staff must serve the role of intermediary to the real technicians for synthesizing lessons learned, something the CFP is just coming to terms with.

CONFERENCE ORGANIZATION

The CFP has participated widely in conferences to provide insights into its SOW task requiring the preparation of a strategy for advancing privatization through conferences. Using core funding, the CFP has played both a facilitating and supporting role to local organizations in conference organization. Based on its experience, the CFP has published a manual on how to organize a conference on privatization.

Given the political nature of privatization, conferences must be locally sponsored for maximum effectiveness. A CFP consultant promoted the idea of holding a Middle East Conference series and identified and introduced the different sponsors to one another (a Turkish bank, an Egyptian development bank, and the Jordanian Stock Exchange). He helped plan the first conference in the series, held in Istanbul in December 1988. The Istanbul conference was well attended and participants found it very informative. However, many participants were surprised at how few cases of privatization had actually been accomplished in neighboring countries and the shortage of relevant examples from which to learn. The subjects for the second and third conferences in the series have not yet been determined, and the sponsoring agencies (in Egypt and Jordan) have not organized the follow-on conferences.

The CFP served as a ready resource for the Tunisia Mission. It provided speakers and advice to help the HCG organize its first two conferences on privatization. The third conference was organized by the CFP's long-term advisor, once again receiving CFP assistance to contract speakers. Each conference was on a different subject with clearly defined agendas which built on the preceding conferences.

In addition, the CFP recently provided assistance to help the Government of Uganda organize and evaluate a privatization conference. The project has also provided speakers to conferences in Thailand, Morocco, and the Philippines, as well as support to aborted conferences in Honduras and Pakistan. In Costa Rica, the CFP was asked to provide support to a conference and promised to follow-up, but failed to do so. The Mission eventually got its assistance elsewhere.

The project, with virtually no participation from the CFP, organized a regional conference in Fiji. This was not analyzed by the team, but the mid-term evaluation highlighted the difficulties involved in playing the major organizational role for an overseas conference.

The conference manual developed by PAS for the CFP provides guidance on how to use privatization conferences in awareness-building, but does not outline a strategy for advancing privatization through conferences, covering the issues detailed in the terms of reference. While the manual provides some excellent insights into the important roles of the different actors and sensitive privatization issues, the majority of the document is generic to conference organization and evaluation.

⁹ *Privatization Marketing Handbook*, and the *Privatization Conference Scope Definition Paper*.

PUBLIC RELATIONS

The SOW includes a task to "develop a plan for broad dissemination of information about the Agency's objectives and activities." The CFP staff has gone beyond developing a plan and has taken good advantage of opportunities in Washington and at conferences abroad to promote privatization and expand its network of contacts. The CFP staff has met with Mission directors, private sector officers, and HCG officials in Washington on official business or during spare moments in seminars and conferences to discuss Mission and HCG needs and opportunities for privatization in their countries.

Many of the HCG officials whom the evaluators visited had attended a CFP-sponsored seminar. They were impressed and, in the case of Egypt's Principal Bank for Development and Agricultural Credit (PBDAC) managers, this contact led to the CFP's selection to perform the large PBDAC privatization study. The seminars have allowed the CFP to both increase its exposure and promote privatization as well as to give HCG personnel a greater opportunity to discuss particular situations in their countries.

Given the decentralized nature of Mission program development within A.I.D., the important role played by HCGs in the privatization process, and the specifics of each country's needs, the project needed to establish direct contact with Missions to be able to identify opportunities in each country. Due to a variety of factors, including the CFP's early inability to program and justify marketing trips mixed with a reluctance on the part of PRE to let CFP staff take marketing trips, the CFP was severely limited in its access to Mission and HCG personnel for sensitization meetings. Therefore, the CFP's comparative advantage for marketing to Missions and HCG personnel was in Washington, though it also took advantage of participation in conferences in the Philippines, Tunisia, Thailand, and Istanbul to perform valuable in-country marketing leading to follow-on work.

In addition to meeting with Mission and HCG officials in Washington, the CFP staff initiated contact with the Private Sector Offices of the Regional Bureaus and other central bureaus. Contacts for general privatization strategy design were infrequent with the Latin America and Caribbean and Africa Bureaus (both of which have significant private sector offices), but the CFP has collaborated closely with the Asia Near East¹⁰ (ANE) and the Program and Policy Coordination (PPC) Bureaus. There was consensus that the CFP needs to have more substantive interaction with the bureaus, needs to understand what drives the Mission strategies, and needs to determine the proper role it should play in helping Missions develop their privatization strategies.

¹⁰ The ANE private sector office is very new, but it has been collaborating closely on the new opportunities which are opening up in Eastern Europe. These are not handled by Missions, but through the ANE Bureau.

RECONNAISSANCE MISSIONS AND OTHER COUNTRY-BASED ASSIGNMENTS

Most of the assignments carried out by the CFP have played a very important awareness-building and promotional role within the host countries and for the Mission staff. Given the paucity of information on privatization available in general, and in developing countries in particular, the CFP developed the concept of a reconnaissance mission to survey the country-specific opportunities for privatization and develop more focused scopes of work for further interventions. The early visits by CFP teams on core-funded reconnaissance missions served multiple uses: they provided specific analyses of existing HCG activities, opportunities for intervention, and a resource for HCG and Mission personnel to consult on privatization experiences worldwide.

The CFP has carried out assignments in 49 countries, ranging from a two-day reconnaissance mission in Cameroon to long-term project implementation in Honduras. These have all had some promotional elements to them and almost all have helped to further the awareness of privatization in those countries. In Jordan, the Mission has distributed copies of all reports to the Government of Jordan (GOJ), whose personnel now say that the reports constitute the major part of their base of information. In Egypt, the Mission has relied on one CFP consultant as its principal source of information and link to the HCG. In particular, visits to various Missions by a small core of seasoned privatization experts have been considered particularly useful, not simply to perform the specific task for which they were commissioned.

In summary, the CFP experimented with and developed a variety of activities to help PRE to promote privatization around the world. It successfully identified means of interacting with the other donors, reaching out to HCG officials, and building awareness of privatization within A.I.D. The most effective activities were the seminars, which brought together a nucleus of officials interested in the subject and pleased to have the occasion to interact with officials from other countries. The weakest elements of the CFP's promotional efforts were the documents produced and distributed by the CFP; they have not yet captured the lessons learned through its privatization experiences in an unbiased and effective way for use by practitioners in the field.

Implementing privatization is a slow and gradual process. The effects of the awareness-building and promotional phase have been primarily on attitudes of government officials. While there is little direct impact, measured in actual divestitures, which can be attributed to those efforts, the groundwork has been laid in many countries to begin to design sound privatization programs.

PART III

MIXED RESULTS IN IMPLEMENTATION

The project had less success in helping Missions assist their HCGs to design and implement their privatization programs than it had in privatization promotion and awareness-building. The project's core funding and buy-in mechanism were very successful in providing Missions with access to a wide range of technical resources, of which the Missions made extensive use. However, the full measure of these resources' potential value to the Missions and their host governments was not realized.

The project operated in a complex environment and with a complex structure, both of which made it difficult to help Missions implement privatization programs. The political sensitivity of privatization -- both in the United States and abroad -- and the worldwide scope of the project compounded the difficulties caused by the complexity of the consortium that provided and managed project resources. The mixed success of the project in assisting Missions is attributed to two particular sets of relationships that had a significant impact on the project's effectiveness:

- The interaction between the project's resources and those of the Missions and their HCGs was very important to the success of the project. However, the Missions and the HCGs each had their own agendas and constraints which directly affected the use of project resources, and over which the project had limited control.
- The nature of the interaction among the prime contractor (Scientex), its project management staff (the CFP), the subcontractors, and PRE constrained the effectiveness of the project. Optimal interaction among these actors was prevented by the CFP's increasing independence from Scientex and the expansion of its role to provide privatization services from a weak institutional base. This led to difficulties in the CFP's relationships with all of the other actors, which affected the efficient use of the resources the project provided to the Missions.

The first section below demonstrates the project's success in providing a wide range of resources to the Missions. The next section analyzes the impact of the Missions and HCGs on project effectiveness. In the final section, the discussion centers around internal management issues surrounding the CFP's expanded role and its influence on the project's effectiveness.

SUCCESS IN PROVIDING RESOURCES

Missions are the critical link to the support A.I.D. provides to HCGs and are, hence, the major target group for the project. The role the Missions play vis-a-vis the HCGs is dependent on the Missions' ability to access appropriate resources to implement their assistance programs.

The range of options of a Mission in providing assistance to its HCG in the area of privatization includes (1) performing an initial reconnaissance study and a general diagnosis of the privatization situation; (2) developing a privatization strategy; (3) assisting with awareness-building exercises; (4) assisting HCG to enact proper regulatory and administrative procedures to implement privatization; (5) evaluating specific companies; and (6) bringing buyers and sellers together to conclude the sale. Appendix 14 reviews the different elements involved in developing a privatization program in greater detail.

The project provided three major inputs to help Missions access these resources: **financial assistance** through the core funds; **ease of contracting** through the buy-in mechanism; and the **resource network and management organization**, obtained through the contract with the Scientex consortium. These inputs succeeded in making available a wide variety of resources from the subcontractors' networks. The Missions considered the project to be useful because these three inputs, discussed below, provided them with a variety of technical resources to which they may not otherwise have had access.

The Popularity of the Mechanisms

The core funding was extremely attractive to the Missions because it increased their programming flexibility through easy and rapid access to funds and technical assistance. Most Mission funds are tied up for specific purposes and their expenditure usually involves the approval of the host government. Privatization, a new field of interest, involved funding some innovative activities which Missions found difficult to justify to the host governments, such as reconnaissance missions and consultancies that involved Mission strategy design. The core funding gave the Missions "more degrees of freedom to encourage different approaches . . . and to provide the government results of a new direction."¹²

Mission officers in Tunisia, Egypt, Jordan, and Honduras found the buy-in mechanism to be a useful tool to access resources; it relieved them of many of the bureaucratic delays inherent in competitive procurement. However, the Mission staff pointed out that the buy-in mechanism is only as good as the services it enables the Missions to access. Therefore, the mechanism's usefulness is not independent of the quality of services and resources the project provides.

Out of seven Mission officers interviewed, three were very satisfied with the way the buy-in mechanism worked, two were satisfied, and two were dissatisfied. The dissatisfaction came about because, in these two cases, the A.I.D. contracting office as well as the Missions' own systems had caused some major delays that affected implementation. (See Appendix 6A.)

The Wide Variety and Extensive Arsenal of Resources Made Available to the Missions

The project, through the extensive network of the subcontractors and the CFP, provided the Missions with a large variety of resources which, as one Mission officer put it, "enlarged the Mission's reach."

The project provided a wide variety of technical resources to more than 45 Missions in 49 countries.¹³ This demand for the project's resources, both short- and long-term technical assistance, can be used as one measure of the project's success in marketing and providing assistance, through PRE, to the field. It greatly enlarged the Missions' capacity to work on privatization by allowing them access to personnel with skills which are not commonly used in A.I.D. activities and are difficult for Missions to access: industry-specific valuation experts, investment bankers, stock exchange experts, and privatization experts. Table 1 on the following page, provides an overview of the range of different services provided to Missions.

¹² See Appendix 4, Table 2 for more comments by Mission officers on the buy-in mechanism and core funding.

¹³ A.I.D. does not have Missions in all of these 49 countries, but some of the work was done for regional bureaus or regional offices.

TABLE 1
COUNTRY ACTIVITY LIST 1986-1988

COUNTRY	TYPE OF ASSIGNMENT			Type of Enterprise
	Conference, Study or Training	Reconnaissance and Strategy Development	Enterprise Analysis	
Bangladesh	x	x	x	Fertilizer inputs
Belize			x	Banana Lands
Bolivia		x	x	Fishery
Cameroon		x		
Chile	x	x		
Colombia	x			
Cost Rica	x			
Dom. Republic			x	Solid Waste Collection
			x	Electric Company
Ecuador		x		Dev. Bank Holdings (CFN)
			x	Hotel, Cement (IESS)
Egypt	(x)	x	x	Dev. Bank Ag. Inputs
			x	Tire Mfg. (ESOP)
Fiji	x			
Gambia		x		Produce Marketing Board
			x	Sawmill
			x	Agri. Mechanization
Grenada			x	Banks; Power Company
Guatemala			x	Telephone Company
Guinea-Conakry		x		Agribusiness
Honduras		x	x	Cement; Dairy; Food
			x	Proc.; Furniture; Sugar;
			x	Hotels; Lumber; Paper;
			x	Steel; Textiles
India		x		
Indonesia	x	(x)		Telecommunications
Ivory Coast			x	Seed Farms
Jordan	x	x	x	Airline
			x	Public Transport System
			x	Telecommunications Co.
Kenya			x	Bank
Kiribati		x		Services: Transp; Hotel
Liberia			x	Sugar Mill
Malawi	(x)			
Mauritania		x		
Morocco	x			
Mozambique		x		
Nigeria	x			
Pakistan		x		
Panama		x		
Papua N. Guinea			x	Insur. Company; Others
Peru		x		
Philippines	x	x	x	Cotton Gins; Dairy; Stores
			(x)	Cooper Smelter
Portugal		x		
Rwanda		x		
Senegal		x	x	Truck Farm
Somalia			x	Fish Processing Plant
Sri Lanka			x	Food Extrusion Plant
Swaziland			x	
Tanzania		x		
Thailand	x	x		
Tunisia	x	x		
Turkey	x		x	Agricultural Coop.
Uganda	(x)		x	Cust. Board Properties
Zaire		x		
Zimbabwe		x		

() Indicates pending assignment

Source: Center for Privatization

February 20, 1989

The CFP was a demand-driven organization, responding to all requests for assistance from the field. With no information in Washington on the likelihood of successful privatization opportunities in the field and without a clear strategy for identifying countries which had the greatest likelihood for producing successful results, the CFP could not apply discretion to most assignments it undertook. In addition, it was in PRE's strategic interests, as well as in the contractors' financial interests, to respond to all requests. In at least one recent case, however, the project officer made the CFP apply some discretion, and not follow-up on an unrealistic Mission request for assistance to privatize a parastatal in Liberia. The substantial time and energies devoted to fielding and managing these teams distracted the core staff from other core tasks outlined under the SOW.

Short-term Technical Assistance

The project performed 71 short-term assignments costing more than \$4 million in core and buy-in funds. The majority of the consultants were provided through the subcontractors, using the CFP primarily as an intermediary to handle the backstopping. Over the first 39 months of the project, the CFP and AGI supplied only 80 out of 344 consultants to the field, or less than 25 percent. The short-term technical assistance component has been involved in only a few successful privatization transactions, including the sale of some banana plantations to small farmers in Belize and the nearly completed employee stock ownership plan (ESOP) in Egypt.

The project spent \$2.27 million on core-funded technical assistance to Missions, fielding more than 100 consultants to 37 countries. In general they focused on reconnaissance missions that analyzed the prospects for a privatization program and designed a preliminary privatization strategy; company-specific analyses; and speaker participation in conferences and seminars sponsored at the country-wide and regional levels. In Honduras, the design team for the long-term implementation project was funded with \$300,000 of core funds. Core funding was also used to complete assignments begun under a buy-in, for damage control on poorly done studies, or to write follow-up case studies.

There were 31 short-term buy-ins from 18 different countries and four regional bureaus and offices. These have covered a range of different activities, focusing primarily on strategy development and company specific analyses, but also including three project designs and two evaluations of existing projects. In 16 of the countries, the short-term buy-ins were preceded by core-funded assignments.

The CFP and its subcontractors were able to locate many highly qualified technicians to respond to a myriad of specific requests. These experts came from many sources with diverse and specialized backgrounds including airline industry analysts from the Federal Aviation Board; senior managers from major U.S. companies such as MCI; investment bankers from First Boston; leading experts on ESOPs; stock exchange analysts from the New York Stock Exchange; industry-specific valuation experts for lumber mills, cement plants, dairy mills, and others; several general privatization experts with practical hands-on experiences in many countries; and transport company analysts.

Long-term Buy-ins

There have been three long-term buy-ins¹⁴ under the contract to provide services to the Governments of Honduras (GOH), Bolivia (GOB), and Tunisia (GOT). The

⁴ The Philippines has just signed on for a large buy-in to be used over a long period of time, but it has not yet received any assistance under it.

Honduras and Tunisia projects are ongoing, with a total of 21 privatization transactions to date and many more in the pipeline. (See Appendix 7 for the evaluation team's field reports.) Bolivia's buy-in project never got fully off of the ground, primarily due to the lack of HCG commitment to the process, and to its lack of involvement with A.I.D. Under these three projects, the CFP has filled more than 50 task orders providing a range of long- and short-term technical assistance worth more than \$2.5 million.

THE INFLUENCE OF MISSIONS AND HOST GOVERNMENTS ON PROJECT EFFECTIVENESS

The Nature of Mission and Host Government Interaction with the Project

The project is integrally linked to the Missions and HCGs in designing and implementing privatization programs. The project does not get involved until it is requested to do so by the Mission and cannot operate alone. Its relationship with the Mission is extremely important to the effectiveness of the resources it makes available in the process. That relationship evolves as the privatization program takes shape and all the players become better informed. Respecting the nature of this evolving relationship is critical to the project's ability to support Mission and HCG programs.

The CFP often takes the initial leadership role at the Mission's request, providing a reconnaissance mission or just advice to help clarify and focus the Mission's thinking. As the Mission and the HCG become more knowledgeable, they prefer to manage their own programs, identifying and requesting resources from PRE and the CFP, and refusing to have ideas and people imposed on them. For example, comments from both the Jordan and Egypt Missions reflect that, in the beginning of their programs, they looked to the CFP to guide them, but they rapidly learned that they knew as much about their particular circumstances relating to privatization as did the CFP. At that point, the nature of the services the CFP was called on to deliver had to change.

This tripartite involvement of the Mission, the HCG, and the project in privatization programs means that **some conditions are necessary for the project's success:** (1) the Mission and its HCG must establish a close working relationship relating to privatization policy; (2) both the Mission and HCG must create a process which provides the legal basis and institutional capacity to implement privatization; (3) the Mission and HCG must understand and communicate clearly the resources they need and how they will be managed; (4) they must be willing to take an active part in managing the resources made available through the project; and (5) the CFP must maintain good working relationships with the Mission.

As the process moves further along towards achieving actual divestiture, the Missions need in-house technical capability, either contracted or direct-hire, to provide managerial consistency and to maintain a steady dialogue with the HCG. Punctual interventions by outside consultants can rarely achieve the privatizations, though they can usually advance the process. If the Mission or the HCG are unable or unwilling to go forward, then the process ends, regardless of the work of the consultants. In cases where the necessary conditions discussed above were not met, the project's effectiveness was limited and the impact of the project is then nullified. The momentum created by CFP activities appears to be directly controlled by the capacity of the Mission or HCGs to pursue the subject.

This leads to the question of whether A.I.D. has a comparative advantage in supporting some phases of the privatization process over others. Given the critical role of the HCGs, technical and financial limitations in the Missions, and the existence of other actors in the process (donors or the private sector), the question arises of how

A.I.D. can best promote and develop privatization programs. This subject is discussed in Appendix 14.

Impact on the Effectiveness of the Project

The effectiveness of project assistance may be determined in different ways: whether the teams fulfilled their SOW or whether they accomplished what was "reasonably" attainable; whether the project's intervention resulted in an actual privatization or whether it simply played a role in "furthering" the privatization process; whether the Mission and HCG were satisfied with the work; or whether the work was well done from a technical point of view. The evaluation team used the most reasonable approach to measure the effectiveness of project assistance.

All four Missions visited in the course of this evaluation were satisfied with project results when the Missions had an important role in managing the activities of the consultants. In some cases, when the Missions had less managerial input in the consultancies, the results suffered and substantial revisions were required to meet the Missions' and host governments' approval. In cases in which the Missions closely monitored and supported the project activities, such as in Honduras and Tunisia, the programs have been extremely successful.

Short-term Assistance

Short-term assignments varied in quality and in usefulness to the Missions. The project was able to provide many excellent and technically qualified people to perform the needed studies. The simpler studies, reconnaissance missions and general overviews were usually well carried out and well received. However, as assignments became more technically specific and were further along in the actual privatization process, the CFP consultants could not always be counted on to fulfill their task without significant oversight and management from the Missions. This was a major complaint from the Missions in Egypt and Jordan.

Reconnaissance Missions

The majority of short-term assistance focused on overview analysis and awareness building. These are among the first steps in the process and are the most general. Therefore, they are the easiest to implement and the ones where the Mission was most receptive to the project's input. In general, responses from the Missions were very favorable regarding the content of the initial reconnaissance studies which highlighted critical issues and presented opportunities for intervention. In Zaire, the reconnaissance team provided an excellent overview of the privatization situation, though the Mission felt that the proposed strategy was not supported with enough analysis.

Company-Specific Analyses

The CFP recruited high caliber, industry-specific experts who performed good company-specific analyses (See Appendix 7A and 7B for the reports on Jordan and Egypt). However, the CFP encountered more difficulty providing acceptable consultancies analyzing the environmental and policy factors affecting privatization, because the industry specialists were not privatization specialists. This meant that the reports did not present the analyses necessary to support recommendations for privatization and the design of a good strategy -- for example, in the consultancies in Jordan for the Telecommunications Corporation, Royal Jordanian Airlines, and the Public Transport Company.

The project has had some notable successes in its short-term assignments. The ESOP project in Egypt has been very well received and is expected to be implemented shortly. The Mission, the Government of Egypt, and the CFP's team all collaborated closely to make this effort successful. In Belize, early in the project's life, a CFP consultant worked with the Government of Belize and the Mission to assist the Banana Board to privatize some of its holdings. The analysis and proposed strategy for the Jordan Electric Authority (JEA) was also considered to be successful. It was carried out in conjunction with the JEA managers and reinforced earlier analyses done by the IBRD and the Kuwait Development Fund. The JEA has used all these studies to build its case for privatization.

By contrast, the Principal Bank for Development and Agricultural Credit (PBDAC) privatization strategy design in Egypt, a \$600,000 buy-in, did not adequately cover issues which the PBDAC senior management considered important, reducing its overall impact. The Mission and several GOE officials believe that the report contributes some excellent preliminary technical analysis, but they also concur that it is not a complete privatization strategy. The PBDAC management's dissatisfaction with the presentation of the findings and the report's lack of conclusive analysis of the benefits stemming from privatization make it "useless"¹⁵ as a tool to promote the privatization of the Bank. The very broad and unrealistic requirements of the SOW and high expectations of PBDAC managers which could not be fulfilled created many of these difficulties, which should have been identified and defused early in the assignment.

In another case, the Mission in Jordan did not properly interpret the HCG position and poorly managed the process. Jordan's Amman Development Corporation chief executive officer sought autonomy through privatization, but the Board of Directors and the Minister of Planning were not in favor of privatization. The Government of Jordan (GOJ) had requested A.I.D. to provide a consultant for 30 days to analyze the company. At the Mission's request, the CFP fielded one consultant for five days to review the proposed SOW. His brief report recommended pursuing privatization and preparing a detailed company analysis and privatization action plan (requiring more than 200 person-days). The Mission submitted this report to the GOJ which officially rejected the recommendation to privatize because it was based on such superficial analysis. The Mission misread the GOJ position and should not have submitted the report at that time.

The evaluation team was unable to find any evidence of short-term activities to directly strengthen and improve parastatal performance. However, several of the assignments, particularly in Jordan, strongly recommended changing the internal systems of parastatals such as their accounting systems and changing their external policy environment, enabling the firms to respond to private sector requirements. The project has been involved in helping to install equipment in parastatals necessary for good monitoring and evaluation systems in Tunisia, to provide the GOT with valuable information to be used in implementing its program.

Designs

The CFP participated in four project designs: in Egypt, Honduras, Peru, and Ecuador. The project papers (PP) in Peru and Ecuador were never completed because local conditions were not appropriate for a privatization program at that time. In Egypt, the CFP was to provide a turn-key PP, handling all the annexes and writing of the document. Due to a poor team leader who was asked to leave by the Mission, the CFP provided only some technical annexes to the PP, while the Mission assembled the PP in-house. In Honduras, the CFP provided an excellent team which, in conjunction with the Mission, produced an outstanding project paper with excellent

¹⁵ Chairman Ezzi of the PBDAC.

analyses of the background the Mission needed to design a sensible strategy. This last project is currently being implemented by the CFP.

Evaluations

The CFP has only participated in two formal evaluations of ongoing programs, in Costa Rica and Malawi. In both cases it fielded high-caliber teams. The Mission in Costa Rica considered the LAC/DP-directed evaluation of its program to be of high quality. However, the outside team member on the Malawi evaluation and Mission personnel felt that the CFP consultants were not impartial enough on the subject of privatization and accepted many responses at face value, thus reducing the value of the evaluation effort and its results. The REDSO/ESA private sector officer concludes that "evaluation of divestiture and privatization projects might be better done (or directed) by an organization with no vested interest in promoting divestiture and privatization."¹⁶

Long-term Buy-ins

The two long-term projects in Honduras and Tunisia have been successful. The project teams have been integrally involved in about 21 privatization transactions,¹⁷ totalling close to \$75 million. It was impossible for the evaluation team to measure the actual effects of the two programs on the host countries' economies, because both programs are still in such early stages and the projects have not set up a monitoring process to periodically collect the baseline data necessary to measure their impacts. Preliminary predictions show an increase in employment, particularly in Honduras where most of the privatizations concerned nonoperating enterprises at the time of sale. However, no data has been collected.

The effectiveness of the teams in the field often depended on the management provided by the Mission and HCG. The two successful programs in Honduras and Tunisia bear many similarities in Mission and HCG involvement and the functions filled by the long-term advisers (LTAs) in the privatization process. Both Missions were very involved in the program development well before the CFP was asked to participate. Both HCGs were committed and active in the process, having passed laws legalizing the privatization process¹⁸ and established functioning programs into which the technical assistance could easily fit. In both cases, Mission and HCG management of the process and the LTAs have continued to be significant.

In both these countries the CFP has fielded high-quality, long-term LTAs who have worked very well with their host country counterparts. The HCGs consider the technical assistance teams as their own personnel, giving them substantial independence and responsibility for decision making within the official process. In Tunisia, the LTAs were handpicked by the economic adviser to the prime minister. In Honduras, the GOH considered the members of the Technical Working Group (TWG) to be their own personnel, actually aborting a Mission attempt to replace the chief of party whom the GOH wanted to keep.

¹⁶ Telex from Nairobi No. 31548.

¹⁷ It is difficult to homogenize the figures because Tunisia deals with transactions which may include parts of only one company or several different companies. See Appendix 7 for details.

¹⁸ In Honduras the Mission provided a consultant to help draft the legislation.

The program in Bolivia, by contrast, lacked this close Mission relationship to government officials implementing privatization. The project had a weak base to build from: the process had not been legalized (though an institution had been formed to handle privatization) and the weak project design had superficial analysis. The project faced another difficulty when the GOB suspended the privatization program during the presidential elections. This removed the GOB support necessary to integrate the team into the overall process and make the process function. This eliminated the usefulness of the consultants and eventually led to the removal of the LTA.

INFLUENCE OF THE CFP ON PROJECT EFFECTIVENESS

Problems among the different actors of the Scientex consortium -- the subcontractors, the prime contractor, and the CFP -- had an impact on the effectiveness of the project by limiting the capabilities of project management, which in turn reduced the usefulness of the resources made available by the subcontractors, and by creating tensions with Missions and PRE.

Rather than serving simply as a resource to enable PRE to assist Missions, the project management's core staff, the CFP, devoted much time and effort to "expand and deepen its role"¹⁹ as a provider of privatization services. While the CFP had to develop many systems which did not exist within its parent company, Scientex, it also had to create a role for itself among the other actors. The CFP succeeded in substituting its in-house services in some activities that would have been, and should have been, handled by the subcontractors, the Missions, or PRE.

This expanded role of the CFP worked in the promotional activities as mentioned above, but created many problems when it came to helping Missions design and implement privatization programs. It resulted in substituting the limited institutional capacity of the CFP for the broader experience of the other actors in managing the resources the subcontractors made available to the project.

The section below discusses the expanded role of the CFP and the effect this expansion has had on CFP's relationships with the other actors. The final section discusses the effectiveness of the CFP in providing support to Mission privatization activities.

The Expanded Role of the CFP

The project's management was originally to be handled by PRE with help from the Scientex consortium.²⁰ The creation of the Center for Privatization was not called for in the RFP, nor considered in the proposal submitted by the consortium. Scientex had hired the core staff to assist PRE manage the project.²¹ Early on in the life of the contract, the chief of party (COP) transformed the core staff into the CFP.

¹⁹ Russell Anderson and Louis Faoro (PRE/PD) memo of March 25, 1987 to the CFP, "PRE/CFP Operating Procedures."

²⁰ Because only one PRE staff member was assigned to manage this effort, he was forced to rely heavily on the contract staff.

²¹ The staff was made up of the people who had been instrumental in putting together the consortium, writing the proposal, and asking Scientex to join them as the 8(a) firm that would help them bid on the contract.

The CFP, other than its COP, had limited experience in the realm of privatization. The staff was originally to serve as the coordinating body which managed the subcontractors, which were to provide the substantive technical assistance to the project. This implied a dependence on the subcontractors for the implementation of the technical elements of the project, a relationship which was never fully developed.

Due to, among other things, the relations between the COP and Scientex, the CFP sought to expand its role from a simple middleman between PRE, the Missions, and the subcontractors to an entity which provided services with value added in the process of privatization. The expansion of CFP's role affected its working relationship with the other actors in three major ways:

- The CFP gained autonomy with little effective control over its management;
- The CFP avoided planning and clarifying its role relative to the other actors involved with the project -- the subcontractors, the Missions, and PRE; and
- The CFP tried to substitute its in-house capabilities for those of the subcontractors, Missions, and PRE by taking on activities that should have been handled by the latter three.

Little Effective Control over Management

The CFP staff established significant autonomy from Scientex, PRE, and subcontractor management. The process of identifying the CFP's role in the project diffused management focus and hampered the effectiveness of the CFP's contributions to the project.

A.I.D. provided some conditions which enabled the CFP to gain autonomy from Scientex, its employer:

- A.I.D.'s contract with Scientex stipulated that a particular individual fill the key position of COP in charge of helping PRE to manage the project. This provided him with some contractual independence from Scientex.
- A.I.D. funded the CFP's separate offices, related operational expenses, and the financial officer position within the CFP, providing it with more physical and managerial autonomy.

This institutionalization of the CFP disrupted the normal client-supplier link between PRE and Scientex. Scientex, which held the purse strings, had the incentive to respond to the client (PRE) or otherwise lose the contract. It could not instill this incentive in CFP's management because it lacked the normal employer-employee relationship. The CFP core staff was cushioned by the contractual independence of the COP and his commitment to them. Scientex could not fire the head of the core staff without running the risk of violating the A.I.D. contract and therefore it could not control the management.²²

This situation was fueled by Scientex's weak institutional base: lack of experience with A.I.D., lack of international experience, and lack of technical expertise on privatization. Its repeated problems in dealing with A.I.D. contracting procedures, financial reporting, and quality control led A.I.D. to develop that capacity within the CFP. Scientex was "detached and lacked substantive knowledge" to manage the project

²² Yet Eddie Neal, the current President of Scientex, was threatened with contract cancellation in 1987 by PRE because he could not control the CFP's activities.

effectively.²³ Scientex's lack of privatization experience before the contract award and its lack of interest in strengthening its in-house technical capability during the first four years of the contract, made it easy for the CFP to distinguish itself as a separate entity from Scientex. Scientex's only real control over the CFP was financial, but that did not provide effective leverage. Scientex was contractually obligated to pay the salaries and business expenses of the CFP staff.²⁴

The creation of the CFP and its immediate visibility caused friction with the first PRE project officer who wanted to have a more visible role in the management of the project. Though the contract was to provide a contractor offering services to help PRE, and not a nonprofit organization funded by A.I.D.,²⁵ the CFP adopted an aggressive interpretation of its mandate while trying to establish its role. In one instance, it circumvented PRE in dealing directly with a host government.²⁶

The early friction with PRE over the bounds of the CFP's responsibilities was only resolved with a change in the project officer and the eventual retirement of the COP. Under the second project officer, A.I.D. began to support the CFP's expanded role, while trying to increase its effective control over CFP management through better working relations. The CFP's role vis-a-vis PRE was clarified only in 1987, and the relationship has been more cordial since then.²⁷

The subcontractors also had limited influence on the CFP management. Though they had the technical experience to guide the CFP, the subcontractors were effectively disregarded both by Scientex, with whom they developed very poor relations,²⁸ and the CFP. A consultative executive committee was made up of representatives from all the subcontractors, the prime contractor, the CFP management, and PRE to act as a board of directors, giving the subcontractors a chance to have input in the management of the Project. In reality, however, the committee had no power over the management of the CFP, to the regret of the subcontractors which were willing to offer advice and guidance.

The friction which developed between the CFP and the other actors -- Scientex, PRE, and the subcontractors -- created conflicts which hurt the collaboration among the different parties involved in this complex project. These conflicts naturally affected the project's effectiveness in the field, as discussed below.

²³ From February 1988 correspondence within A.I.D.

²⁴ When Scientex did not pay promised bonuses, it only exacerbated the problem. At the beginning of the evaluation, this was a very sore point between the CFP staff and Scientex. Fortunately it has been resolved since, during the period of the evaluation, but nevertheless the problem did have an impact on project management.

²⁵ Letter from Neal Peden, Assistant Administrator of the Bureau for Private Enterprise, to Mr. Arthur Paul, then President of AGI/Scientex, January 9, 1987.

²⁶ *ibid.*

²⁷ "PRE encourages CFP experimentation and initiative in expanding and deepening its role in and ability to generate privatization in developing countries. CFP activities in regard to this will always be preceded by PRE approval. . . . The CFP, therefore, while necessarily establishing itself as a separate entity, clearly works for and through PRE in implementing this contract." Anderson-Faoro memo, March 15, 1987.

²⁸ All the subcontractors stated they had problems getting paid by Scientex, were not satisfied with Scientex's inability to control the management of the CFP, and that, given a choice, they would rather not use the CFP as a contracting mechanism.

Lack of Planning and Clarification of Roles

The lack of detailed planning on the part of the CFP has been very conspicuous. The CFP has not taken the time or initiative to draw up a detailed work plan to carry out the tasks in its statement of work. When A.I.D. requested that the CFP prepare a work plan in March 1987, with the arrival of the second project officer,²⁹ the CFP submitted a draft. After review by the project officer, it was returned with comments and a request to clarify objectives, roles, resources required, and responsibilities. The work plan was never finalized.

The intent of the tasks to "design a strategy for PRE," "analyze selected A.I.D. mission programs," and "develop a standard procedure to identify targets for privatization opportunities" was to help focus the work of the CFP and PRE during the life of the project. These tasks are just now being completed to meet the performance requirements of the contract, but have not been available to help focus the project as planned (see Appendix 13). Although the CFP has responded promptly with teams to the field, not fulfilling the tasks which were designed to focus and improve the effectiveness of the consulting teams reduced the project's effectiveness as will be explained below.

The lack of a regularly updated work plan made it difficult for the CFP to identify its targets for the year and to set its goals. This lack of focus and specific targets relieved it of accountability and allowed it to adopt an ad hoc approach to providing services.

The weak planning also created problems with PRE since it made it necessary for the project officer to manage the project more carefully. With no targets, it was impossible to prepare other than a generic budget for the utilization of core funds based on anticipated levels of effort. This made it more difficult for the CFP to justify certain expenditures, such as marketing and awareness-building trips, case studies, and seminar development, though they have done a better job in the final year of the project.

The lack of planning also resulted in the lack of clearly defined roles between the CFP, Scientex, the subcontractors, and sometimes the Missions:

- Without a good plan it is difficult for Scientex to understand and program its input into the project;
- The CFP did not clearly define the roles of the subcontractors vis-a-vis the CFP, particularly who was to furnish which services; and
- The CFP has not always had a clear understanding of where its technical role ends and the Mission's takes over.

Therefore, the lack of planning weakened the project's implementation. Without specific targets, it was unable to effectively program the use of its resources. With no clearly defined roles for the subcontractors, it was difficult to assign them areas of responsibility, which weakened their participation.

²⁹ "AGI/CFP must submit a work plan to PRE detailing its plans to accomplish these tasks . . . PRE and AGI will jointly review the work plan and negotiate levels of efforts, costs, and delivery schedules for each of the activities. The first draft work plan is to be submitted within 30 days of receipt of these operating procedures. The work plan will be reviewed and updated twice yearly by CFP (and PRE and will serve as a basis for preparing reports required under the contract)." From the Anderson and Faoro memo, March 25, 1987.

The Expansion of CFP Responsibilities

The lack of control and the ability to operate without a plan made it easy for the CFP to "expand and deepen its role." It succeeded in initially substituting its limited experience, the weak institutional base of its core staff, and the weak financial support function of Scientex for the extensive, international consulting and technical experience available through the subcontractors, the Missions, and PRE.

The subcontractors provided a strong institutional base for the project. The large ones, such as Ernst & Young and Public Administration Service, were well qualified to manage large teams, provide quality control, and pursue privatization activities for the CFP. They had a sound understanding of how to interact with Missions and the logistical problems which could be encountered in the field. The smaller firms, such as Equity Expansion International (EEI) and the Aries group, were chosen for their specific skills and expertise.

The CFP tried to centralize all functions including backstopping teams, quality control, technical oversight, and even implementation of seminars, although it did not have the technical or institutional base to perform all of these successfully. While it could have managed many of the tasks, it should have recognized its limitations and delegated more responsibility to the subcontractors. In addition, the CFP's knowledge of the countries was minimal, it had limited experience in dealing with the Missions, it did not have experience in hiring local consultants and support services, and it did not have experience in designing new and innovative A.I.D. mechanisms to reduce the bureaucratic difficulties caused by the complicated situations that arose. Scientex, which provided the financial backstopping for the CFP, grudgingly provided the minimum necessary financial support to teams in the field, hampering their effectiveness and creating some internal tensions.

In consequence, the CFP was not able to maximize the wide variety of technical skills the subcontractors could provide. For example, it was difficult for the CFP to prepare a research agenda in fulfillment of Task 4 of their statement of work because this required an imaginative, technically well-versed individual with some foresight and initiative. He needed to communicate with consultants and Missions on the problems encountered during the consultancies; draw out the issues that arose in the process of designing and implementing different privatization programs; and then hire the appropriate researcher to analyze and write up the case. The subcontractors had many such individuals and could have taken on the responsibility for accomplishing the research agenda. But the CFP tried to take charge of the task, although it did not have this talent nor did it know what to look for in the person to fill the position.³⁰

When it became apparent that the CFP would not fulfill some of the tasks, subcontractors individually proposed to fill them (PAS for conference planning and Ernst and Young for the SOE Marketing Manual). This was not planned, but happened through an ad hoc procedure.

The centralization of responsibilities within the CFP removed much accountability from the subcontractors. The centralization of credit for the good work being done under the project also reduced the incentive for the subcontractors to participate fully in all activities. The following section will highlight some of the impacts of this centralization and the CFP's weak technical and institutional base on the project's

³⁰ The CFP hired a research director to design a research agenda and fulfill the research task in the statement of work, Task 4. However the position title was Communications Director and a public relations expert was hired. He spent most of his time doing what he was suited to do best -- public relations. He was let go because he was not able to meet the needs of a research director.

assistance to Missions and their HCGs in the design and implementation of their privatization programs.

CFP Support to Mission Privatization Activities

The effectiveness of the project's technical assistance to Missions was affected by the CFP's expanded role in dealing with the Missions and supporting the consulting teams. While supplying significant numbers of consultants to the field, its lack of experience and limited overall capacity in the face of greater responsibilities reduced its effectiveness in helping Missions to implement privatization which often created tensions between the Missions and the CFP.

Backstopping Teams

The CFP encountered some difficulties providing both technical and logistical backstopping to their consulting teams due to its inexperience in international development consulting and lack of technical specialists in privatization on the core staff.

Technical

Technical backstopping for short-term teams consisted primarily of predeparture briefings in Washington. This backstopping was fairly general and not always able to convey important country- and company-specific information to the consultants. In several of the cases observed -- Egypt PBDAC and PID design and the Jordan TCC assignments -- some team members were not properly briefed in Washington, and did not understand the purpose of their assignment or what was expected of them. This caused problems for the teams fulfilling their scopes of work, which the Missions had to resolve. Several short-term consultants interviewed felt that the CFP did not prepare them well for their work in the field because the CFP staff were not well versed in the subject matter.

Technical backstopping is far more important for long-term teams, but is often very difficult to provide effectively, given the independent nature of long-term projects overseas. The CFP has learned this the hard way. In Honduras, it tried to adopt a technical managerial position, but due to conflicts between the CFP project manager in Washington and both the TWG and the Mission in Honduras, it was effectively distanced from a technical support role. Up to two months before the programmed end of the project (July 1989), the CFP was still trying to identify how to provide proper technical backstop to the TWG (See Appendix 7D).

In Tunisia, the LTAs credit the CFP with providing a good briefing before leaving Washington, but since then they have received very little technical support. In fact, the team leader complained that, from the CFP staff's lack of technical understanding of the project and their lack of feedback, he doubted whether they had carefully read his thorough quarterly reports.³¹ He had received very little technical information from them and minimal support recruiting technical speakers for his conference.

While the CFP was able to competently backstop small, short-term teams, it encountered difficulties adapting to the increasing complexity and greater information and support needs of long-term teams and Missions as they progressed through the

³¹ Since the evaluation team's visit to Tunisia, the CFP staff have read the reports and produced a short case study on Tunisia to respond to another contract.

privatization process. This reflects on the technical capacity within the CFP, its limited experience with actual privatization, and its limited experience supporting long-term teams.

Logistics

The CFP is going through a learning process providing logistical backstopping to its more complex long- and short-term technical assistance teams, and its support is improving. For short-term (several weeks) teams with no extraordinary circumstances, there were few problems, other than payment and reimbursement. However, many of the larger and more complex teams encountered problems contracting local support and accessing funds needed to cover petty expenses (Egypt and Tunisia). Attributing fault for the problems which arose is difficult, but the CFP should have either anticipated the problems or been prepared to resolve the issues more rapidly than they did, removing the point of friction.

The CFP has also been remiss on the timing and clearing of teams to the field. The CFP sent one consultant to El Salvador without proper clearance, and he was sent back on the next plane. In Egypt, the PBDAC team arrived one at a time, hampering the start-up of the assignment, though this was partially due to the effects of contracting delays. In Jordan, the second TCC team did not overlap sufficiently with the first, even though the Mission had alerted the CFP of the importance of their simultaneous presence in the country.

In Honduras, the TWG received logistic support from an Ernst and Young affiliate firm which had a separate contract with A.I.D. to provide local currency support, taking the burden off of the CFP. In Tunisia, A.I.D. and the CFP expected the GOT to supply all logistic support. While basic support was provided (offices and secretaries), this was insufficient to cover all the needs of the team and the demands placed on it by the CFP and A.I.D. The CFP is working on a solution.

Removing these logistical problems is a major reason why Missions pay the overhead and fees associated with an institutional contract, and when problems rebound back to the Mission it generates negative feelings. These problems are gradually being resolved and are less frequent, but reflect the early lack of experience within the CFP for managing and fielding teams.

Quality Control

Quality control by the CFP core staff has been inconsistent, for everything from spelling mistakes to content. While the CFP has taken on the final production and quality control responsibilities for most reports, it is neither appropriately staffed nor equipped to produce large quantities of reports. This leads to many quality problems and often long delays in producing the final report.³² Many executive summaries in final versions of reports were poorly done, serving more as introductions on privatization rather than concise presentations of the content of the studies (See Appendix 7 on the Jordan and Egypt reports). Many reports required substantial Mission editing and comments before reaching a satisfactory final state.

³² As an example, the Egypt PBDAC study was presented in draft in April, but not delivered in final form until the end of September, even though no further editing was done on the document. A second final version has since been produced, correcting all the grammatical errors and typos in the document, but still without entering the comments from the PBDAC staff.

The CFP has not received (nor has it apparently asked for) any overhead support from its parent firm in editing and producing reports. As a result, senior project personnel have had to worry about fine details such as proof reading and stylistic editing instead of focusing on the substance. Lack of staff time has meant that many reports have gone out unedited. Proper management of the production process would have improved the end products, both in style and content.

Rapport with Missions

The CFP, and by corollary the project, suffers in general from a poor image within the Missions. In three of the four Missions visited, the general attitude was that the CFP has provided some good consultants, but that the CFP is difficult to work with and unreliable. The three Missions which complained the most have accounted for more than 50 percent of the dollar value of all CFP technical assistance to Missions, so they have had extensive experience with the CFP and its capabilities. Their current attitude towards the CFP is to use it only as a last resort.

The results from the questionnaire, discussed in Appendix 6A, show that most mission officers scored the CFP just above fair in understanding of the technical subject matter, timeliness of response, and quantity and quality of the response. This general feeling may reflect the impression those particular Missions had when dealing with the CFP on more complex issues and reflects the evolving relationship between the CFP and the Mission. The CFP's inability to adapt to its evolving role probably led to many of the problems.

Maintaining a good rapport with Missions (the ultimate client) is difficult, but critical. It depends largely on producing quality work, but also on understanding the relationship between a Mission and a consulting firm. The CFP had no original core staff who, prior to this contract, served as professional consultants to A.I.D., and had relatively little experience supplying and supporting consultants to the field. The subcontractors, who were the experienced international consultants and who had the real technical expertise, were cut out of the management and marketing role of the CFP. Many of the issues raised by the Missions as problems could have been easily smoothed over under different circumstances.

Integration of the Team

A major problem faced by all large projects with a variety of consultants and subcontractors is integration. At the beginning of the evaluation, the CFP suffered from disloyalty among the team members (subcontractors, core staff, and long-term consultants).

The subcontractors, who accounted for more than 75 percent of the consultants fielded to Missions, display little loyalty to the CFP. All the major subcontractors interviewed in Washington preferred to use other contracting options before passing an assignment through the CFP. These feelings stem primarily from difficulties in dealing with the prime contractor and its slow payment for services rendered rather than from dissatisfaction with the CFP staff.

In addition, though representatives from the subcontractors formed the executive committee for the CFP, the subcontractors complained that they had no authority to shape the program and served primarily as conduits of information back to their firms. This generated some frustration and tension.

The CFP's de jure incorporation of the subcontractors within the contract created some identity problems, particularly considering the other tensions between the sub- and the prime contractors. Several instances were encountered where subcontractors

differentiated themselves from the CFP while on assignment. The Belize Mission, site of one of the actual privatization activities in which the CFP was involved, mentioned that they had never used the CFP, obviously differentiating the subcontractor from the CFP.³³ The Egypt Mission considered the ARIES group as separate from the CFP, but accessible through the project.

The CFP has failed to integrate the project's LTAs in Tunisia and in Honduras within the CFP. Responses from consultants in the field rated the CFP's efforts to integrate them as poor (See Appendix 6A). Though these are its only LTAs with substantive hands-on experience in privatization, the CFP has not involved them with the overall program by communicating interesting findings from other programs, asking them to participate in professional meetings and conferences on privatization, and generally making them feel part of the CFP as an institution. Failure to integrate these consultants and generate loyalty led to two major problems: it hurt the image of the CFP in the field where the consultants complaints were heard by the Mission and it represented a major technical loss for the CFP.

Distillation of Privatization Experience

Until recently, the CFP has not produced much usable information that distills its lessons learned and transfers experience across projects, in particular its two long-term implementation projects. LTAs from both teams in the field noted the lack of information from the CFP on what was happening in other countries, stemming primarily from the fact that the CFP had not compiled any such documents. The evaluation team found that neither team of LTAs knew anything about the other project. In fact they felt that the information flow was in the reverse direction, from them to the CFP and that this information was not being recycled to help them, but being used to generate other work. Had the CFP been providing them with information, they would have been less resentful.

As discussed in Part II, the major synthesis documents prepared by the CFP are largely generic and definitional with few country-specific examples. This limits their effectiveness to the LTAs who are in search of in-depth discussions of particular issues stemming from practical applied research and analyses of what has happened in other countries.³⁴ The upcoming case study on Honduras, however, should present a thorough analysis of the benefits and lessons learned from that project which will be helpful to other practitioners.

³³ see Appendix 6 B.

³⁴ The CFP staff is preparing a set of short case studies for its work in the USSR but their superficiality makes them of little use to the LTA.

PART IV
CONCLUSIONS, LESSONS LEARNED,
AND RECOMMENDATIONS

CONCLUSIONS

The Divestiture and Privatization Project has provided A.I.D. with a very good initiation of an important new line of assistance to developing countries. The project has successfully promoted privatization. While there are mixed results from the implementation efforts, it has provided many resources to assist Missions. The project provides much insight into the important actors and critical conditions necessary for successful privatization. Therefore, the project should be regarded as a valuable experience for future work in this field.

The CFP's comparative advantage lies in the promotion and awareness-building for privatization. Its effectiveness in these areas stems from the general nature of promotional activities, which require comparatively little detailed technical knowledge, and where there are fewer external variables which interfere with the CFP's control of the activity.

By contrast, field implementation (from diagnosis and design to divestiture) requires more specific technical knowledge and many of the critical variables are beyond the control of the CFP. The project cannot singlehandedly achieve privatizations. As the privatization initiative matures, control of the process transfers from the CFP to the Missions and the HCGs. Missions require in-house technical capability to provide the required program consistency and to manage the process and consulting inputs.

The CFP was not always able to adjust its technical and logistical assistance to reflect this evolving relationship. One of the critical success factors for the two long-term teams was their integration within the HCG and their ability to serve as the technical managers of the process for the Mission as well as the HCG. When the HCG considers the technical assistants as their own, the CFP must be very alert to the sensitivities of the HCGs and the limits that this places on the CFP's role.

The CFP achieved mixed results in providing assistance to the Missions. Though it supplied many teams, it was less effective helping Missions to implement privatization, largely due to the roles actually played by the Missions and HCGs. Also, the CFP adopted an expanded role that reduced the value of the inputs provided by the subcontractors, PRE, and Scientex. By not making full use of the resources available to the project, the CFP's relative inexperience providing technical and logistic support to long-term and complex short-term teams caused them many problems.

A.I.D.'s comparative advantage in privatization assistance is still unclear, as discussed in Appendix 14. Whether A.I.D. should concentrate its efforts on one of the specific elements of the privatization process (such as promotion and awareness-building, program diagnosis and design, or program management including brokering actual divestitures), or whether A.I.D. should pursue all elements of the process equally, still needs to be determined. The preliminary findings imply that A.I.D.'s advantage is in promotion and in the early stages of program development. However, most HCGs are just beginning to reach the point where they are ready to effectively use technical assistance to implement privatization transactions, so A.I.D. does not yet have a broad base of experience on which to base a thorough analysis.

PRINCIPAL LESSONS LEARNED

The evaluation team has identified many important lessons learned which can be applied in the preparation and implementation of other A.I.D. projects on privatization. This is not an exhaustive list, but reflects the insights the team has gained during the evaluation of this project.

1. There are four critical success factors for successful A.I.D. assistance to HCG privatization programs: HCGs must be committed to pursuing privatization; Missions must establish a good working relationship with the HCG bureaucracies; they must be able to identify the timing and quality of their resource needs; and they must be able to manage those resources to get the results they expect.
2. The mixture of buy-in assignments with a core-funded set of activities can create conflicting objectives (financial incentives versus technical goals) for the contractor which can in turn dilute the overall impact of the project. Clear definition of objectives is required to delineate the roles of the members of the core staff and to specify the purpose and role of the buy-ins.
3. Centrally funded contracts comprising a buy-in mechanism and core funding can provide Missions with flexibility to explore and introduce controversial new subjects, like privatization.
4. Awareness-building and the establishment of a process for implementing privatization with a HCG always take longer to develop than anticipated. Legal barriers must be removed, champions must be developed in the HCGs, and a transparent implementation process must be established.
5. Technical experts do not always make the best consultants to design a privatization strategy and must be managed by a team leader with good interpersonal, communication, organization, and writing skills who can identify and analyze the critical issues for privatization.
6. Host countries should participate in the technical assistance when studying sensitive issues involved in privatization implementation, such as valuation, to promote HCG acceptance of the sensitive and often controversial results of these studies.
7. Long-term advisers in the field need continuous technical feedback and must be kept informed of the rapid changes and new innovations occurring in privatization around the world.
8. The technical analyses used to substantiate recommendations for privatization of SOEs must be thorough and must clearly present the precise benefits to be derived from the transaction to garner support from the government.
9. The prime contractor needs to have a strong institutional base including the experience in supporting teams internationally with financial services, local support staff, and local technical skills.
10. Constant communication between the consulting team and the Mission is essential after the team's arrival in the field and throughout the consultancy. In-country logistical support can be very helpful for both the consultants and the Missions. The Missions may even be willing to pay for it.
11. Although language ability and in-country experience are very useful for consultants, complementing their skills with local consultants is always extremely important.

Local consultants play an important role in getting the acceptance and cooperation of local government officials, especially in the data-gathering tasks.

PRINCIPAL RECOMMENDATIONS FOR FUTURE PRE WORK IN PRIVATIZATION

The recommendations that follow are based on a analysis of the project's results and on observation of the actors and their relationships.

1. A.I.D. should continue to promote privatization worldwide.
2. A.I.D. should continue to analyze the privatization process and its interacting components to determine A.I.D.'s comparative advantage for assisting privatization. As A.I.D. gains further experience in privatization, it must determine whether its scarce resources should go towards implementation of selected privatization transactions -- presumably in countries where conditions are conducive to A.I.D. playing such a role -- or focus on the early stages of the program diagnosis and design, as well as synthesizing the results of past privatization experiences and providing a stream of new ideas to advance the state of the art.
3. To provide continued information to achieve recommendation number two, the evaluation team further recommends that A.I.D./W should focus resources on:
 - Providing a clearing house of information on privatization, including information on available technical assistance and experiences from other countries;
 - Providing preliminary advisory and strategy design assistance to HCGs through the A.I.D. Missions; and
 - Synthesizing privatization experience into state-of-the-art papers that thoroughly, and impartially, analyze the effects, (dis)advantages, and processes for privatization, and go beyond the simple "how-to" stage reached by the CFP.
3. A.I.D. should continue to promote Mission-funded experimentation with the various implementation steps for carefully selected privatization transactions that reflect the conditions for success stated above.
4. A.I.D. should have a very tight design for its follow-on project. This design should be shaped by a clearly defined set of goals and guidelines, based on the conditions for success and lessons learned, stated above. Use of a buy-in mechanism is recommended but must be carefully managed to ensure that buy-in activities complement, rather than dilute, core objectives. Appendix 14 describes a potential contract structure for A.I.D. to use in the follow-on assistance.
5. Privatization is becoming a more common activity in development and more privatization expertise is now available. A.I.D. should promote and encourage extensive competition in the supply of privatization services from a wide array of private businesses, beyond those holding the PRE contract.
6. PRE should ensure that contractors prepare proper work plans detailing how they are going to respond to the tasks in the statement of work, and that they provide clear targets for their goals and outputs to eliminate confusion at a later date.

APPENDIX 1

**STATEMENT OF WORK FOR SCIENTEX, AMENDMENT 5
TO THE CONTRACT**

DPE-0008-C-00-5058-00
 Amendment No. 5
 Page 3

Delete Section C., Statement of Work, in its entirety, and substitute the following in lieu thereof.

"Section C - Statement of Work

C.1. Background

Privatization is a centerpiece of A.I.D.'s private sector initiative and as such is a high-priority Agency activity. While privatization can be advanced in various ways, efforts undertaken by the Contractor will attempt to lead or contribute directly to divestiture.

C.2. Objectives

The Agency for International Development (AID), through the Private Enterprise Bureau (PRE) and AID Missions, requires technical assistance from a variety of specialists to respond to requests by host governments and the indigenous private sector to promote the concepts of divestiture and privatization. As AID becomes more actively involved in the area of privatization, it is increasingly necessary to have access to the broadest range possible of qualified specialists to enable planning, implementation and evaluation of activities. To provide for the needed specialists, AID/PRE and AID Missions will participate in this contracting activity and both will utilize long term and short term assistance.

Two specific products will be emphasized in the Contractor's field work, as directed by AID/PRE:

1. generating policy dialogue on privatization in developing countries; and
2. providing high-quality experts and consultants on a timely basis to assist countries in advancing from dialogue to implementation.

C.3. Scope of Work

a. Summary

Services will be provided to PRE, as appropriate, to other parts of the Agency, and to developing countries through AID Missions, through PRE.

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The Contractor shall provide approximately 963 person months of technical assistance to AID/PRE and, through the AID Missions with the approval of PRE, to private and public sectors in selected developing countries. The technical assistance will be long term or short term and will be provided from Contractor staff, consultants or through subcontracts.

The assistance to a host country's private and public sectors will include a variety of long term and short term assignments required at any point in the process of privatization.

b. Technical Assistance to PRE

The Contractor shall provide technical assistance, including support staff, to enable PRE to:

1. Develop and implement a strategic plan for advancing privatization in developing countries. This plan will include recommended strategies to be applied by AID Missions to develop their own privatization plans in developing countries and recommended strategies to be applied to the privatization work of PRE.
2. Analyze selected AID Mission programs in order to determine (1) opportunities for and (2) planning and implementation problems encountered by missions concerning privatization. Recommended action plans will be developed for selected AID Missions based on this analysis.
3. Develop an Agency/Contractor mechanism for dialogue with multilateral and other donor organizations involved in privatization.
4. Publish, on a periodic basis, but at least twice per year, high-quality papers or reports. These papers will distill experience in selected, important aspects of privatization and integrate them into observations and guidelines. These analyses shall be useful to privatization practitioners and/or to governments wishing to privatize, and will

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reflect "lessons learned" by the Contractor as well as other known sources. In each case the Contractor will obtain PRE approval of the subject matter and of the final draft. Included in this task is development of papers of sufficient quality for dissemination and for training. The Contractor will provide PRE with a list of topics to be covered in each paper for review and consent within three (3) months of execution of amendment five to this contract.

5. Develop a standard procedure to be used in identifying targets for privatization opportunities. This procedure will derive from the Contractor's and other known practitioners' experiences to date. The results of this activity will be:
 - a list of countries, given in priority order, regarding the likelihood of successful Contractor privatization activities. The list shall be as extensive as can reasonably be expected; and
 - a tracking system to be used whenever requests for Contractor assistance are received. This system will serve to establish criteria to assist PRE in decisions concerning whether or not its resources should be used for a given venture.
6. Immediately upon execution of amendment five to this contract, begin a study of the issue of how to market enterprises being divested. The Contractor will design this study ensuring that all relevant components of AID are included in its data gathering. The study will produce a report which advises the Agency on practical methods for locating host country, third country or United States buyers or investors of divestitures.
7. Develop a strategy for advancing privatization through conferences. Among the elements to be addressed will be:

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- the conditions under which conferences should be utilized including insights on when and where;
 - how to identify objectives to be sought and expected, developing a "scope" paper for a conference;
 - given A., existing opportunities for utilizing conferences;
 - content and agendas for privatization-focused conferences;
 - speakers and other resource people who can and should be utilized in such activities;
 - how the U.S. and target country private sectors can be an integral component of conference activities and what would be their appropriate roles;
 - how should such conferences be followed up and built upon; and
 - respective roles of the country/AID Mission, local resources, the Contractor, and associated resources.
8. Develop and maintain a privatization data base. Such data shall be designed to serve several purposes including:
- detailed pre-departure briefing of consultants;
 - a resource for queries from AID Missions and host governments concerning generic and country specific privatization issues; and
 - utilization by PRE, the Contractor and other practitioners for program or project planning.

The knowledge that A.I.D., through its Contractor, has access to this data base shall

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be thoroughly marketed within the AID network and among non-AID donor resources. The data base shall also contain information on privatization developed by sources other than the Contractor.

Included in this data shall be an extensive bibliography on privatization which is updated quarterly and distributed widely within and outside AID.

The data will also include a report, updated quarterly, on actual privatization or privatizations in the pipeline in developing countries, with those flowing from AID projects separately identified.

9. Develop and update monthly, a roster of experts and subcontractors whose services have been utilized in the attainment of contract objectives. This shall include descriptions of skills and resources associated with each source and how they are accessed.
10. Determine the practicality of training of host country officials in the privatization process. Issues to be considered include:
 - is there a need for organized training which will advance privatization, including policy dialogue as well as implementation activities;
 - if so, types of people who should be trained; where and how;
 - what would the specific objectives of the training be;
 - who should organize and carry out such training; and

In developing this information the Contractor shall consult as necessary with AID's Office of International Training.

11. Develop a plan for broad dissemination of information about the Agency's objectives and

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activities. Included in such a plan will be briefings of selected persons, groups, and organizations.

c. Technical Assistance to AID Missions

The Contractor shall provide technical assistance to AID Missions through PRE as follows:

1. Develop a procedure to identify, locate and engage highly qualified experts and consultants for short or long term assignments as requested by missions and approved by PRE.
2. Develop a group of reliable, available consultants and experts who can provide services in the full range of privatization from policy dialogue to sale of assets. This cadre will also have skills in specific functional areas as required by specific AID Mission requests.

d. Long Term Technical Assistance to the Government of Honduras

The Contractor shall establish an institutional framework to oversee the privatization program and to provide the necessary analytical skills and technical support to implement the program. Once established as a formal unit, the Technical Working Group (TWG) shall examine individual privatization cases and present recommendations in connection with activities designed to support the sale of enterprises and assets, and where required, to enhance the efficiency of privatized enterprises after privatization has taken place.

The following are areas of expertise which the Contractor will be required to provide:

- Legal and Financial Analysis
- Structuring Financial Packages
- Valuation of Assets and Enterprises
- Identification of Buyers and Skills Related to the Marketing and Promotion of Enterprises
- Production and Operations Analysis

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The Technical Working Group will be directly responsible to the Chairman of the Privatization Commission (established by the President of the Republic of Honduras) and will work exclusively on privatization related issues, in coordination with the Chief Executive Officer of each institution which is implementing privatization efforts.

The Technical Working Group shall provide technical expertise required to implement the privatization program, including marketing assistance to the Corporation Nacional de Inversiones (CONADI) and other Government of Honduras entities to identify investors and act as a broker between the Government of Honduras and these potential investors.

The Technical Working Group shall handle three major types of activities:

1. Special Studies - preparation of technical-economic studies and transfer plans as required by law;
2. Valuation and Privatization Strategy - careful valuation of assets to be transferred and the analysis and recommendation of privatization strategies to be submitted to the Boards of Directors of CONADI and the Government of Honduras.
3. Marketing and Promotion - the design and implementation of specific marketing and promotions plans for the sale of state owned enterprises' operations, including the preparation of company prospectuses, the identification of potential investors, assistance on preliminary negotiation discussions, etc.

C.4. Technical Directions

Performance of work as set forth in Sections C.2.b. and C.2.c. shall be subject to the technical directions of the Project Officer, AID/PRE.

Performance of work as set forth in Section C.2.d. shall be subject to the technical directions of the Project Officer, AID Mission in Honduras.

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As used herein, "Technical Directions" are directions to the Contractor which fill in details, suggest possible lines of inquiry, or otherwise complete the general scope of work. "Technical Directions" must be within the terms of this contract, shall not change or modify them in any way, and shall not constitute changes within the meaning of the contract clause entitled, "Changes - Cost Reimbursement", Alternate I - APR 1984. The Contractor shall notify the Contracting Officer immediately in writing of any Technical Directions which he/she considers to constitute changes prior to performing such changes.

Within one week following execution of amendment five to this contract, a Technical Directions meeting will be held between PRE and the Contractor. The purpose of this meeting will be to ensure a common understanding of terms, intent and directions of the contract.

C.5. Level of Effort

- a. The level of effort for the performance of this contract shall be 963 total person months of labor.
- b. The estimated composition of the total of labor is as follows:

<u>Category</u>	<u>Person Months</u>
I. <u>Technical Assistance to AID/PRE and AID Missions</u>	
Program Manager	5.5
Project Director	51.0
Assistant Project Director	93.0
Project Support	268.5
Short Term Technical Specialists	379.0
Subtotal	797.0
II. <u>Long Term Technical Assistance to the Government of Honduras</u>	
Chief of Party	32.5
Deputy Chief of Party	32.5
Senior Advisor	3.5
Project Backstop	32.5
Short Term Technical Specialists	65.0
Subtotal	166.0
COMBINED TOTAL	963.0

APPENDIX 2

**CONSTRUCTION OF A LOGICAL FRAMEWORK FOR PRE'S
DIVESTITURE AND PRIVATIZATION PROJECT**

APPENDIX 2

CONSTRUCTION OF A LOGICAL FRAMEWORK FOR PRE'S DIVESTITURE AND PRIVATIZATION PROJECT

A logical framework was written for PRE's Divestiture and Privatization Project at this time to explicitly state the project's goals, purpose and strategy, and to check for their internal consistency. This was not done at the beginning of the project for lack of time, and it was not done during the project's lifetime for lack of necessity.

Usually, a logical framework provides the basis for a statement of work that accompanies a contract and provides the project with internally consistent goals, a purpose, and a strategy: The strategy is the approach taken to fulfill the purpose and reach the goals of the project. In this framework, the strategy is the design of the outputs; and the activities and inputs that will bring the outputs about. Since the statement of work presented all of this information to the managing organization, the CFP, and the contract held Scientex to the fulfillment of the tasks presented therein, it would have been useless and redundant to prepare a logical framework.

The logical framework, built using the information from the final statement of work in the Scientex contract's fifth amendment, dated September 1987, is presented below. The statement of work is remarkably prescient in its design of the outputs, given that PRE had little experience or information on privatization.

However, there are some inconsistencies between the outputs and purpose that need to be mentioned. They relate to the division between the technical assistance to PRE and the technical assistance to the Missions, and to the description of the outputs as simply studies.

Technical Assistance to PRE and Missions

The statement of work divides the responsibilities of the contractor between technical assistance to PRE and technical assistance to Missions. This is a confusing distinction and redundant given that Task ? provides for the same services to PRE as the description of the assistance to Missions. It has been made clear to all parties involved in the project that it is PRE's responsibility to interact with the Missions and to provide them with the outputs of the project, and it is the contractor's responsibility (i.e. Scientex through the CFP) to help PRE manage this task. The lines of communication have also followed this chain of command: The Missions communicate with the PRE which then contacts the Scientex or the CFP. The effective client-supplier relationships have been as follows: The Missions are PRE's clients and the PRE is Scientex/CFP's client. Therefore the technical assistance provided to PRE is ultimately the technical assistance that is provided to the Missions.

The first task of the technical assistance to PRE requires the design and occasional revision of a strategy to be used by PRE in managing the contract. Given that Scientex, through the CFP, is effectively managing the project with PRE and that its strategy has been laid out by its statement of work, it would have been redundant and useless to design a different strategy for PRE, as mentioned above. This task would only have been useful if it was foreseen that the statement of work could be changed from time to time to meet the realities of the project implementation. However neither the PRE nor the CFP had any plans to periodically change the

statement of work. The statement of work was eventually changed as a response to the mid-term evaluation, once in March 1987 (the fourth contract amendment) and again in September 1987 (the fifth contract amendment).

Description of the Outputs

The CFP's statement of work defined all of the outputs relating to the technical assistance to PRE as studies, while the outputs required to fulfill the project purpose are actions. In the logical framework constructed below, the statement of work's outputs, or tasks, are presented as the objectively verifiable indicators and the narrative summary of the outputs is deduced from what should have been intended by PRE and what is required to fulfill the project purpose. The fulfillment of the tasks would have met the objectively verifiable indicators but would not have delivered the outputs.

Had the CFP not taken the initiative to interpret its tasks in a proactive way, the project would not have delivered the outputs that it did and the project would not have fulfilled its purpose or met its goals to the extent that it actually did. For example, had the CFP limited itself to presenting PRE with a study on the feasibility of conducting seminars and conferences as is required by tasks 7 and 10 of their statement of work, PRE would not have succeeded in helping Missions build awareness and promote privatization in their countries. Again, had the CFP limited itself to designing a communications plan as is required in task 11, PRE's privatization activities would not have been promoted as successfully as they have been.

DIVESTITURE AND PRIVATIZATION PROJECT LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Goal: The LDC govts will strengthen the role of the private sector, reduce their budget deficits, and improve the efficiency of their economies by restructuring their economies through the privatization of their SOE's.</p>	<p>LDC govts are privatizing their SOE's with the help of USAID Missions</p>	<p>Information from the CFP and CDIE data bases</p>	<p>—SOE's are not sold to a small group of entrepreneurs who control monopolies and receive govt protection —Economies are liberalized before the SOE's are privatized</p>
<p>Purpose: The project will: 1) promote privatization; and 2) help Missions by providing them with resources to assist their host govts in adopting, setting up, and implementing the privatization process.</p>	<p>End of Project Status: Project resources are being used to build awareness; and to design and implement programs for Missions that are involved in privatization activities. Project resources are being used to perform reconnaissance and strategy development by Missions that are not yet involved in privatization activities.</p>	<p>Task orders in PRE and CFP files; Mission responses to questionnaire and telex</p>	<p>—Missions are able to convince govts to privatize their SOEs. —Missions are able to manage the project's resources to accomplish the desired results. —The project's resources sent to Missions are appropriate and timely enough to accomplish the desired results.</p>
<p>Outputs: 1) The project is managed according to a focussed strategy. 2) A system is set up and used to detect Mission TA needs and to allocate resources between Missions. 3) Educational and awareness-building tools are made available to Missions. 4) Privatization and specialized experts are made available to Missions for privatization activities.</p>	<p>1) A strategy for managing the project is designed at the start of the project, is revised as needed. (Task 1) 2) A periodic survey of AID programs is designed to determine the opportunities for assistance to Missions. A system of country priorities is devised to efficiently allocate project resources between Missions. (Tasks 2 and 5) 3) Studies are conducted on the feasibility of organizing seminars and conferences to market to the Missions and host governments worldwide. (Tasks 7 and 10) 4) A roster of experts is being used and kept up-to-date by the project, including the consultants that have experience in privatization and other fields of expertise needed by the Missions. (Task 9)</p>	<p>1) PRE and CFP files and interviews 2) PRE and CFP files and interviews 3) Mission interviews and correspondence; CFP files 4) Roster in CFP files</p>	<p>1)—PRE has enough information to revise the strategy so that it remains relevant and useful. —The strategy designed for PRE is being implemented by PRE in concert with CFP. 2)— There is enough data to feed the system. —Missions want and request assistance from PRE. —The system allocates resources to all Missions that request assistance. 3) —The tools are designed and used by the Missions. —The tools are appropriate for the awareness-building needs of the Missions. 4)—The roster includes a sufficiently wide variety of privatization experts to help Missions chose the consultants they require. —The roster is being used to field consultants to Missions. —The quality of consultants in the roster is being controlled.</p>

APPENDIX 2 (CONTINUED)
 DIVESTITURE AND PRIVATIZATION PROJECT LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><i>Outputs:</i></p> <p>5) A well-documented experience base on privatization is shared with PRE, Missions, and consultants.</p> <p>6) A good information base on worldwide privatization activities, including AID's, is made available to PRE, Missions, and consultants.</p> <p>7) The project interacts with other donors to spur their involvement in privatization.</p> <p>8) AID/PRE's privatization objectives and activities are highly promoted.</p>	<p>5) Occasional papers are written on lessons learned from experience, including a paper on how to market SOE's. (Tasks 4 and 6)</p> <p>6) An accurate computer data base on worldwide privatization activities is built. (Task 8)</p> <p>7) A mechanism is devised to dialogue with other donors. (Task 3)</p> <p>8) A plan is designed for a communications campaign. (Task 11)</p>	<p>5) Occasional papers in CFP files</p> <p>6) Data base at the CFP headquarters; Mission answers to the questionnaire</p> <p>7) Participations in AID-sponsored privatization seminars, conferences, and luncheon dialogues</p> <p>8) CFP files and interviews</p>	<p>5)—Papers are specific enough to be useful. —Papers systematically record the privatization experience of consultants and Missions. —Dialogues and debriefings are held regularly and are well attended by PRE and consultants. —The occasional papers are sent to consultants and Missions.</p> <p>6)—There is enough information to control the accuracy of the data. —Data base information reaches the Missions and consultants who need it.</p> <p>7)—Other donors do not have conflicting goals. —Other donors have made funds available for privatization activities.</p> <p>8)—The communications plan will be implemented —Promotion of AID/PRE activities will increase the receptivity of Missions to CFP services.</p>
<p><i>Inputs:</i></p> <p>1) A buy-in mechanism, to give Missions quick access to appropriate resources without having to resort to the competitive bidding process, is made available.</p> <p>2) Core funding is providing seed money for TA, initiating Mission demand for the project's resources.</p> <p>3) Core funding provides for the Washington-based support services.</p> <p>4) An organization was allotted a contract to help PRE easily access the appropriate consultants and manage the project's resources.</p>	<p><i>Level of Effort:</i></p> <p>1) The contractual mechanism is in place and does not limit the amount of buy-ins.</p> <p>2) \$2.34 million expended as of 9/89</p> <p>3) \$6.22 million expended as of 9/89</p> <p>4) The CFP consortium was competitively chosen.</p>	<p>1) Buy-in contracts</p> <p>2) PIOT's and buy-in contracts</p> <p>3) PIOT's and contract</p> <p>4) PIOT's and contract</p>	<p>1)—The buy-in contracting mechanism does not cause implementation delays. —The mechanism does allow for contracting all of the providers of services which the Missions may request.</p> <p>2)—The core funding provides services that the Missions value.</p> <p>3)—Washington support offers all of the services requested by PRE and the Missions.</p> <p>4)—The CFP is capable of managing the project's resources effectively. —The CFP has access to the resources needed by the Missions.</p>

APPENDIX 3
INTRODUCTION TO THE ACTORS

APPENDIX 3

INTRODUCTION TO THE ACTORS

At the onset, it is necessary to identify the actors that are going to be the subject of our analysis, their relationship to each other, and the way we identify them in the following text:

Scientex--Originally called Analysis Group, Inc., Scientex is the prime contractor which was awarded the contract through the Small Business Administration 8(a) program. Under the contract, it is responsible for providing assistance to PRE in the management of the Divestiture and Privatization Project. Its contract has been revised twenty seven times, mainly to incorporate mission buy-ins and extensions. Its statement of work was revised after the project's mid-term evaluation, in September 1987.

The Center for Privatization (CFP)--The CFP is the name of the entity created by the project management staff which was hired by Scientex. The CFP has the responsibility of accomplishing the tasks in the contract's statement of work. It is responsible for selecting the consultants supplied by the subcontractors and for ensuring the quality of their work.

The subcontractors--The six companies that subcontracted under Scientex to provide specialized expertise to the project are: Ernst and Young; Equity Expansion International, Inc.; International Phoenix Corporation; The Aries Group; Ferris and Company; and Public Administration Service. The subcontractors provide the majority of the technical resources to the Missions through the CFP within the confines of the project. That is, Scientex is not allowed to contract directly with any other firm for those services. The subcontractors essentially use the Project as one contracting mechanism to generate revenue. They work as independent entities outside of the project and at times compete against the CFP to provide resources to the Missions through other contracting mechanisms.

The consultants--These are experts, either on the staff of the subcontractors or hired as temporary employees for specific assignments, who are sent to the field under the umbrella of the CFP. Consultants must maintain a balance between their employer, either a subcontractor or the CFP, and their clients, either PRE or the Missions. Missions perceive short term consultants as their advisors who are directly under the Mission supervision when they are in the field while the CFP is actually the entity responsible for their output. Hence some confusion can arise over who is ultimately responsible for the work.

The Missions--They are the USAID Missions in the field. Project resources sent to the Missions are paid through the Project either by core funding or by a Mission-funded buy-in to PRE's contract with Scientex. The Missions' relation to PRE in the project is one of client-supplier. The Missions manage their projects and programs and have the ultimate say on the fielding of consultants and the receipt of resources from the project. This independence creates an evolving relationship between the CFP and the Missions and limits the ability of PRE and the CFP shape the final policies and privatization programs. The Missions usually respect the hierarchy of relations by sending communications to the CFP through PRE, hence they rarely have direct relations with the CFP. The Missions often have closer ties to the consultants in the field than to the CFP and tend to regard the consultants as their own resource.

PRE--The Bureau for Private Enterprise of A.I.D. designed the project and manages it with the help of a project officer. The project officer is the intermediary between the Missions, A.I.D., and the CFP. Under this project, PRE is always the CFP's client,

and under buy-ins the Missions becomes PRE's client, not the CFP's, though this distinction sometimes becomes muddled. PRE officially manages the Project and the CFP takes its technical advice from the PRE project manager. PRE is a signatory on all of the task orders that identify the expenditure of funds under the contract.

PRE currently only has one direct hire assigned to work primarily on privatization. Though there are other people working on privatization issues in other bureaus for A.I.D., PRE's in-house capability in the subject area is very limited, considering the scope of the subject matter. This fact forces PRE to depend on outside contractors (the staff of the CFP) to perform practically all of its substantive work in the field, as well as marketing and networking.

A.I.D.--A.I.D. is the larger organization that encompasses the PRE. PRE is still a relatively young bureau within A.I.D. and is still establishing its role relative to other central and regional bureaus of A.I.D. and relies on this project to bolster its image relative to the other A.I.D. bureaus.

The Executive Committee--It is an advisory committee made up of a representative from each subcontractor, the prime contractor and PRE. It does not have the power to determine management policy of the project but is supposed to serve in an advisory capacity.

APPENDIX 4
EVALUATION SCOPE OF WORK

Background

In September 1985, the Agency for International Development (A.I.D.) entered into Contract #DPE-0009-C-00-5058-00 with Analysis Group, Inc. The contract objective was to provide the Bureau for Private Enterprise (PRE) and A.I.D. Missions abroad with technical assistance to enable them to respond to requests by host governments and indigenous private sectors to promote divestiture and privatization in developing countries. The contract, through the Small Business Administration 8(a) program, was funded at a level of \$2.9 million for two years. The contract was amended in 1987 to extend its termination date through September 1989. By April 1989, total authorized funding of the contract was \$22.8 million, including \$13.1 million in buy-ins from A.I.D. Missions and Regional Bureaus. Of this total, \$15.8 million had been obligated, including buy-ins of \$7.3 million.

Analysis Group, Inc. (AGI) subcontracted initially with five (5) companies, and later with other companies to provide specialized expertise to the project. The initial companies were Arthur Young and Company; Equity Expansion International, Inc.; Ferris and Company; International Phoenix Corp.; and Public Administration Service. AGI established and staffed offices for the PRE-funded project, which was named the Center for Privatization ("Center").

Among the duties listed in its amended statement of work, AGI was to develop for PRE a strategic plan for use in furthering privatization, analyze A.I.D. Mission programs to determine opportunities for privatization; develop mechanisms for dialogue with multilateral and other donor organizations; publish papers and reports on privatization experience; develop a procedure for targeting privatization opportunities; perform a study of how to market divested enterprises; develop a strategy for advancing privatization through conferences; develop and maintain a privatization database; develop a consultant roster; determine the practicality of training host-country officials in the privatization process; and, develop a plan for dissemination of information on the Agency's objectives and activities. AGI was also to provide consultants and experts to respond to requests for short- and long-term assistance from Missions.

The contract was amended several times to provide for buy-ins from Missions and Regional Bureaus, including major subprojects with the Missions in Honduras and Tunisia. As of May 1989, consultants from the Center had worked in 46 countries and fulfilled 120 consulting assignments.

BACKGROUND (CONT.)

The AGI contract, scheduled to expire in September 1989, is currently being extended. The Bureau's divestiture and privatization activities will be continued through a subsequent contract to be awarded through open competition.

ARTICLE I - TITLE

Evaluation of Divestiture and Privatization Project No. 940-0008 of the Bureau for Private Enterprise (PRE), implemented under A.I.D. Contract No. DPE-0008-C-00-5058-00 with Analysis Group, Inc. (AGI).

ARTICLE II - PURPOSE

The purpose of this evaluation is to assess the effectiveness, efficiency and impact of activities carried out by AGI under the above-referenced contract. The evaluation is also intended to assist PRE in its decision making regarding future activities related to promotion of divestiture and privatization in developing countries.

ARTICLE III - STATEMENT OF WORK

The evaluation shall provide empirical findings to address the questions and issues outlined below. The evaluation shall also develop conclusions based on these findings, and recommendations to assist PRE and other A.I.D. managers working with similar projects. Modifications of this statement of work require the approval of the PRE project officer (see VI, below).

A. Effectiveness - Objective Level

1. Assess whether the work of the Center for Privatization ("Center") over the past three-and-a-half (3 1/2) years demonstrates satisfactory progress in advancing privatization.
2. Assess and compare the Center's effectiveness in its two (2) principal roles:
 - a) providing short- and long-term technical assistance at A.I.D. Mission request; and,
 - b) providing technical assistance, including high-quality experts and consultants, to enable PRE to act as a guiding influence in advancing privatization in developing countries.
3. How much of the Center's work has consisted of improving parastatal performance as opposed to assistance targeted directly at achieving privatization?

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ARTICLE III - STATEMENT OF WORK (CONT.)B. Effectiveness - Output Level

1. Have the Center's consultant assignments been performed in a manner satisfactory to PRE and the Missions? Is the Center's briefing of consultants appropriate, up-to-date and adequate? Does the Center field consultants in a timely manner?
2. Have consultant reports been of a quality useful and acceptable to PRE and the Missions? Have they been delivered in a timely manner?
3. Evaluate the Center's performance of tasks related to information collection and dissemination. What studies and papers have been produced by the Center? Assess the quality and utility of those studies, of the Center's privatization database and other informational resources.

ARTICLE III - STATEMENT OF WORK (CONT.)

4. Describe and assess the Center's activities in strategic planning and their contribution to PRE's and Missions' privatization strategies.
5. Has the Center developed a standard procedure for identifying targets for privatization opportunities, as described in Amendment No. 5 to its contract? Describe and assess the procedure.
6. What mechanisms has the Center developed for dialogue with multilateral and other donor organizations involved in privatization? Assess the effectiveness of these mechanisms.
7. Assess the Center's effectiveness in developing and maintaining its consultant roster.
8. Has the Center assessed needs and feasibility of training host-country officials in the privatization process? How successfully?
9. Describe and assess the Center's effectiveness in conducting conferences. Did the Center develop a strategy for conferences as directed in Amendment No. 5? Assess that strategy.
10. Has the Center been effective in backstopping its long-term employees in Tunisia and Honduras, both in substance and logistics?
11. Assess the performance of Center consultants in project design and evaluation. Are these appropriate roles for the Center?

C. Efficiency / Management Issues

1. Assess the Center's organizational structure and relationships between the prime contractor, subcontractors, consultants, and the Center's management. What improvements, if any, could be made to make the Center function more efficiently?
2. How do PRE, the Missions, the Center, and its consultants define privatization? Do perceptions of what constitutes privatization differ among these groups?
3. Is the Center responsive to PRE and/or Mission requests for technical assistance in countries where there is little prospect of achieving privatization? Describe and assess the Center's activity in this area.
4. Assess relationships between the Center, A.I.D. Headquarters, and Missions.
5. Has the Center managed its activities in a cost-effective manner? Describe noteworthy accomplishments and shortcomings, as appropriate.

ARTICLE III - STATEMENT OF WORK (CONT.)D. Impact and Sustainability

1. What, if any, have been the impacts of the Center's activities, including field assignments, reports, studies, papers, and conferences? Assess impacts upon:
 - a) the privatization process in countries where the Center has operated;
 - b) host-government policies and the attitudes of key policymakers in those countries;
 - c) the work of other donors and other entities involved in promoting privatization; and
 - d) activities and attitudes of other A.I.D. Headquarters offices and Missions.
2. In countries where completed privatizations have been achieved following Center activities, what have been the impacts, if any, upon the companies involved? For example, what have been the impacts upon employment, expenditures, production, and efficiency of privatized companies? Describe ownership of privatized companies.
3. In countries in which the Center has conducted assignments, has the momentum of the privatization process continued following Center intervention(s)? Analyze findings, whether negative or affirmative.
4. Is the Center a viable commercial enterprise? If not, how might it be changed to make it commercially viable?
5. What have been the impacts of the contract on the "8(a)" firm selected? Has the experience gained through the contract increased the firm's knowledge base and capacity to obtain work with A.I.D. and elsewhere?

ARTICLE IV - METHODS AND PROCEDURES

The evaluation team's work plan will follow the framework outlined below.

A. Work Plan Preparation, Research and Interviews

At the start of the evaluation, the evaluation team will meet with PRE representatives in Washington, D.C. At this time, the team will formulate a work plan, elaborating plans for interviews, research, and report preparation. The team will also develop interview instruments, to be approved by PRE prior to the team's departure for field study. PRE officers and Center for Privatization representatives will assist in identifying individuals appropriate for interview within the groups listed below.

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ARTICLE IV - METHODS AND PROCEDURES (CONT.)

Prior to commencement of field study, the team will perform preparatory research and interviews in the U.S. as described below. Portions of this work may also be scheduled to follow the field study. Research and interviews will include the following:

1. Review of PRE project files, including the original and amended scopes of work for the AGI contract, and past evaluations and assessments of Center activities.
2. Review of Center for Privatization consultant reports and studies (an appropriately representative sample of each), plus the Center's strategic plans, privatization database, consultant roster and other pertinent materials.
3. Interview of PRE staff involved in management of the AGI contract.
4. Interviews with other A.I.D./W regional and central bureaus involved with Center activities.
5. Interviews with the Center's staff and key consultants.
6. Interview, through a brief standard questionnaire administered by cable and/or telephone, of A.I.D. Mission private sector officers in countries where the Center has completed assignments, other than countries selected for field study.
7. Interviews with participants or attendees of Center-sponsored conferences, where feasible.
8. Interviews with representatives of other donor organizations involved in privatization activities, and other U.S. practitioners of privatization familiar with the Center's activities.

B. Field Study

1. The evaluation will include travel to Jordan, Tunisia, Honduras, and Egypt. Two team members will spend approximately 6 working days in each country with the exception of Egypt, where approximately 8 working days will be spent. To the extent possible, with the assistance of the Center and PRE the team will schedule its interviews for the in-country field study prior to departure. In any event, team members are required to have U.S. Embassy/USAID Mission clearance prior to departure for each post of assignment; PRE will facilitate this process when the team's travel schedule is presented to PRE. A.I.D./W and/or Mission personnel may join the team in performing portions of the field work as schedules may permit.

ARTICLE IV - METHODS AND PROCEDURES (CONT.)

2. Upon arrival in each country, the evaluation team will provide interested A.I.D. Mission officers with a briefing on the objectives and schedule of the evaluation. Mission personnel may provide additional guidance regarding selection of interview subjects and schedules. The team will also offer the Mission a briefing on its findings in each country prior to departure.

3. In-country interviews will include representatives of the following groups:

- a. Mission private sector officers and other personnel familiar with the Center's activities in country;
- b. Host-country government officials involved in past Center activities and/or involved in the privatization process in the country;
- c. Owners and managers of enterprises targeted by Center activities;
- d. Other private sector representatives familiar with Center activities or involved in the country's privatization process.

C. Follow-Up Interviews and Research; Report Preparation

Upon return to the U.S., the team will complete the research and interview schedule outlined above. Follow-up interviews with A.I.D. and Center staff may also be indicated. Briefings and report submissions will be scheduled as described in Article V below.

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ARTICLE V - REPORTING REQUIREMENTS

A. Not less than two (2) weeks following completion of field work (a) the evaluation team will brief PRE and AGI personnel on the team's findings, and (b) the contractor will provide to PRE 12 copies of a draft evaluation report for review and comment by PRE and AGI. PRE and AGI will review the draft report and furnish comments to the contractor within two (2) weeks following receipt of the report; AGI's comments will be transmitted through PRE. Not less than two (2) weeks following receipt of PRE and AGI comments the contractor will provide 12 copies of the final evaluation report incorporating, as appropriate, the comments of the reviewers. One (1) of these 12 copies shall be on 8 1/2 inch by 11 inch bond paper, unbound and of letter quality suitable for duplication.

B. The evaluation report will contain the following format:

- Executive Summary, of no more than three (3) pages, noting (a) the purpose of the activity evaluated; (b) the purpose of the evaluation and the methodology used; (c) findings and conclusions; (d) recommendations for the activity and its successors; and, (e) lessons learned for other activities and A.I.D. generally;
- Table of Contents;
- Body of the Report, of no more than 30 pages, to include (a) identification of the project, including project number; (b) the purpose of the evaluation and a summary of the evaluation study questions; (c) team composition and study methods; (d) findings of the study concerning the evaluation questions, with supporting analyses; (e) the evaluators' conclusions drawn from these findings; (f) recommendations based on the findings and conclusions; and, (g) lessons learned for decisionmakers planning similar projects. Detailed discussion of technical issues may be included in appendices.
- Appendices, to include the evaluation scope of work; a list of individuals and organizations contacted; a list of any reference materials consulted; and any detailed technical material.

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ARTICLE VI - RELATIONSHIPS AND RESPONSIBILITIES

The A.I.D. project officer is Ted Lee, PRE/DP, Room 3208 N.S.,
Tel. (202) 647-5624; telefax (202) 647-1805.

ARTICLE VII - TERM OF PERFORMANCE

- A. The effective date of this delivery order is August 30, 1989 and the estimated completion date is December 15, 1989.
- B. Subject to the ceiling price established in this delivery order and with prior written approval of the Project Officer (see Block No. 5 on the Cover Page), Contractor is authorized to extend the estimated completion date, provided that such extension does not cause the elapsed time for completion of the work, including the furnishing of all deliverables, to extend beyond 30 calendar days from the original estimated completion date. The Contractor shall attach a copy of the Project Officer's approval for any extension of the term of this Delivery Order to the final voucher submitted for payment.
- C. It is the Contractor's responsibility to ensure that the Project Officer approved adjustments to the original estimated completion date do not result in costs incurred which exceed the ceiling price of this Delivery Order. Under no circumstances shall such adjustments authorize the Contractor to be paid any sum in excess of the Delivery Order.
- D. Adjustments which will cause the elapsed time for completion of the work to exceed the original estimated completion date by more than 30 calendar days must be approved in advance by the Contracting Officer.

ARTICLE VIII - WORK DAYS ORDERED

A. Functional <u>Labor Specialist</u>	<u>Work Days Ordered</u>	<u>Fixed Daily Rate</u>	<u>Total</u>
Finance Specialist	79	\$383.68*	\$30,311
Policy Analyst	79	\$519.17**	<u>\$41,014</u>
TOTAL			\$71,325

*Based on a multiplier of 2.32

**Based on a multiplier of 1.93

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ARTICLE VIII - WORK DAYS ORDERED, (Continued)

- B. Subject to the ceiling price established in this Delivery Order and the prior written approval of the Project Officer, the Contractor is authorized to adjust the number or work days actually employed in the performance of the work by each position specified in this Order. The Contractor shall attach a copy of the Project Officer's approval to the final voucher submitted for payment.
- C. It is the Contractor's responsibility to ensure that the Project Officer approved adjustments to the work days ordered for each functional labor specialist do not result in costs incurred which exceed the ceiling price of this Delivery Order. Under no circumstances shall such adjustments authorize the Contractor to be paid any sum in excess of the ceiling price.

ARTICLE IX - CEILING PRICE

(1)	For Work Ordered	\$71,325
(2)	Other Direct Cost	\$18,824
	Ceiling Price (1) + (2)	<u>\$90,149</u>

The Contractor will not be paid any sum in excess of the ceiling price.

ARTICLE X - USE OF GOVERNMENT FACILITIES AND PERSONNEL

- A. The Contractor, and any employee or consultant of the contractor, is prohibited from using U.S. Government facilities (such as office space or equipment), or U.S. Government clerical or technical personnel in the performance of the services specified in the Contract, unless the use of Government facilities or personnel is specifically authorized in the Contract, or is authorized in advance, in writing, by the Contracting Officer.
- B. If, at any time, it is determined that the Contractor, or any of its employees or consultants, have used U.S. Government facilities or personnel without authorization, then the amount payable under the Contract shall be reduced by an amount equal to the value of the U.S. Government facilities or personnel used by the Contractor, as determined by the Contracting Officer.

ARTICLE X - USE OF GOVERNMENT FACILITIES AND PERSONNEL (CONT.)

C. If the parties fail to agree on an adjustment made pursuant to this clause, it shall be considered a "dispute" and shall be dealt with under the terms of the "Disputes" clause of the Contract.

ARTICLE XI - LOGISTIC SUPPORT

The Contractor shall provide all the necessary logistic support.

ARTICLE XII - ACCESS TO CLASSIFIED INFORMATION

The Contractor will not have access to classified information.

ARTICLE XIII - DUTY POST

The Duty Post for this delivery order will be A.I.D./Washington

ARTICLE XIV - WORK WEEK

The Contractor is authorized up to a 6-day work week overseas with no premium pay.

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APPENDIX 5
ISSUE ANALYSIS

**APPENDIX 5
EVALUATION OF THE DIVESTITUTE AND PRIVATIZATION PROJECT:
ISSUE ANALYSIS**

I. Effectiveness: Did CFP meet the privatization goals of PRE?

A. How internally consistent are objectives, goals, strategies in the PRE/CFP privatization policy? How consistent are they between PRE and CFP?

1. How consistent are the privatization objectives and goals of PRE? How consistent are the objectives and goals between PRE and CFP?
 - a. How consistent are PRE's objectives and goals?
 - b. How consistent are CFP's objectives with PRE's?
 - 1) To what extent did CFP's scope of work translate PRE's objectives into specific CFP objectives and goals?
 - 2) How did CFP interpret its objectives and goals? How did it interpret its scope of work?
 - 3) Was PRE aware and in accord with CFP's interpretation?
2. To what extent did the CFP strategy translate the scope of work into action?
 - a. Were CFP outputs designed to meet CFP's goals as stated in the scope of work?
 - b. Were the output expectations realistic given the time and budget constraints?
 - c. Were the outputs, planned by the strategy, described in enough detail? Did they match those called for by the scope of work?
 - d. How were the required inputs chosen?
 - 1) Were they appropriate for producing the desired outputs?
 - 2) Did they fit within the time and budget constraints?
 - e. Was the CFP strategy approved by PRE?

B. Institutional analysis: How was the CFP organized to implement its strategy?

1. How well was CFP's organizational structure adapted to its strategy?
 - a) How were responsibilities divided?
 - b) Did the job positions match their responsibilities?
 - c) How clearly defined were the job positions created for the CFP?
2. How did the CFP relate to its parent firm, AGI/Scientex?
3. How did the CFP relate to the sub-contractors?

C. To what extent did CFP carry out its strategy?

1. How did CFP manage the inputs?
 - a. How did the CFP control the work of its staff and the subcontractors?
 - b. How did the CFP deal with its subcontractors?
 - c. How did the CFP manage the long term projects?
2. What has been the quality of CFP's outputs?
 - a. How have the CFP's outputs compared to those foreseen by its strategy? the scope of work?

APPENDIX 5 (Continued)
EVALUATION OF THE DIVESTITUTE AND PRIVATIZATION PROJECT:
ISSUE ANALYSIS

- 1) TA to PRE
- 2) TA to Missions
- b. How was the quality/quantity/timing of its output appreciated by the recipients? AID/W and the AID missions?
- c. How did the CFP service its clients: AID/W and the Missions?
 - 1) How responsive was the CFP to their inquiries?
 - a) Where there are good prospects of achieving privatization
 - b) Where the prospects of achieving privatization are less likely
 - 2) Did the CFP understand their needs and fulfill them?
 - a) PRE strategy
 - b) Research
 - c) Conferences
 - d) Database
 - e) Mission strategies
 - f) Project design and evaluation
 - f) Other consultancies
 - 3) How did the CFP maintain its relationships with AID/W and the Missions?

II. Efficiency: How efficiently has the CFP used the resources available to it? How cost effective has the CFP been?

- A. Have its services been billed at competitive rates? Is CFP being subsidized?
 - a. Has the average cost of its billable day been reasonable relative to other consulting firms?
 - b. What were the financial arrangements between CFP and AID?
 - 1) What services were provided under the overhead and what services were billed to AID?
 - 2) What was funded by core funds versus mission buy-ins?
 - c. Has the relationship between inputs and outputs been acceptable to AID/W and the Missions? (i.e. person days per task, operating-to-overhead expense ratio, total cost per person day).
- B. Can CFP provide its services competitively to other donors?
- C. Has its financial control been adequate?
 - a. To what extent were the financial procedures developed and followed?
 - b. To what extent were its expenditures and its receipts documented?

III. Impact: Has the work of the CFP demonstrated satisfactory progress in advancing privatization in developing countries?

- A. To what extent has its work helped:
 1. Host governments understand the process of privatization
 2. Host governments become more interested and involved in privatization
 3. Host governments produce a more favorable climate to privatization

APPENDIX 5 (Continued)
EVALUATION OF THE DIVESTITUTE AND PRIVATIZATION PROJECT:
ISSUE ANALYSIS

4. Host governments carry out privatizations
5. Missions in understanding what is involved in privatization
6. Missions in designing an adapted privatization strategy
7. Missions in supporting privatization actions

B. To what extent has the work of the CFP led to an improvement in the expansion of privatization as a field of knowledge?

1. Have the CFP's findings been recorded?
2. Have its findings benefited AID's understanding of the privatization process?
3. Has the CFP helped AID revise its strategy as new findings improve the state of the art?
4. Has the CFP used the lessons learned from experience in new privatization attempts?
5. Will the lessons learned be available for future generations of privatizations, independently of the CFP?

IV. Impact: What effects has the contract had on the 8(a) parent firm, Scientex?

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APPENDIX 6A
RESULTS OF FOUR COUNTRY VISITS
RESPONSES TO QUESTIONNAIRE

APPENDIX 6A

RESULTS OF FOUR COUNTRY VISITS RESPONSES TO QUESTIONNAIRE

A questionnaire was designed to standardize the comments with respect to the project, the CFP, and PRE of the people interviewed during the field trips to Tunisia, Egypt, Jordan and Honduras. Three types of interviewees were encountered in the field, differentiated by the type of relationship they had with the project: the consultants who are directly affected by the CFP's backstopping capabilities; the Mission officers who requested and used the services and resources of the project; and the host government officials who received assistance from the Missions and were the ultimate recipients of the project's outputs.

The Questionnaire

The questionnaire provoked the interviewees to comment on- and evaluate the attributes of the three inputs of the project: the buy-in mechanism, core funding, and the management organization--Scientex/CFP, henceforth called the CFP. More summarily, the questionnaire requested responses to the attributes of PRE.

The interviewees were asked to evaluate each attribute according to the following scoring and explain why they did so: Very Good, Good, Fair or Poor. The following are the attributes which were subjected to the scores:

The responsiveness of the CFP in terms of:

- 1) The CFP staff's ability to understand what they (the interviewees) needed and expected from the project
- 2) The CFP staff's ability to understand the technical aspects of the privatization process that was being designed and implemented in the field
- 3) The CFP's timeliness in responding to their different queries
- 4) The quality and quantity of the CFP's response to their requests

The kind of relationship that the CFP maintained with them:

- 1) The degree of genuine interest the CFP staff showed for the work that they were doing
- 2) The frequency of contact with the CFP staff
- 3) The level and ease of communication with the CFP staff
- 4) The extent to which they were integrated in the CFP as part of an organization and its activities

The attributes of the project's other inputs and PRE:

- 1) The usefulness of the buy-in mechanism and the core funding that was provided by the project
- 2) The responsiveness of the PRE project officer to queries
- 3) The level and frequency of communication with the PRE project officer

The Interviewees

In the four countries visited, we subjected only the people who had direct contact with the project, the CFP, and PRE to the questionnaire to get the points of view of only the direct recipients of the project's services and resources. Four

consultants fielded by the CFP, eight Mission officers, and six host government officials responded.

The consultants' major contact with the CFP was of a logistical nature. Three of the four consultants were long-term advisors. They had no comments on the buy-in mechanism, core funding, or the PRE project officer.

The eight Mission officers had input on all of the questions and had contact with the project, CFP, and PRE directly as recipients of their services. Seven of the eight evaluated the buy-in mechanism and the core funding, and six evaluated the PRE's input into the project.

The six host government officials had all had most of their contact with the project from having attended conferences and seminars thereby having had direct contact with the CFP. The officials had been recipients of other project services either by having long-term advisors or technical assistance from a short term team of consultants fielded by the CFP. Their responses relating to the CFP may have included their evaluation of the consultants' work although it was expressly requested that they evaluate only the CFP. They had no comments on the buy-in mechanism, the core funding, or the input of the PRE project officer.

The Methodology

The scores provided by the interviewees were in the form of: Very Good, Good, Fair or Poor. To combine these and to give a single score in cases where the response involved a range such as Very Good to Good, it was necessary to quantify these scores. The method used to quantify the responses incorporated the perception that none of the interviewees wanted to use the two extremes because they were so absolute. Hence when they are used they have a lot more impact and the weighting should reflect this point. So Very Good was equated to 10 and Poor to 0, and a larger gap was created between them and the more moderate scores, Good and Fair. Hence Good was equated to 6 and Fair to 4. The rankings in between arose from the need to combine scores across people. They were quantified on a curve, depending on the outcome of the responses. The quantifications were as follows:

Very Good	-- 10
Good+	-- 6.1 to 8
Good	-- 6
Good-	-- 5.1 to 5.9
Fair+	-- 4.1 to 5
Fair	-- 4
Fair-	-- 3.1 to 3.9
Poor+	-- 0.1 to 3
Poor	-- 0

The combination of scores across people and across attributes was done by simple, un-weighted averaging. To be more representative, the average score for each attribute, in the right hand column of Table 1, is averaged across people rather than across groups.

The Responses

Interpretation of the results requires that one keep in mind what the three groups of people are evaluating: The consultants were reacting mainly to the CFP's ability to backstop them technically and logistically; the Mission officers were reacting to the CFP's ability to send good consultants and to provide a successful consultancy, i.e. the CFP's ability to be a good consulting firm. The government officials were mainly reacting to their experiences at the seminars and conferences and secondarily may have included their opinions of the consultancies.

The results presented in Table 1 showed that the project fared moderately well: The CFP received between a Fair+ and a Good-; the buy-in mechanism and the core funding received a Good-; and PRE's input received between a Good and a Good+. The CFP fared much better in its responsiveness to queries than the way it handled its relationships with others. The consultants thought less of the CFP's attributes than the Missions did, and the government officials had a higher opinion of the CFP than the other two groups did.

The other parts of the project were more highly regarded. The buy-in mechanism and core funding would have received a higher average score than Good- had it not been for two Poor scores that reflected the extreme delays in contracting due both to the contracting office in Washington and the Missions' own bureaucracies. Otherwise, it received three Very Good and two Good scores. The PRE received the highest overall score, a Good, which was a combination of six Mission officers' responses.

APPENDIX 6A: Table 1
RESULTS OF FOUR COUNTRY VISITS
RESPONSES TO THE FIELD QUESTIONNAIRE

<i>Scores by:</i>	Four Consultants to the CFP	Eight Mission Officers	Six Host- Government Officials	Average Score				
Attributes of the CFP:								
Responsiveness								
--Understanding of their needs	Fair+	4.3	Good+	7.4	Good+	8.0	Good+	6.8
--Understanding of the technical subject matter	Poor+	2.0	Fair+	4.4	Good+	6.7	Fair+	4.8
--Timeliness of the response to a query	Fair-	3.8	Fair	4.0	Good+	6.3	Fair+	4.7
--Quantity and quality of the response	Fair+	5.0	Fair+	4.6	Good+	6.3	Good-	5.3
Average score	Fair-	3.8	Good-	5.1	Good+	6.8	Good-	5.4
Relationship								
--Level of interest it shows in their work	Good	6.0	Good+	7.4	Good+	7.7	Good+	6.8
--Frequency of contact	Fair	4.0	Good-	5.3	Good-	5.2	Good-	5.1
--Level of communication	Good-	5.5	Fair-	3.1	Good-	5.6	Fair+	4.5
--Level of integration	Poor+	1.0	Fair-	2.7	Fair	4.0	Fair-	2.4
Average score	Fair+	4.1	Fair+	4.6	Good-	5.6	Fair+	4.7
Attributes of the Project/PRE *:								
--Usefulness of the buy-in mechanism/core funding	N/A		Good-	5.3	N/A		Good-	5.3
--Responsiveness of PRE	N/A		Good+	6.3	N/A		Good+	6.3
--Level of communication with PRE	N/A		Good	6.0	N/A		Good	6.0
Average score	N/A		Good	6.0	N/A		Good	6.0

Notes:

The scores were determined as follows: The responses to the questionnaire ranged between Very Good, Good, Fair, and Poor. The following numeric scoring was used to determine averages: Very Good--10; Good+--6.1 to 8; Good--6; Good- --5.1 to 5.9; Fair+--4.1 to 5.0; Fair--4; Fair- --2.1 to 3.9; Poor+--0.1 to 2.0; and Poor--0.

* There were six responses on the attributes of the PRE and seven responses on the usefulness of the buy-in mechanism and core funding from mission officers.

6b-1

APPENDIX 6B
MISSION RESPONSES TO CABLE QUESTIONNAIRE

APPENDIX 6B

MISSION RESPONSES TO CABLE QUESTIONNAIRE

The evaluation team received 25 responses to its worldwide cable, including eleven Missions which have not used any of the CFP's services.

Two of the Missions responded that they had not used the CFP, even though they had received CFP assistance. This included Belize, where a CFP consultant, under one of the subcontractors, helped to implement some small privatization transactions.

Highlights from the responses:

CFP served as very effective promotional tool: Seminars were very well liked and found useful; the overview studies have helped to generate dialogue on privatization; and the conference speakers have been positive inputs.

Two responses from Missions which were dissatisfied with the CFP response to Mission request for assistance.

Two evaluations were reviewed and given high marks for technical quality of team and analysis, though REDSO/ESA questions the objectivity of the CFP to evaluate privatization projects.

Missions in Sahel responded that the IBRD is taking the lead on privatization and they have not been involved.

Mixed responses on the quality of the reports, several good, one bad. Analysis of reports is best at firm level and for overviews. Design of privatization strategy and recommended actions in one country did not have sufficient analysis.

<u>Country</u>	<u>Comments</u>
Belize	Claims they have not asked for or received assistance from CFP, even though CFP performed work there in 1986. Like the access to assistance under a centrally funded project.
Cameroon	Participation in AEMP, found it helpful and a very good starting point, but did not deliver the expected strategy. Mission is now looking among possible different suppliers of services to choose best slate of candidates to help the GOC formulate a privatization strategy.
Chad	No assistance
Chile	Mission favorably impressed. Paul Elicker provided good assistance to Mission (only one visit). Provided timely response to requests from Chileans for additional information. Want a biased proponent of privatization, recommends creation of independent entity out from under AID wing.
Costa Rica	Mission received no assistance for CFP, though it asked for assistance with a conference but none was forthcoming. Mission thought the work done for LAC/DP to evaluate Codessa was of high quality.

Dominican Repub. CFP team reviewed four firms and selected one as best bet for privatization, preparing strategy. Highly professional team. No impact to study since GODR not active on privatization due to upcoming elections.

Ecuador Selected CFP because encouraged by AID, good work led to continued collaboration. Studies laid the groundwork for continued privatization work.

El Salvador No services used according to the cable, however the CFP fielded one consultant in 12/88 to review waste management services.

Fiji Claim no assistance, despite the conference held there.

Guinea Bissau No assistance

India Report was shallow and poorly focused, needed substantial editing. The CFP activity and the publicity given to it by the Mission, along with many other factors, has helped to promote a perceptible shift in government policy in favor of public-private partnerships for the delivery of Urban shelter services.

Ivory Coast No assistance

Jamaica No assistance

Lesotho No assistance asked for.

Liberia One study on Liberia Sugar Corporation. Satisfied with report, but unable to get follow-on team. Very difficult to communicate with the CFP (comment from PRE is that they counselled Mission to not pursue since not a viable option).

Mali No assistance asked for or received. World Bank is handling privatization issues.

Morocco Provided french speaking panelists to conferences twice on short notice. Limited impact to date because of GOM positions on privatization

Nepal no assistance, but sent participants to IMG seminar.

Niger No assistance. World Bank is handling privatization for GON.

Nigeria Claims that they have not used the CFP, even though the CFP has done work there

Philippines Philippine Dept. of Finance staff attended several seminars in DC, very positive reaction. Response on TA confusing, implies slow responsiveness, but good consultants. Output not what was asked for by the Mission. Mission would like more direct transaction-oriented assistance rather than studies and assessments. Cable ignored 80% of the work actually performed in the Philippines by the CFP.

RDOC (Barbados) Had one consultant, no other comments.

REDSO/ESA Never asked for or received services. One case where Private Sector officer worked with CFP on Malawi Evaluation, provided good consultants, but questioned role of CFP as objective evaluator of a privatization program.

Sri Lanka No technical assistance, but seminar participants very pleased, particularly with opportunity to meet other people engaged in third world privatization issues.

Sudan No assistance, none anticipated

Thailand Cable sent in, but PRE apparently unable to find a copy as it has not been forwarded despite numerous requests.

Zaire Report was a sound assessment of current situation but jumped too soon to project solutions before thorough discussion of policy and strategy options. Premature and overambitious recommendations. No impact to host country since privatization not a key element of AID prisector strategy. Not enough education of mission staff by consultants. Need more real privatization experience among the professionals fielded, including local hires.

Zambia No contact with CFP.

Zimbabwe Very satisfied with work done by the CFP: prompt delivery of report, responded to SOW. Liked the focused expertise. No follow on.

16 AID/PRE/PD:RANDERSON
17 AID/AFR/MDI:WWEINSTEIN (PHONE)
18 AID/LAC/PSA:ASHAPLEIGH (PHONE)
19

AID/PRE/PD:DCOWLES (SUBS)
AID/ANE/PSD:LMARSTON (PHONE)
AID/A/ES:MHAGEBOECK
-334230 241419Z /33

20 R 240534Z OCT 89 ZEX
21 FM SECSTATE WASHDC
22 TO AID WORLDWIDE
23

24 UNCLAS STATE 339831

25
26 AIDAC

27
28 E.O. 12956: N/A

29 TAGS:

30 SUBJECT: EVALUATION OF DIVESTITURE AND PRIVATIZATION
31 PROJECT NO. 940-0008 OF THE BUREAU FOR PRIVATE
32 ENTERPRISE (PRE)
33

34 1. THIS IS AN ACTION MESSAGE. SEE PARAGRAPH 5 BELOW.
35

36 2. (SUMMARY) THE PRE BUREAU IS CONDUCTING AN
37 END-OF-PROJECT EVALUATION OF ITS DIVESTITURE AND
38 PRIVATIZATION PROJECT NO. 940-0008 UNDER WHICH THE QUOTE
39 CENTER FOR PRIVATIZATION (CFP) UNQUOTE HAS BEEN
40 ESTABLISHED BY THE PROJECT CONTRACTOR, ANALYSIS GROUP,
41 INC. (AGI). PRE IS DESIGNING A NEW PROJECT UNDER WHICH
42 THE CFP CONTRACT WILL BE RE-BID. THE VIEWS OF USAID
43 PRIVATE SECTOR OFFICERS ON THE QUALITY, RESPONSIVENESS
44 AND TIMELINESS OF CFP TECHNICAL ASSISTANCE UNDER THE
45 CURRENT PROJECT ARE REQUESTED BY THE EVALUATION
46 CONTRACTOR SELECTED BY PRE. (END SUMMARY)
47

01
02 3. BACKGROUND AND PURPOSE OF EVALUATION:

03 A. IN SEPTEMBER 1985, AID/PRE ENTERED INTO A DIVESTITURE
04 AND PRIVATIZATION PROJECT-FUNDED CONTRACT WITH AGI THE
05 OBJECTIVE OF WHICH WAS TO PROVIDE PRE AND USAIDS WITH
06
07 TECHNICAL ASSISTANCE TO ENABLE THEM TO RESPOND TO
08 REQUESTS BY HOST COUNTRY GOVERNMENTS AND INDIGENOUS
09 PRIVATE SECTORS TO PROMOTE DIVESTITURE AND PRIVATIZATION
10 IN DEVELOPING COUNTRIES.
11

12 B. AID/PRE HAS NOW CONTRACTED WITH DEVELOPMENT
13 ALTERNATIVES, INC. (DAI) TO PERFORM AN END-OF-PROJECT
14 EVALUATION UNDER AN IQC DELIVERY ORDER. DAI'S TASK IS
15 TO ASSESS THE EFFECTIVENESS, EFFICIENCY AND IMPACT OF
16 ACTIVITIES CARRIED OUT BY AGI UNDER THE AGI/AID CONTRACT
17 CITED ABOVE.
18

19 4. EVALUATION METHODS AND PROCEDURES

20
21 DAI'S CONTRACT CALLS FOR (A) THE USUAL RESEARCH AND
22 INTERVIEWS AT AID/W, CFP, ETC.; (B) FIELD VISITS TO
23 USAIDS HONDURAS, TUNISIA, EGYPT AND JORDAN (WHICH VISITS
24 ARE BEING COORDINATED BY SEPTELS AND ARE THEREFORE
25 EXPRESSLY NOT DEALT WITH HEREIN); AND (C) INTERVIEWS,
26 THROUGH A BRIEF STANDARD QUESTIONNAIRE ADMINISTERED BY
27 CABLE AND/OR TELEPHONE, OF A.I.D. MISSION PRIVATE SECTOR
28 OFFICERS IN COUNTRIES WHERE CFP HAS COMPLETED
29 ASSIGNMENTS, OTHER THAN THOSE FOUR COUNTRIES SELECTED
30 FOR FIELD STUDY AS PER 4. (B) ABOVE.

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32 5. ACTION REQUESTED (FOR ALL ADDRESSEE USAIDS OTHER THAN
33 TEGUCIGALPA, TUNIS, AMMAN AND CAIRO); PRIVATE SECTOR
34 OFFICER'S CABLE RESPONSE TO FOLLOWING QUESTIONS,
35 SUBMITTED BY EVALUATION CONTRACTOR DAI, IS REQUESTED:
36
37 A. HAS YOUR MISSION EVER ASKED FOR OR RECEIVED
38 ASSISTANCE FROM CFP? IF RESPONSE IS NEGATIVE PLEASE
39 BRIEFLY EXPLAIN. (SEE ALSO SUBPARAGRAPH 5.B. (3) (B)
40 BELOW).
41
42 B. WHERE CFP ASSISTANCE WAS REPEAT WAS PROVIDED TO YOUR
43 MISSION, WE ARE INTERESTED IN CFP PERFORMANCE IN TWO
44 BASIC AREAS: TECHNICAL ASSISTANCE AND CONFERENCE
45 ACTIVITIES:
46
47 (1). TECHNICAL ASSISTANCE:
48 (A) PLEASE IDENTIFY THE JOB, TASKS PERFORMED, PRIMARY
49 COUNTERPART, THE RESULTS OF THE EFFORT, AND DEGREE OF
50 USAID AND COUNTERPART SATISFACTION.
51
52 (B) PRIVATIZATION SERVICES ARE AVAILABLE FROM A VARIETY
53 OF DIFFERENT PROJECTS/CONTRACTS, INCLUDING REGIONAL
54 IQCS, CENTRALLY-FUNDED REGION-SPECIFIC PRIVATE SECTOR
55 PROJECTS, AND CENTRALLY-FUNDED S AND T AND PRE BUREAU
56 ACTIVITIES. ON WHAT CRITERIA WAS THE CFP SELECTED TO
57 FULFILL THE TASKS?
58
59 (2) CONFERENCE ACTIVITIES: PLEASE IDENTIFY THE
60 CONFERENCE, ITS PURPOSE, THE CFP'S ROLE IN ORGANIZING
61 IT, PERCEIVED VALUE AND COUNTERPART SATISFACTION.
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65 (3) GENERAL: PLEASE CONCLUDE WITH (A) AN ASSESSMENT OF
66 WHETHER CFP ACTIVITIES HAVE MADE A SIGNIFICANT IMPACT ON
67 THE PRIVATIZATION PROCESS IN THE HOST COUNTRY, IF NOT,
68 WHY NOT AND (B) SUGGESTIONS AS TO HOW MISSION NEEDS WITH
69 RELATION TO PRIVATIZATION COULD BE BETTER MET BY
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07 CENTRALLY-FUNDED PROJECTS.
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09 6. PLEASE SLUG CABLE REPLIES TO AID/PRE/DP, TED LEE FOR
10 DAI. DAI REQUESTS YOUR RESPONSE NOT LATER THAN OCTOBER
11 30, 1989. PLEASE ADDRESS ALL QUERIES RE THE EVALUATION
12 ITSELF DIRECTLY TO DAI.
13
14 7. YOUR COOPERATION IN THIS MAJOR EVALUATION BY DAI IS
15 VERY MUCH APPRECIATED BY PRE AND THE REGIONAL BUREAU. BAKER
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APPENDIX 6C
QUESTIONNAIRE FOR SUBCONTRACTORS TO CFP

APPENDIX 6C
QUESTIONNAIRE FOR SUBCONTRACTORS TO CFP

How did your firm become involved with the CFP?

How many assignments has your firm performed under the contract? How were you contacted by the Center to fill these assignments? Did you compete with the other subcontractors to field the team? Were teams fielded by the Center or by the individual firm?

How many of these were by full time staff and how many by associates or intermittent employees?

What is your assessment of the role the Center is playing now? Does it fulfill the needs of AID? PRE?

What do you think the center should be doing? How can it best be used to further the advancement of privatization?

Do you think the Center could be a viable entity? Do you think there is sufficient demand from AID missions, other Donor Agencies, and Host country Governments to cover the costs of a firm specialized on Privatization?

Would you consider creating a division within your company to perform the role the Center is currently filling?

What has been your link with Scientex? Have they been responsive to your needs?

How effectively has the center responded to your contracting needs? Pls describe the contracting process?

Please describe the normal procedures when the Center receives a request for a team? How do you get involved?

How have you marketed the Center on your trips overseas or when visiting AID bureaus in Washington? Are you satisfied with the role the Center has played in marketing its services, trying to develop business from AID missions?

What benefits have you gained from being part of the CFP consortium?

What is the purpose of the monthly meetings? What concrete actions have you taken to direct the activities of the center and shape the role it plays?

As subcontractors, have you been requested to provide an action plan for services which you feel are necessary and to defend the budget allocated to you?

APPENDIX 7
CENTER FOR PRIVATIZATION EVALUATION
FINDINGS FROM EGYPT, JORDAN, TUNISIA, AND HONDURAS

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APPENDIX 7

**CENTER FOR PRIVATIZATION EVALUATION
FINDINGS FROM EGYPT, JORDAN, TUNISIA, AND HONDURAS**

**OVERVIEW OF FINDINGS FROM THE EGYPT COUNTRY VISIT
(October 1-14, 1989)**

I. Background

Egypt presents a very difficult environment in which to promote privatization. It is coming out of a socialistic era instituted in the 1950's to industrialize the country, during which time controls on every aspect of the economy were established. The web of public enterprises created since then is far reaching with a very complex organization. There are 370 state-owned enterprises (SOE) under the supervision of 18 ministries with no one agency responsible for their coordination or planning. In 1985, SOEs represented 60% of value added, 82% of the capital stock, 54% of employment and 90% of exports of the industrial sector.¹ While an era of "open door policy" was instituted in the 1960's, the economy continues to be ridden with distortions and disequilibria created by the policy environment. It has remained extremely difficult for the private sector to participate in all major branches of the economy since they would be competing against the SOEs which enjoy special privileges safeguarding their monopoly over their markets. The economy has lagged behind population growth, not being able to produce enough to sustain the population, and the productive sector has become a burden on the government budget.

II. The Actors

The success of the privatization program will depend on the policies and activities the Government of Egypt (GOE) chooses to implement. The Mission is playing an active role promoting and supporting the GOE in moving toward a more liberalized economy and strengthening the role of the private sector. The CFP is assisting the Mission in shaping its interventions to support GOE privatization efforts. The AID Bureau for Private Enterprise (PRE) has acted as an intermediary between the CFP and the Mission.

A. The Government of Egypt. The dialogue on public/private ownership is only just beginning in Egypt and it is only with Mubarak's speech of July 23, 1989 that privatization has gotten the explicit approval and support at the highest levels of the GOE. Most GOE officials are still very reticent to discuss the subject. There are a few supporters in the Ministries of Tourism, Agriculture and International Cooperation.

The GOE has not yet decided how it wants to formally approach privatization. It does not yet have any plans or strategy for implementing Mubarak's July 23 policy guidance and has not instituted a legal process defining a structure to implement privatization in a systematic fashion. Therefore, the approval process within the GOE for each stage of privatization implementation is not clear. This means that the Mission's strategy must depend on exploiting the niches of interest within those interested ministries and governorates, working within the governorates' defined levels of authority. Not until a clear process is designed by the GOE to review and implement privatization

¹ The World Bank, Egypt: Country Economic Memorandum, June 8, 1989.

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at the national level will the Mission's privatization projects be efficiently implemented. This is probably the most important reason for the mixed success of the Mission's efforts in planning for privatization.

Some successful privatizations are now being implemented by the GOE in the tourism sector by means of leasing the assets of some SOEs and contracting out the management of other SOEs to private firms. This is being done without the help of the Mission or the CFP.

The major issues concerning the GOE reticence toward privatization are the social repercussions, in particular the effect it may have on employment. While privatization, in general, raises many social concerns, the Mission's ESOP proposals are receiving wide support within the GOE and among the private sector. The ESOP presents a method of privatization which is in keeping with the Islamic notion of economic justice. It is seen as the perfect intermediate step between a publicly-controlled economy and a strong and healthy private sector economy. However the ESOP being designed for the privatization of the Alexandria Tire Company (ATC), faces the same problems as the other privatization activities due to the lack of an established process of review and implementation within the GOE. It has gone through an ad hoc bureaucratic process of approval which has been inordinately long and tedious, and it has not yet passed the last hurdles.

B. The USAID/Egypt Mission. The USAID/Egypt Mission (henceforth called the Mission) has developed a strategy focusing on creating a liberalized economy, free of policy distortions which hinder the development of an efficient economy and a competitive private sector. Privatization is one policy initiative the Mission is promoting within this larger framework. The Mission's privatization strategy involves three major phases:

Phase One involves establishing public awareness of the benefits of liberalization and privatization. Started three years ago, it will continue for another three years. While there is still opposition to privatization on a national scale, there are now many proponents of privatization within the GOE, especially in the Ministries of Agriculture and Tourism, thanks to this awareness-building program.

Phase Two involves creating a technical capability to help the GOE to proceed successfully with liberalization and privatization. This phase is also designed to begin implementing privatizations. Activities in this phase have begun two years ago.

Phase Three involves the financing and further implementation of the programs begun in Phase Two. One activity has already reached this phase, in particular the financing of the ATC ESOP.

The Mission's activities have covered all three Phases.

1. The Mission has sent high-level government officials to privatization seminars, has sponsored conferences in Egypt, has provided literature, and is holding a constant policy dialogue stressing privatization of SOEs as part of liberalization of the economy. This effort is bearing fruit in many areas, and, in particular, on a national scale with President Mubarak's July 23, 1989 speech supporting the dismantling of inefficient public enterprises in the governorates.

2. Privatization of SOEs at the governorate level, handled by the Mission's Trade and Investment Office, is an activity which is being implemented presently and for which the Mission's help has been requested. This activity, among all of the Mission's other privatization implementation activities, will be funded out of the Partnership in Development project. The project has taken two years to be designed and has not yet

been approved, suffering delays caused by the GOE and AID bureaucracies and the lack of a formal review and approval process.

3. Privatization of the input distribution network of the Principal Bank for Development and Agricultural Credit (PBDAC) is part of a larger agricultural policy reform program. It is being spearheaded by the Mission's Agricultural Office. The PBDAC study has led to a debate providing concerned government officials with a forum in which to communicate and think seriously about the privatization of the bank. The technical assistance provided useful technical information to the management of the bank and the Mission.

4. Developing the ATC ESOP is overseen by the Mission's Trade and Investment office and will be funded in the future by the Partnership in Development Project. The actual ESOP activity involves the design and implementation of a financial mechanism by which a new public sector investment, the Alexandria Tire Company, will be privatized before it becomes a SOE. It has been given a successful awareness-building campaign both by the Mission and by the technical assistance that designed the ESOP investment and financial deal. At present, the deal is accomplished² and the ESOP structure is designed. Within the next three years, once the factory is built and the workers are hired, the actual ESOP will be put into effect.

The general conclusion drawn by the evaluation team is that the USAID/Egypt Mission has designed a very pragmatic strategy for helping the GOE liberalize its economy. The privatization strategy falls logically within this broader economic liberalization strategy. Its planning efforts have been well focused. The implementation of Phase One was well timed and on target with the needs of the GOE and therefore has been extremely successful. As a result, the Mission can take much of the credit for the support that can be seen in the GOE for liberalization and privatization. It has been very successful especially in promoting the ESOP concept--maybe even too successful for the Mission's desire to maintain a rational and methodical approach to liberalization of Egypt's economic structure, as the ESOP seems to have taken the proportions of a fad in Egypt.

None of the Mission-sponsored privatization activities have yet resulted in a privatization, but significant progress has been made on all fronts to get government awareness and interest in the subject. This indicates that, in Egypt, the time and effort required to develop public awareness and government support are longer and greater than was anticipated.

C. The Center for Privatization. The CFP's technical assistance to the Mission has been headed by the President of the ARIES Group who was considered by the Mission as its principal advisor for the privatization initiatives and representative of the CFP. The CFP has been involved in all of the privatization activities of the Mission. Its two successes have been in assisting awareness-building by organizing the privatization seminars and conferences; and in its efforts on the design of the Alexandria Tire Company ESOP. Although these successes are attributed to the CFP in general, the real credit is due to the work of a few people in the ARIES Group and Equity Expansion International. The different services of the CFP to the Egypt Mission were:

² While the financial and investment deal is accomplished, this particular ESOP configuration depends on the passing of an amendment to the Companies' Law allowing an association to hold valuable shares of stock. The ESOP deal is conditional on the amendment being passed within five years of the value date of the financial (loan) agreement.

1. **Fielding the consultants for the PBDAC study.** The CFP provided one consultant for six weeks to draft the statement of work for the study. He returned for six more weeks to revise his work. The CFP was then competitively selected to field the five-person study team (comprised of consultants from three of the CFP subcontractors) to design a strategy for privatizing PBDAC's input distribution network.

The PBDAC effort served as an initial feasibility study for privatizing the bank's commercial activities. It was a valuable information-gathering and awareness-building exercise. However, it was not realistic to assume that the four month study could provide the impact statements, the alternative solutions and a roadmap to achieving the long-run objectives of privatization. From that standpoint, the breadth of the scope of work was unrealistic given the realities of the consultancy and the circumstances of PBDAC.

The study received a mixed reaction. Mission and GOE representatives of the Ministry of Agriculture were pleased with the information that the report provided, but agree that it is just the first of a series of studies which need to be done (including the overall economic impact of privatization, the impact on the farmers and on redundant labor). The PBDAC managers were less pleased with the study. They were expecting a plan which would develop a case for privatization of the input distribution network with some viable options and plans for privatization as they had been led to expect from the statement of work. They did not receive what they expected. The consulting team should have made an effort to diffuse the expectations within PBDAC or to provide a more responsive product. Even though the PBDAC managers submitted many comments, the final report was substantially unchanged from the final draft and it was delivered six months after the team's departure.

2. **Developing the Partnership in Development Project.** The CFP/ARIES Group provided technical assistance to the Mission to review the GOE governorate privatization program and to develop a methodology for the evaluation of their SOEs. The consultants' work was well received by the Mission and led to a request to the CFP for further work writing the Project Identification Document and, later, writing the Project Paper. While the first team the CFP vetted was successful in writing a good Project Identification Document, the second team did not fare so well. The team leader the CFP chose for the writing of the Project Paper proved to be unqualified to write and assemble the document. He left one week into the consultancy and the Mission decided to produce the document in-house.

3. **Designing the ATC ESOP.** For the ATC ESOP, the CFP fielded a team of full-time staff members from two of its subcontractors (ARIES Group and Equity Expansion International) to develop the process and guidelines for an LE 42.1 million ESOP financial package. The team worked very effectively with Mission staff, and the GOE and private sector counterparts to design a creative and workable program. The team leader was absent for the majority of the assignment, did not approve the concept of the ESOP that was being designed, and resigned from the project. The assignment was successfully achieved without him to the satisfaction of all parties concerned except the CFP. The CFP submitted its reservations on the final report and tried to reshape its findings, against the Mission's wishes.

D. AID/Washington PRE Bureau. The PRE bureau has acted as an intermediary between the Mission and the CFP. In that capacity it has not had much impact on the Mission's privatization program. The Mission generally maintained direct contact with the CFP in particular with Jalil Shoraka, during his frequent visits to Cairo.

III. Observations on the role of the CFP in Egypt

A. The most positive aspects of the CFP's involvement in Egypt have been:

1. The ESOP technical assistance has advanced the mission's initiative from a concept to a workable structure within Egyptian society and political structure.
2. The CFP, through the president of the ARIES Group, provided a steady presence and forward thinking which has helped the mission develop its ideas in the area of privatization. He provided good contacts for the Egypt mission and access to influential GOE and private-sector actors.
3. The ARIES group provided a very valuable stimulus for dialogue by organizing the regional conference in Istanbul and preparing the future ones in Egypt and Jordan.
4. The buy-in mechanism has been a useful tool helping the Mission procure technical assistance, even though it was not always well managed by the CFP.

B. The less positive aspects of the CFP's involvement in Egypt have been:

The CFP provided generally weak management and support of the short term consultancies it offered to the Mission:

- For the large PBDAC team, it provided poor logistic support and follow up in the field.
- The CFP and its lead subcontractor in Egypt encountered difficulties dealing with the USAID regulations relating to the hiring of local consultants.
- The communications between the Mission, PRE, and the CFP created a situation where the CFP was not able to respond promptly to requests from the Mission.
- The CFP selected inappropriate team leaders in the cases of the PID, ESOP, and PBDAC activities, from the Mission's point of view. The unreliable nature of the CFP's quality control (both on team selection and report writing) has created a lack of confidence by USAID/Cairo in the CFP's ability to deliver a quality product without substantial supervision.
- The CFP did not understand the scale of the PBDAC study: the logistic and contractual issues facing the team, and the concerns and perceptions of the PBDAC management. In addition, the PBDAC report was delivered very late (six months) and showed minimal signs of editing for clarity and presentation. It has since been re-edited and reproduced.

OVERVIEW OF FINDINGS FROM JORDAN COUNTRY VISIT (October 15-22)

I. Government of Jordan Privatization Program

Jordan has approximately 30 wholly state owned enterprises (SOEs), primarily in strategic areas (electricity generation, airlines, telecommunications, etc), as well as shares in another 80 firms (range 2% to 90%) held by the Jordan Investment Corporation (JIC). This is a small role compared to many other developing countries, and far less than the team found in Tunisia and Egypt.

The previous Government of Jordan (GOJ), headed by Prime Minister Rifai, expressed an interest in privatization, but was focused on "commercialization" - making companies financially viable - rather than divestiture. It selected three wholly owned enterprises for commercialization and then privatization in February of 1986 (officially announced by resolution 3489?? in August 1986): the Public Transportation Company (PTC); Royal Jordanian Airlines (RJ); and the Telecommunications Corporation (TCC). No members of the current government could explain how or why these three firms were selected from among the 30 such firms the government owns. The Directors General of the TCC and the PTC were not consulted informed before the decision was made, but there is strong evidence that the then Chairman of RJ lobbied for his firm to be privatized.

The Rifai Government created a process for privatization:

- It established a special committee consisting of the Minister of Finance and the Minister of Trade and Industry plus the Minister from the concerned authority. This committee would review and then recommend to the cabinet as a whole for consideration.
- It created the legal structure for transferring Government enterprises to an intermediate phase to precede privatization, as 100% GOJ owned enterprises, but under Company Law (shareholding) instead of under their own enacting legislation.

The Rifai Government also enacted legislation to standardize the policies under SOEs operate, which will have regressive effects on the more efficient SOEs. This could push those SOEs to seek autonomy from the regulations, as the Jordan Electric Authority (JEA) is doing.

The current (temporary) GOJ is interested in privatization, but is still feeling its way. Privatization is not a priority on their agenda, as they face many more urgent problems (i.e. the budget deficit). It wants to do some trials before proceeding. It has selected the PTC and two hotels in which the GOJ has a majority ownership as lead enterprises to privatize. This government is more interested in divesting the firms directly rather than moving them through the Public Company phase.

The stance of the future government (to be selected in November) on privatization is a big question. They will have many urgent problems to solve, so it is unlikely that privatization will not take a priority position. It is expected that the progress will continue on the privatizations which have been begun.

II. U.S. Involvement in Jordanian Privatization Program

A. USAID/Jordan.

USAID/Jordan Mission has been very supportive to the GOJ for privatization. Privatization was a high priority on the Mission's list of activities from 1986 through mid 1988, but has now dropped to a medium level priority.

The Mission had highly visible role in the beginning, which was played down by the government. It willingly responded to all requests for assistance from GOJ and specific government entities. The Mission is still looked upon by the GOJ as a major source of assistance for privatization activities and has been asked to provide assistance on the two hotel privatizations to take place. In addition, RJ is contemplating a request for assistance on how to restructure in order to then proceed with privatization.

USAID has sent GOJ officials to conferences in Istanbul, Tunisia, and USA. While awareness building has been at leadership levels (assisted by visits from TA and initial reconnaissance mission) it has not reached down to lower levels of society. Could the mission have promoted local conferences to stimulate local dialogue or is this outside of their domain?

B. The Center for Privatization

The CFP served as a very willing resource to USAID mission providing continuous assistance between 3/86 and 6/88. It was used primarily because of the flexibility provided by core funding, the link to a buy-in mechanism, and a perceived knowledge of how to implement privatization. The Mission looked to CFP for guidance on the technical aspects of privatization.

CFP provided assistance to all three major privatization candidates PTC, RJ, and TCC as well as interested (not yet designated) companies ADC and JEA. Sent reconnaissance missions to do quick analysis of privatization possibilities.

Specific CFP interventions:

1. Reconnaissance Mission. Following an initial request for assistance from the Mission in February 1986 on the privatization of the Royal Jordanian Airlines (RJ), the CFP sent a team to Jordan in July 1986 to review that and other possible candidates for privatization. Team was led by Alex Thomlinson, paid out of core funds.

2. Royal Jordanian. In late October 1986 two members of the RJ team met with RJ Chairman in Geneva to review status of the company. Following the receipt of additional documents in January, 1987, this team submitted report on the status of RJ in March, received official comments in May and submitted the final report to the Mission in July 1987. Study was paid out of core funds.

In August 1987, one investment banker came to review the feasibility and options for selling RJ. Originally to have been a 3 person team, the two members with prior RJ contacts dropped out. Report submitted in August was not well received, was revised by Alex Thomlinson and resubmitted in October 1987. Study was paid for by Mission out of Technical Services and Feasibility Studies (TSFS) funds.

A CFP consultant drafted a scope of work for an investment banker to assist in brokering the sale of shares in February 1988, followed by CFP offer to RJ to assist in brokering the sale of shares. Both apparently rejected by Chairman of RJ. End of AID involvement, no sale of RJ equity to date, currently being restructured. Paid for out of core funds.

3. Public Transport Corporation. Two CFP consultants participated in reconnaissance study to review PTC and draft scope of work for follow-on study. They returned in October, 1986, under \$295,000 mission buy-in (TSFS funds). They submitted first report in December 1986 with broad findings recommending restructuring of transport sector, and submitted their second report in March 1987 with design of new route network. This ends the CFP input, but the principal consultant, Anthony Shephard, continues to provide assistance to the mission and GOJ through November 1988. The PTC routing network has been restructured by GOJ along Shephard recommendations and the privatization of PTC is being actively pursued by the current government, with no results yet.

4. Telecommunications Corporation. The GOJ requested USAID assistance in July of 1987 for privatization of TCC, forwarded to CFP in early September. First team departs early without leaving draft report, which was finally submitted two months later.

In early February, the CFP proposed that the first team return in late February to present the report and to prepare a six month action plan, followed in early March by a very short visit from a credibility strengthening second team (led by Alex Thomlinson) to present the action plan to GOJ. The Mission concurred in the return of the first team without copy of draft in hand. However, due to the poor quality of the draft report, the team spent its whole time redrafting report. After three unacceptable drafts, the second team arrived with only one day of overlap with first team and continued to redraft report. Finally the report is taken back to Washington where it is contracted out to an outside consultant for rewrite.

The final product is acceptable, having cost \$79,000 and using seven consultants. However, no clear privatization action plan is written. CFP recommendations for restructuring TCC will most likely be implemented under probable TCC contract with British Telecom and Touche-Ross (as recommended by IBRD and finance by UK).

5. The Amman Development Corporation (ADC). Following GOJ request for analysis of ADC in October 1987 and a Mission request to the CFP in February, the CFP fielded one consultant to Jordan for five days in May to review SOW for 30 day study on privatization of ADC. The consultant spent additional five days in DC writing up superficial analysis of ADC and an enlarged SOW recommending 206 person days of work to prepare privatization analysis and action plan. The short report is rejected by GOJ as being too superficial, not responding to SOW, and being too forward on promoting privatization without sufficient analysis. The ADC's request to be privatized is rejected by GOJ and the ADC is most likely to be dismantled and divided among its different government shareholders. The study was to have been financed out of TSFS funds, but because actual study did not respond to SOW, it was core funded.

6. Jordan Electricity Authority (JEA). Following the Istanbul conference on Privatization, the Director General of JEA requested Paul Elicker's assistance in analyzing prospects for the privatization of JEA. Following a brief visit and much longer write-up, Mr. Elicker's final report was very well received by JEA and now serves as part of JEA's arsenal for gaining autonomy from GOJ regulations, along with similar recommendations from IBRD and the Kuwait Development Fund.

7. Conferences and Seminars. GOJ officials have been represented at many CFP sponsored conferences and seminars which have been considered helpful, but not always practical. The AEMP seminar was the most highly perceived by the attendees interviewed because of its practical workshop focus. The conference in Istanbul did not provide any specific examples of relevant privatizations for the Jordanians to study (such as airlines, telecommunications, or electric authorities).

The Amman Financial Market is listed as the co-sponsor for the Middle East Privatization Conference Series. It has no idea what subject matter it should cover or how to plan the Jordan version, originally scheduled for mid 1990. This conference is unlikely to happen as planned, unless someone kindles the interest.

III. Observations Role Of CFP in Jordan

A. The CFP was very pro-active and aggressive in pushing both ideas and technical assistance on the Mission. They shaped what the Mission wanted, rather than the Mission shaping CFP participation.

B. In Jordan, CFP had the ideal opportunity to show its ability to effect privatizations, versus simply studying the feasibility of doing them. It did not succeed. CFP may not have recognized them as opportunities and may have underestimated the urgency of seizing the initiative.

C. Reports from teams working on all three big projects (TCC, PTC, RJ) recommended improving the enterprises before putting them up for sale. In the case of PTC they even suggested restructuring the industry and creating a new government regulatory body. Some improvements are being implemented at all three firms at present (not necessarily those suggested by the CFP).

D. The CFP did not do the analysis required to substantiate their privatization recommendations in the cases of ADC, TCC, and PTC (particularly financial). In other cases, when the analysis was done, it was not used as convincing argument for privatization or as substantiation of the type of privatization being recommended (RJ and JEA).

E. The CFP did not participate in or facilitate the substantive steps towards privatization: valuation, legal effort to draft and pass government laws and resolutions; or actually convince the decision makers of the appropriateness of privatization.

F. Positive Elements to CFP Involvement

1. Use of Core funding to do initial Reconnaissance Study and flexibility of use on other assignments was critical to CFP getting in to work on all three major activities.
2. Frequency of contacts/reconnaissance missions kept dialogue going on. Good follow-up by both Alex Thomlinson and Paul Elicker.
3. Had very strong industry specialized technicians for the selected activities (Alleman for TCC; Kuntzke, Connors, and Leonard for RJ; Shephard for PTC);
4. Technical reports on TCC, RJ, and PTC were well distributed and received favorable review from GOJ. These continue to serve as background documents in discussion of privatization, unfortunately only PTC made concrete recommendations which the GOJ could implement (and it has);
5. Center provided a lot of follow-on support to fix unresolved problems (RJ, TCC, JEA).

G. Less positive Elements to CFP Involvement:

1. While the results of the consultancies were well received, the teams were not well structured to achieve broader Mission and GOJ goals: not enough privatization experience on teams or focus of the reports on implementation of privatization;
2. Teams did not appear to understand their specific assignments, SOWs and government sensitivities (ADC, TCC, PTC, RJ)
3. Timing of report delivery was poor, often due to poor quality of initial reports, in particular TCC.
 - Reports often took two to three months to be presented in draft and then similar in final (RJ (C&K); ADC; TCC; JEA).

- CFP did not appear to understand the purpose of the executive summary (RJ (C&K); TCC; JEA).
4. Long and drawn out process for all assignments due to slow CFP responsiveness:
 - Took 3 months to get Jalil Shiraka for ADC (five day visit) and then two more months for the report;
 - Took 15 months to get approved version of first RJ report from the time the consultants first proposed plan of work;
 - TCC got in first draft report six weeks after leaving; acceptable final report arrived three months later, costing CFP core funds an extra \$40,000 and requiring input from 7 people (instead of two people as originally envisaged);
 5. Erratic responsiveness of CFP: sometimes too quick (TCC phases one, two and three); sometimes too slow (RJ, ADC, PTC).
 6. Inappropriate aggressiveness pushing teams and/or ideas in the ADC and TCC cases which may have hurt their chances of success.
 7. CFP appears to need significant management by client (either Mission or Host Country Government): selection of the proper team, report writing, timing of deliverables, timing of team arrival.
 8. High cost of services under the contract.

IV. General Observations and Issues in Jordan

A. The issue of Commercialization (restructuring) versus Privatization: is it possible to sell a company to a wide group of people or do an ESOP without first turning it into a profitable company? Without restructuring, the only way to privatize is to divest to a few selected people, but that will not broaden the base of participation in the equity markets. In addition, sale to a few selected people may not be possible if the company is too large for local investors and it is too strategic for sale to foreigners.

B. The lack of a clear GOJ privatization strategy has limited the effectiveness of USAID/Jordan and the CFP's interventions. The selection process for privatization candidates in Jordan is a very personal process within the GOJ, using a ground up, ad hoc approach rather than a more organized strategy coming from a macro view. Some lobbying for privatization may come from senior management who see the benefits to becoming privatized (particularly greater autonomy in management issues) but who do not have the support of the government or their board (as was the case of ADC) or else it may come from influential managers who do not have a viable enterprise to privatize (as was the case with RJ). AID needs to be able to provide reasonable criteria in selecting projects to receive assistance based on their possibility of success (or else be prepared to have a low success rate). With the mission's desire for guidance, the CFP could/should have helped it draw up a privatization strategy.

C. Proper selection of first enterprises to be privatized is a crucial step in any larger privatization program. They must be feasible to allow the process to begin and then continue to be implemented. Jordan's initial prospects were poor selections (for a variety of reasons) and the inability to make progress crippled the program. Some reasons why they were poor choices are:

1. RJ is very large and complex, it was losing money, and it was a sensitive subject for privatization, as airlines are often considered strategic and cause chauvinistic reactions;
2. TCC is also very large and complex, it was not properly structured to be run as a private company requiring much internal restructuring, it is a major source of revenue for the GOJ in a time when the GOJ is facing severe budgetary problems, and is considered by many to be strategic;
3. PTC's steady loss of money over the past few years makes it a less than optimal choice as a beginning exercise in privatization, though its presence in a competitive market made it much less strategic and easier to locate interested purchasers.

D. USAID/Jordan appears to have not taken as strong a role of managing their privatization activities as it could have:

1. it should have kept a closer watch on CFP's consultants (PTC, TCC and ADC);
2. it could have been involved in policy dialogue before the arrival of the consultants to ease the acceptance and awareness of privatization in the enterprise and on higher levels (TCC and PTC);
3. could have been more informed on the level of commitment on the part of the decision makers (ADC);
4. could have had a clearer strategy on how to select firms to be studied for privatization and to pursue them.

E. Privatization is a difficult activity to promote at any time, but becomes particularly difficult to effect with a depressed economy: money is tight, share values are low, people are not interested in investing in marginal companies. USAID should promote privatization when the economy is doing well and the market exists (is active).

F. The simplest prospects for privatization were not addressed by the CFP: those firms held by the Jordan Investment Corporation (JIC - previously the Pension Fund) which are already under the Company Law. USAID/Jordan did its own analysis of these firms and presented a list of viable firms for privatization to the GOJ in 1988 along with an offer of assistance, but without any effect. Leads one to wonder about the sincerity of the government interest in privatization.

G. All of the CFP reports discussed ESOPs as an option, but there was never any development of this option.

OVERVIEW OF FINDINGS FROM TUNISIA COUNTRY VISIT (September 23 - October 1, 1989)

I. Background: The Privatization Program

The Government of Tunisia's (GOT) privatization program has already realized some significant results: twenty-two privatization transactions³ have been concluded from 1986

³A transaction may include more than one company, or may involve just one portion of a company.

to July 1989, totalling 85 million Dinars (nearly \$90 million). The program appears to be on a path which will lead to continued success for the foreseeable future. It has overcome many technical, structural, and procedural obstacles over the past two years to reach its current position. Three major elements have contributed to this early success:

- The GOT has established a clear and efficient process which has proven effective for analyzing, planning, and implementing privatization activities⁴,
- The GOT privatization program has been developed using a pragmatic approach adapted to Tunisian realities, taking account of the sensitivity of the labor issue due to the strength and role of the Tunisian labor unions, public criticism, and reticence of public servants in the parent ministries; and
- Political support within the government has been based on a wide public discussion and understanding of the issues relative to privatization, even though the general public has not been vocal of its support for privatization.

The privatization program was created due to the GOT's awareness of the burden that state-owned enterprises (SOE) place on the budget and the limits they place private sector development in Tunisia. The goal of the program goes far beyond the simple act of divesting SOEs to the much larger goal of developing a competitive private sector with widespread individual participation and ownership. Privatization is not a fad or an ideology for the GOT, it is a tool with which to improve the economy. In addition to privatization, the GOT is grappling with the major problems which must be overcome to reach this goal: how to deal with the monopolistic character of many of the Tunisian SOEs and how to reform the protective environment that keeps the SOEs afloat. It expressed concern that privatization alone would have little impact, without removing this protection and the constraints it creates to increased competition. Hence, privatization alone would not lead to a growing economy based on a dynamic private sector - the ultimate goal of the GOT.

Given the importance of the employment question, the GOT has arranged a creative solution providing preferential consideration to bidders who had a plan for retaining most or all employees: investor guarantees to maintain employment levels count as an important factor in the bid evaluation process. In addition, the GOT has already determined numbers of excess employees in SOEs targeted for privatization (roughly 35% redundancy). These are being reduced before the privatization of the SOEs via voluntary departure, early retirement, natural retirement, placement in other SOEs, or outright firing.

The USAID funded assistance (\$1.9 million) fits within the larger program of the Assainissement et Restructuration des Entreprises Publiques (AREP -Restructuring of Public Enterprises) within which privatization is just one of the tools being used to in the economic restructuring process. In addition to USAID, the World Bank has provided a \$130 million loan to the GOT to bring technical and financial assistance to support the rehabilitation of strategic SOEs, thereby financially strengthening many companies so that they can then be divested.

⁴While a clear process is in place, there is still no official strategy for the privatization program. One has been prepared and was presented to the Prime Minister, but it had not yet been approved at the time of the team's visit. However, privatization is supported at the highest levels of the GOT, so there is no major problem.

II. The Actors

A variety of actors have played important roles in designing and implementing the privatization program. They are the GOT, the USAID/Tunisia Mission (hereafter called the Mission), the Center for Privatization (CFP), and AID's Bureau for Private Enterprise (PRE).

A. The GOT. The GOT has been the most important actor in developing the structure of this program. It knows what it wants to achieve and the realities within which it must operate. Privatization has been an integral part of the GOT's political and economic plan. Therefore, the GOT has been very effective in managing the process, ensuring that the assistance it receives is best suited to the Tunisian conditions and targeted on the critical issues. It has played a very active role in identifying and organizing the different activities in the program: the privatization conferences in April of 1987 and 1988, the privatizations (from 1986 to present), and the selection of the long-term advisors (LTA) in 1988.

The GOT effectively manages the overall donor participation in its program, resulting in complementary donor inputs and a well balanced program. It has determined the roles it wants the different donors to fulfill in the overall AREP program, based on comparative advantages and available resources. The World Bank, the UNDP, and USAID have been given distinctly different roles. The World Bank will be relied on for large scale funding requirements of the AREP, the UNDP is being used primarily to fund training and short term TA to the stock exchange, and USAID is providing the coordinating technical assistance to the GOT. The fact that the different donors are complementing each other and collaborating to provide a well balanced program to assist the GOT must be attributed to the ability and understanding of the GOT.

B. The USAID/Mission. The Mission has played a very important supportive role assisting the GOT to design and implement its program. It has provided appropriate, flexible, technical assistance and moral support to the Tunisians over the past three years. The fact that the Mission was able to place two advisors at such senior levels within the GOT (particularly one in the Prime Minister's office) reflects the level of confidence the GOT has placed in the Mission. The presence of the advisors should be considered a success for USAID, given that the GOT rarely uses long term advisors. In addition, the Mission has followed the progress of the LTA very closely and is ensuring that they are working towards the Mission's overall goals in privatization.

C. The Center for Privatization (CFP). The CFP has served as a very effective resource for the GOT and the Mission. It was selected to provide its services in Tunisia after a close scrutiny by the GOT and Mission staff. It was chosen primarily because of the flexibility provided by its associated core funding, its link to a buy-in mechanism, and its network of privatization specialists. In addition the GOT and USAID have been extremely selective in the use of resources provided by the CFP: conference planning and organization, speakers, and long- and short-term technical assistance. The resources provided through the CFP have been extremely important in the success of the program.

The CFP provided two LTA -- one to the Prime Ministry and one to the Stock Exchange (Bourse de Valeurs Mobilières - BVM). They have been a real asset to the program: their GOT counterparts and supervisors assert that their presence has improved both the speed and the quality of the progress of the program. The LTA have provided very effective support to the GOT in establishing the procedures to be used in the privatization program, coordinating additional donor participation, and monitoring information flow. However, they are not viewed as indispensable by the GOT which would have gone forward with the program in any case.

The quality of the advisors' work and their ability to integrate themselves into the GOT's implementation structure reflect the personal attention devoted by senior GOT officials and the very strict selection criteria they applied.⁵ The technical management and supervision of the activities of the LTA have been assumed by the GOT and USAID, while the CFP has played a supporting administrative role. The LTA have assisted in 9 privatization transactions totalling 41.92 million dinars (nearly 50% of the value of all privatization transactions to date).

D. The Bureau for Private Enterprise (PRE). PRE has played a positive "behind the scenes" role as facilitator and provider of support to the Mission in its assistance to the GOT. The presence of PRE as an extra layer of management between the CFP and the Mission has not detracted from the effectiveness of the project and has provided a conduit for the Mission to get its instructions passed on to the CFP.

III. Role of the CFP in Tunisia: Observations

A. The GOT and its LTA perceive the difference between the roles played by the LTA and the CFP, whereas the Mission does not. Neither the LTA nor the GOT attribute the structure and success of the program to the involvement of the CFP, rather to their own understanding and management of the process and the available resources, of which the CFP is one. By contrast, the Mission perceives the LTA as extensions of the CFP and attributes some of their success to the CFP.

B. The high quality of the LTA's work has been critical to the Mission's positive perception of the CFP. The Employee/Management Buy-out Conference and the CNAREP visit to the United States were judged as successes for the CFP despite the limited substantive role played by the CFP.⁶

C. The most positive aspects pertaining to the CFP's involvement in Tunisia are:

1. The CFP was very responsive, within the guidelines provided by the GOT and the Mission, during the organization of the initial conferences. It provided technical input, and speakers under the core funding and offered to play a greater role in the organization of the conference.

2. The CFP showed very good will and persistence in locating the LTA to meet the GOT needs, considering that more than a dozen candidates were turned down for each of the positions.

3. The core funding provided within the CFP contract has been seen by the Mission as an extremely useful tool. It allows the CFP to respond rapidly to initial requests for technical assistance and pay for small unforeseen expenditures to support the larger buy-in program.

⁵The Economic Advisor to the Prime Minister and the Secretary General of the Stock Exchange travelled to the U.S. to interview candidates for the two positions. In the U.S., they did not select any of the more than one dozen candidates proposed for each of the two positions. They finally resorted to bringing additional candidates out to Tunisia.

⁶The long term advisor to the Prime Ministry organized the substance of both activities and received little technical support from the CFP in the recruitment of the speakers to the EMBO conference and in fixing appointments outside of Washington for the CNAREP visit.

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4. The buy-in mechanism is seen by the Mission as a very positive tool which has been effectively managed by the CFP. It allows the Mission easier access to resources necessary to further its program. Successful utilization of this mechanism has required a lot of management by both the Mission and the CFP.

5. The CFP has responded quickly and effectively to Mission-raised requests for improved home office support of the LTAs.

D. Some less positive aspects pertaining to the CFP's involvement in Tunisia are:

1. The CFP had difficulty identifying experts in privatization who met the GOT's requirements. In that respect, the CFP's judgement in vetting consultants needed to be carefully managed by the Mission and the GOT.⁷

2. The CFP was unable to provide good technical support to the LTA during conferences and visits (see footnote 4);

3. The LTA were not well integrated into the CFP's other activities: they were not invited to participate in conferences or the AEMP Seminar; they were not invited to review literature produced by the CFP; they were informed by Mission of the AEMP Seminar rather than by the CFP;

4. The CFP showed a lack of interest in the work of the LTAs and in recording lessons learned from the Tunisian experience.⁸ The LTA have received limited material from the CFP useful to their work here in Tunisia;

5. The cost of using the CFP as a contracting mechanism is approximately 20% higher than other contracts managed by the Mission. The Mission is satisfied with the quality/price ratio only because the work of the two LTA has been worth the cost. However, it did express concern that the costs did not reflect much value added by the CFP; and

6. The CFP published some sensitive information on the Tunisia program and distributed it worldwide. It was not sensitive to the GOT's careful management of the information flows in the program and abused its access privileged information.

IV. Secondary Issues

A. The role of the advisor to the Stock Exchange is presently changing. To date he has been primarily occupied writing the new regulations for the Stock Exchange and organizing the training program financed by various donors.⁹ Now that the majority of the regulations for the new Stock Exchange are completed, AID, the CFP, and the Exchange need to analyze how the Exchange can best promote and facilitate the

⁷ After the CFP had been unable to propose a responsive candidate for the LTA to the Prime Ministry, GOT officials went to the World Bank to identify the candidate who was subsequently contracted through the CFP.

⁸ The LTA believe that the CFP staff has not read the LTAs' field reports carefully, has provided no technical feedback directly to LTAs, and has not shown interest in recording the factors of success in Tunisia for subsequent use in other countries.

⁹ The UNDP is the principal source of finance.

implementation of the privatization program. Clear definition of the Exchange's role in the privatization program will allow for a clearer definition of the role and tasks of the LTA to achieve this goal.

B. Although there is a normal learning process most firms must go through in fielding and supporting LTA to missions, many of the early administrative problems should have been foreseen by the CFP, such as project cash flow requirements for the LTA. The administrative support provided by the CFP to the LTA has improved to an acceptable level. Many early problems have been worked out and there is now good communication between the LTA and the CFP on administrative issues.

C. There is a relatively low level of public awareness on the actual results of the program. The GOT has intentionally kept the information within a small group of people (the central committee for the AREP) for two purposes: first, to attract little attention to a still controversial program and, second, to prevent the opposition from losing face. Understanding the management of the information flow in Tunisia may provide important insights for other countries. This is directly relevant to the CFP, because it impacts on the reporting responsibilities of their advisors and how much information they can or should publish about a country in the midst of implementing a program.

D. The long term goals for the LTA need to be reassessed. Their roles are slowly evolving as they become more essential to the GOT administration. Should they remain as line managers within their respective organizations, or gradually assume broader advisory roles? This issue may arise in other countries where successful advisors are put in place.

E. While the LTA have been technically independent of the CFP, the CFP has maintained close administrative controls on them, making it often difficult for the LTA to perform their tasks. If the CFP desires the LTA to identify closely with the Center, then the LTA must be given more responsibility for the activities under their project, in particular to manage their own budget. While the position description for the team leader states that he shall be the CFP's representative in Tunisia, yet he does not feel as if he has the authority to do so.

OVERVIEW OF FINDINGS FROM THE HONDURAS COUNTRY VISIT (October 30 - November 3, 1989)

I. Background: The Government of Honduras' Privatization Program

To date, the Honduran program is one of the more successful privatization programs in the world. It has achieved privatization of ten companies owned by the National Investment Corporation (CONADI) and the Honduran Corporation for Forestry Development (COHDEFOR). This has produced revenues to the government of more than 50 million Lempiras (over \$25 million) including the reduction of government debt to international banks by \$18 million through debt/equity swaps.

The major reason for the program's success is the existence of a Privatization Law which establishes a process that is transparent and independent of governmental pressures. The implementation of the law was made workable by the full support of the government from the highest levels. In addition, the speed, ease and quality of the implementation were greatly enhanced by the technical assistance provided by the USAID mission through the Center for Privatization.

Although the program involved some initial institution building and hence did not produce any privatizations until late in 1987, it has picked up steam, privatizing 10 enterprises in the last two years with five privatizations in the pipeline. The program will last another four to five years by the end of which the government expects to have privatized a total seventy eight companies. Although a change in government will occur in January 1990, it is expected that there will be a transition team that will provide training for the new members of the privatization implementation structure, hence maintaining the pace of privatizations.

II. The Actors

A variety of actors have played important roles in designing and implementing the privatization program. They are the GOH, the USAID/Honduras Mission (hereafter called the Mission), the Center for Privatization, the Technical Working Group (TWG), and the AID Bureau for Private Enterprise (PRE).

A. The GOH. The highest levels of the GOH have backed privatization as a means to improving the economic situation in Honduras. The President supports the program and the government official in charge of the Privatization Commission is a cabinet-level minister (Ministro de la Presidencia). The government began the program in 1983 by drafting the privatization Law, Decree 161-85, that created a legal process by which the privatization of publicly-held companies were to be transferred to private ownership. The Decree was signed into law in September 1985. Since then, the GOH has worked very closely with USAID and the resources provided by the Center for Privatization in the implementation of the privatization process dictated in the law.

B. The USAID/Honduras Mission. The Honduran privatization program has been assisted by the Mission since 1982. The dialogue has occurred on the highest levels including the President of the Republic. The program began with the drafting of law for which the Mission provided some technical assistance to the GOH. To spur the law's enactment, it became a condition in USAID's ESF Agreement of 1985. The program was further spurred by more recent ESF negotiations which have led to the creation of the implementation structure: the National Privatization Commission, its Technical Working Group, the Valuation Commission, Negotiating Commissions, and other entities called for in the Privatization Law. The USAID privatization project, signed in August 1986, further lent support to the program by making available \$4 million of technical assistance. The project's first phase will last until the end of 1990 by which time it has targeted to privatization of twelve to fifteen public enterprises. At the present rate, the project will surpass that target.

The Mission has played a key role in sponsoring and giving focus to the privatization program. Yet, by keeping a low profile, it has allowed the GOH and the public to embrace the program as a Honduran initiative unencumbered by nationalistic pressures.

C. The Center for Privatization. The Center for Privatization has helped the Mission since March 1986 in providing the focus and guidance for the preparation of the privatization project which supports the GOH's privatization initiative and its implementation. It has provided the team that helped the mission study and prepare the project documents, and design the strategy for the privatization project; the bridging team that began the implementation of the project; the expatriate advisors who head the Technical Working Group; and the short term consulting teams that have done various studies and valuations of enterprises. It has also provided some assistance to the proposed Honduran privatization conference which was to have been organized by the TWG and the Center has helped send GOH officials to regional privatization conferences.

D. The Technical Working Group. The TWG has been extremely instrumental in the implementation of the privatization program. While the experts on the group have been hired by the Center for Privatization, they have been very well accepted by the GOH as part of its own implementation structure. The individuals are trusted implicitly and have been given great responsibility for spurring the implementation of privatization. This is due mostly, as the Head of the Valuation Commission has mentioned, to the fact that the group's work is at the heart of what the GOH believes are the solutions to Honduras' economic problems. The GOH is convinced that privatization and the use of debt/equity swaps will help reduce the budget deficit, reduce government debt to international banks, improve productivity in the privatized firms, reduce inflation, etc... Therefore, the TWG is well assimilated with the GOH's administration and has enjoyed a high profile as the backbone of the GOH's privatization program.

The three expatriates in the TWG were chosen by the CFP and include a Chief of Party, a Marketing Advisor, and a Valuation Expert. They are complemented by local consultants and support staff as well as logistical support provided by a local firm contracted directly by the Mission. The local firm manages all local currency expenditures and has provided invaluable service to the Mission in doing so. This arrangement has worked very well in easing the logistic demands on the Mission and in providing, inexpensively, the local resources to complement the CFP's input.

E. The Bureau for Private Enterprise. PRE has provided a good interface between the Mission and the CFP, and has made constructive suggestions to the CFP on how to improve its support to the TWG.

III. Observations on the Role of the CFP

The CFP has played a very important role in the Honduran privatization initiative. These are some of the positive and negative aspects of its participation:

A. The more positive observations of the CFP's involvement in Honduras--

1. Even though there were some controversies related to personalities, the consultants sent to the Honduran Mission by the CFP were of high quality, both on the long term and short term teams. They were trustworthy (a quality especially in demand for the work on privatization in Honduras), dedicated, worked well with the GOH, and produced excellent work.

2. The CFP sent regular privatization information to the Mission.

3. The design team was well chosen by the CFP and did an excellent job of preparing the project documents and background studies.

4. The CFP provided the flexibility of a bridging team to keep the program running smoothly.

5. The CFP provided some good support for the TWG's proposed Honduran privatization conference, even though it was eventually dropped by the TWG and sponsored by a Honduran business group, the COHEP.

6. The TWG's introduction of the Debt/Equity Swaps as a financial tool for the privatization of Honduran SOEs was very successful. It enjoyed the CFP's approval and support.

B. The more negative observations of the CFP's involvement in Honduras--

1. The CFP did not keep good relations with either the TWG team or with the Mission. Although the CFP valued the project and charged half a man-year to the project annually, it did not have a high quality level of communications with its project personnel in the field and with the USAID staff. Hence, when difficulties arose, they were never resolved and relations with the Mission remained strained.

The Center showed a lack of leadership and interest by not ironing out its differences between the CFP project manager in D.C. and the Mission. The TWG felt that the CFP allowed its misunderstandings with the Honduras Mission and with the TWG to affect its level of support to the project after June 1988. Since then there has been a much reduced level of contact and a lack of planning with the Technical Working Group.

2. There was a fundamental difference in the perception of the CFP project manager's role. He saw himself as manager of the TWG while the TWG and the Mission wanted him to provide a backstop function. The CFP project manager had little impact on the direction of the TWG. The CFP would have improved the quality of its support to the TWG had it filled the position with a less senior person who would have been willing to provide more support on the field as well as in Washington.

3. The Center's distance from the TWG made it impossible to manage the infighting between the TWG team members, which made implementation of the program more difficult in spite of its overall success.

4. Weak management of the complicated buy-in contract with the Scientex Corporation caused some difficulties within the TWG. Each of the three long-term advisors each were hired by a different firm: the prime contractor and two sub-contractors (PAS and EY). As a result, they reported to different groups for different types of problems depending on whether they were logistical, programmatic, or personal. This created room for internal maneuvering within the TWG which members used to promote their personal agendas. The three party organizational structure proved to be a detriment and inhibitor to the efficient management of the project.

5. The level of tension between the Mission and the CFP was further evidenced by the Mission's perception that the contract costs were high relative to the level of service received. Some relational problems were created when the the Mission, not acknowledging the financial provisions of the Scientex contract, did not want to pay for chargeable services.

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APPENDIX 8A
COST ANALYSIS OF AID'S DIVESTITURE AND PRIVATIZATION
CONTRACT WITH SCIENTEX

APPENDIX 8A**COST ANALYSIS OF AID'S DIVESTITURE AND PRIVATIZATION
CONTRACT WITH SCIENTEX**

One of the major comments received from Missions is about the high cost of the Project with relation to other AID projects. This section analyzes the cost structure of this project and provides some commentary on this subject.

The Project contract is a fairly standard one with 8(A) firms. It has overhead on direct labor from the Prime contractor and then G&A and Fee on all other expenses, including all subcontractor costs. This contract is a little unusual compared to many AID contracts because G&A is separated out from overhead and charged on all direct labor, fringe, overhead, and other direct costs. This format is quite common under other government contracts. In any event, G&A and Overhead are clearly defined expenses and company G&A and Overhead levels must be justified and approved regularly.

The fact that this is an 8(A) contract, a mechanism specifically designed to strengthen small disadvantaged businesses allowed a 10 percent fee during the first years of the contract, which was subsequently negotiated down to 8.5 percent. However, because of the non-competitive nature of the contract, some of the subcontractors charge significantly higher overhead than they do on competitive projects (on the PEDS project, Arthur Young only charges 125 percent overhead instead of the 175 percent rate it charges under this contract).

It is impossible to establish a perfect breakdown of the effective cost of all personnel under the Project because the project uses multipliers for some of its subcontractors and regular overhead plus fee for other contractors. However, Table 1, below, page provides a comparison of the cost of direct labor from different subcontractors and then their final cost to the client after G&A and Fee are added on. For easiest comparison, multipliers on direct labor only have been developed. These figures do not take into account overhead and fee which would be charged on some direct costs (such as per diem) by some of the subcontractors and not by others.

TABLE 1

<u>Subcontractor</u>	<u>Firm Multiplier</u>	<u>Final Project Multiplier</u>	<u>Percentage of D/labor performed</u>
Analysis Group, consultant		1.22	2.8%
Analysis Group, employee		2.52	17.9%
PAS intermittent employe	2.28	2.78	13.3%
PAS, consultant	1.30	1.59	5.9%
PAS, employee	2.94	3.58	17.8%
Arthur Young, consultant	1.08	1.32	2.7%
Arthur Young, inter.	1.69	2.06	2.5%
Arthur Young, employee	2.97	3.62	12.7%
Equity Expansion	2.16	2.63	4.8%
Ferris & Co.	2.52	3.07	3.6%
Aries Group	1.97	2.40	7.7%
International Phoenix	2.07	2.53	4.2%
<u>Others</u>			
Arthur D. Little	3.56	4.35	0.4%
Purchase orders, etc.			3.7%

This table shows that while Scientex's basic costs are comparable to those of their subcontractors, the structure of the contract, with G&A and Fee added on top of the subcontractors fees, can add significant costs to work performed under the contract.

The Missions have felt the greatest burden of the structure of the contract, because the subcontractors have provided more than 75 percent of the teams fielded to provide assistance to the Missions. This added an additional 22 percent from the prime contractor's G&A and Fee to the cost of the technical assistance.

Missions cited instances where they thought that Scientex was charging G&A and Fee for things which should have been provided at no cost (such as plane tickets for participants to seminars). However, under the contract, this is perfectly legal. Scientex has only charged for services for which it was entitled under the contract. In fact, in an effort to lower costs, Scientex ran many other direct costs (plane tickets, etc.) through the prime contract rather than through subcontractors which eliminated double charging of fees. In addition, the CFP established multipliers for many of the subcontractors, removing them from the overhead plus fixed fee pattern which would have added additional costs to the purchasers of the Project's services.

Cost Effectiveness

It is very difficult to determine the cost-effectiveness of the contract. The level of effort contract specifies few specific outputs other than labor provided, all of which will be achieved by the end of the project (see Appendix 13 for status of Tasks under the SOW).

The primary benefits of the Project are in the area of promotion and awareness-building which have long term pay-offs. This makes them investments for the future which are difficult to evaluate today. However, the Project has led to much greater awareness on privatization. The costs of the services delivered in this effort are reflected in Scientex's costs, which are competitive, and hence must be considered to be reasonable.

For the assignments to provide assistance to Missions, the costs, as noted above, increase significantly. Given the nature of the assignments, the work has generally been cost effectively provided. There have been cases where the Project incurred extra expenses due to backstopping errors or poor quality work,¹ but those are decreasing as the firm develops experience. Several times the CFP recruited candidates, but then contracted them through the subcontractors, rather than running them through Scientex, making them more expensive to the project.

A general comment is on the impact of the lack of a workplan by the CFP. The failure to set specific goals and targets, identify the resources required and budget their funds to meet those targets has made it more difficult for Scientex and PRE to effectively maximize the use of the available resources.

A consultant was sent to El Salvador without proper clearance and forced to return the next day. In another case, the TCC project in Jordan, the Project spent a lot of money fixing the report, including a \$5,000 purchase order for a consultant to edit the report after it had been worked on by three teams.

APPENDIX 8B
FINANCIAL AND INSTITUTIONAL IMPACT OF THE CONTRACT
ON THE SCIENTEX CORPORATION AND SUSTAINABILITY OF THE CFP.

APPENDIX 8B

**FINANCIAL AND INSTITUTIONAL IMPACT OF THE CONTRACT
ON THE SCIENTEX CORPORATION AND SUSTAINABILITY OF THE CFF.**

The Divestiture and Privatization contract has been the major revenue generator for the Prime Contractor, AGI/Scientex. Over the period beginning April 1, 1985 (eight months before the project started) and December 31, 1988, the Project accounted for more than 50 percent of the firm's total revenue, as shown in table 1 below.

TABLE 1
SCIENTEX REVENUE OVER THE LIFE OF THE PROJECT

<u>Time Period</u>	<u>Project Revenue</u>	<u>Other Revenue</u>	<u>Total Revenue</u>	<u>Percentage of Total Rev.</u>
4/1/85-3/31/86	346,988	2,042,415	2,389,402	17% or 34.8% ¹
4/1/86-3/31/87	2,619,846	1,782,082	4,401,928	59.5%
4/1/87-3/31/88	3,293,849	2,940,472	6,234,321	52.8%
4/1/88-12/31/88	3,321,793	2,752,337	6,074,130	54.7%
Totals 12/31/88)	9,582,475	9,517,306	19,099,781	50.2% or 54.1% ² (thru
1/1/89-9/30/89	2,784,967			

The break down of revenue going directly to Scientex, through 9/25/89 is:

Direct Labor:	\$2,205,232
Fringe:	\$557,170
Overhead:	\$1,602,014
Travel & Perdiem	\$1,362,090
Supplies	\$171,071
Other Direct:	\$771,334
G&A :	\$1,221,872
Fee :	\$1,032,466
Total:	\$8,923,248

Of the total amount of project revenue for Scientex, \$3,856,352 has been to cover Overhead, G&A, and Fee. Considering that nearly all the expenses related to implementing the contract are paid for by AID (equipment, rent, maintenance, management time, etc.) Scientex has virtually no expenses directly related to the contract.

¹ The project did not start until November 1985, so this figure represents the proportion of revenue accounted for while the project was active

² Same as #1 above, reflects actual percentage during life of project.

Probably its single largest project related expense under overhead is bonuses to the CFP staff.

Given the size of the contract and the amount of billings, one area which might have been a major overhead cost is contract management and financial monitoring, but most of this is done in the CFP (paid for by AID). In fact, Scientex's Administrative and Financial Director claimed that when the project ended, only one person in her office would become redundant. Considering that this project accounts for more than 50 percent of all her business, and that she has ten employees in her division, it is clear that much of the CFP generated overhead and G&A are going to cover Scientex's in other areas. Since the project began in 1985, the Administrative and Finance office has grown 4 fold (from 2-3 employees to 9.5-10), while billings in other areas have increased only 35 percent.

Therefore, this contract has had significant benefits to strengthening the financial performance and helping the growth of Scientex. The important question is whether Scientex will be able to continue to support its existing structure if it loses the follow on contract. This requires a look at how well Scientex has leveraged this project to develop an in-house capacity to continue working in this field.

During nearly the first four years of the contract, Scientex did very little to develop any additional in-house capacity to work in areas related to privatization, thereby leveraging the project. It is only since the beginning of this evaluation, that Scientex has hired one in-house person to work directly in this field, to help manage the project, and to perform some assignments under the Project. Given the large amount of short term work under the Project it is surprising that Scientex did not hire several good consultants specializing in privatization and private sector development who could have worked on assignments for the CFP half the time and spent the rest of the time marketing and developing new business for the company. However, they did not, and now Scientex has almost no other work in privatization. It has only recently developed a few new short term pieces of work in this field, but is hoping to get more work in Eastern Europe and under UNIDO contracts. This is very little to show for its four years despite having tremendous access to all the major clients and links to most of the other major firms in the business.

The sustainability of the CFP is directly related to its commercial viability. While the CFP has added some short term contracts to the Scientex Corporation's portfolio, these are far from covering the CFP's costs. Scientex claims that it will retain most of the core personnel under the Project on its staff when the Project ends. This will be a significant burden. The salaries of the core staff amount to nearly \$500,000 per year (plus another 24 percent in fringe benefits) and the cost of office space and equipment must be added on top. Unless they are able to generate significant rapid revenues from those employees, even half of this will be difficult for Scientex to support. Therefore it is likely that Scientex will lose most of its current capacity in this field at the end of the contract and that the CFP, if it continues to exist as a division of Scientex, will be but a shell of its present operation.

APPENDIX 9
STRUCTURE FOR THE REPORT

**APPENDIX 9
STRUCTURE FOR THE REPORT OF THE
DIVESTITURE AND PRIVATIZATION PROJECT EVALUATION**

Although the privatization Project had mixed success in fulfilling its purpose and achieving its goals, it was a very good beginning for AID's initiation of a new line of assistance and should be regarded as a valuable experience for future work in this field.

**Part Two
Successful Promotion**
The Project's biggest achievement was the successful promotion of privatization due to the usefulness of its core funding and its use of the management's comparative advantage in public relations.

**Part Three
Mixed Results in Implementation**
The Project had varied success in helping missions to assist their host governments in designing and implementing privatization programs.

**Part Four
Conclusion: Lessons Learned**
The Project provided the perfect classroom to teach PRE how to promote privatization and how to help Missions in the field.

**Part Five
Recommendations**
AID does not need to create a monolithic organization to provide all of the services required to promote privatization and assist in its implementation, but it needs an organization that will help it coordinate and support the private suppliers of those services.

APPENDIX 9 (Continued)
STRUCTURE FOR THE REPORT OF THE
DIVESTITURE AND PRIVATIZATION PROJECT EVALUATION

Part Two: Successful Promotion
The Project's biggest achievement was the successful promotion of privatization due to the usefulness of its core funding and its use of the management's comparative advantage in public relations.

Promotion of privatization was furthered by the Project's provision of core funding.

The management of the Project, the CFP staff, had a comparative advantage in public relations which served the Project well in promoting privatization.

Seminars used core funding to leverage the Missions' participation in awareness building.

The CFP's core-funded staff disseminated much information on privatization.

Core funding helped the CFP staff assist with the organization of privatization conferences.

Core funding financed reconnaissance visits to the field which served the Missions as a good promotional tool.

The CFP staff created an entity focused on privatization to which Missions could turn for advice on privatization.

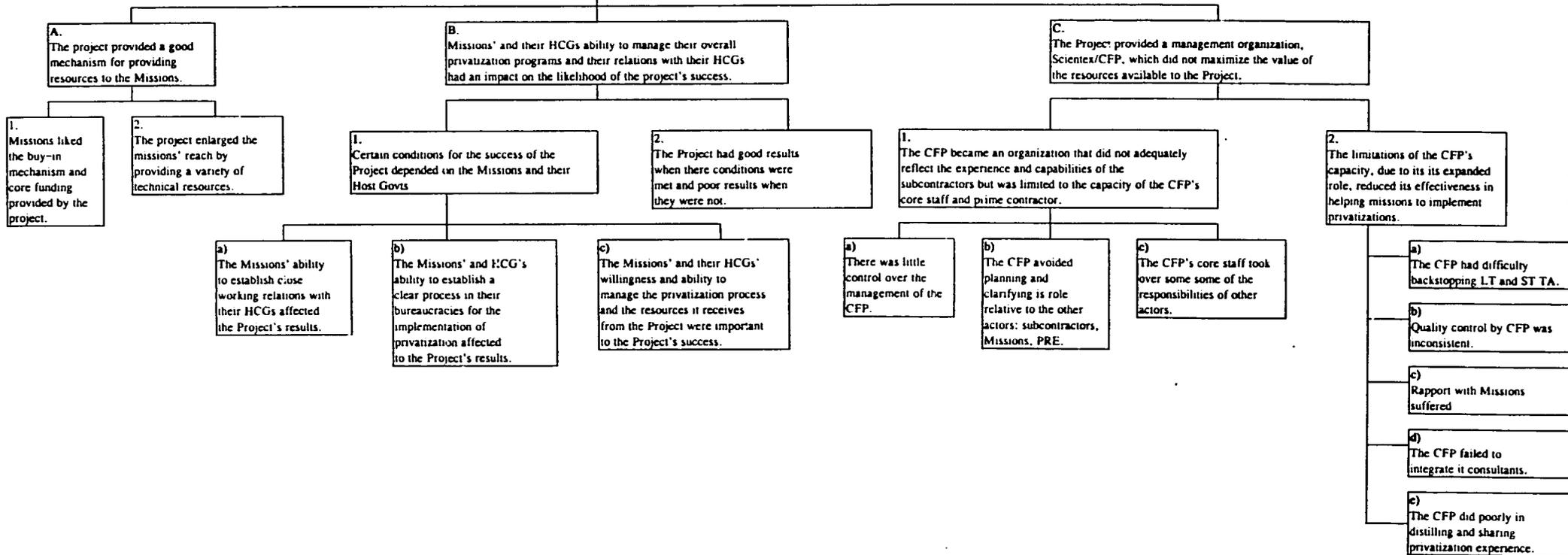
The CFP staff took a proactive role to facilitate multilateral dialogue.

The CFP core staff used its extensive network of connections, and public events, such as seminars and conferences, to promote privatization.

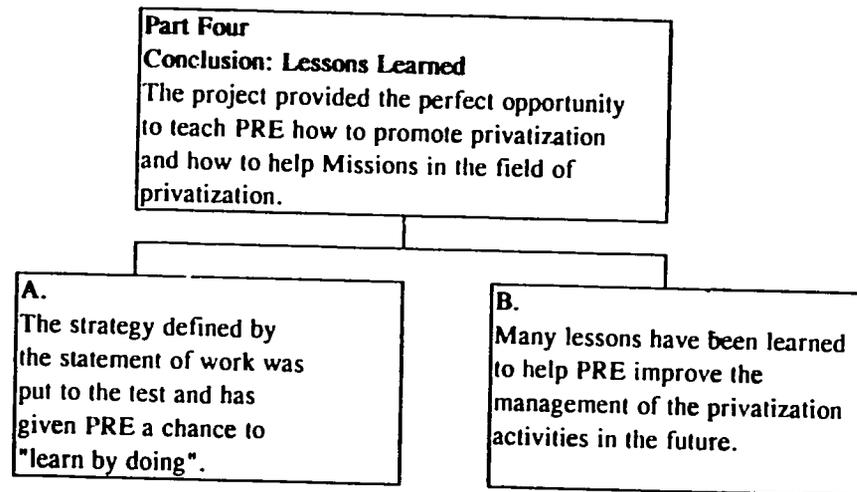
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APPENDIX 9 (Continued)
STRUCTURE FOR THE REPORT OF THE
DIVESTITURE AND PRIVATIZATION PROJECT EVALUATION

Part Three: Mixed Results in Implementation The project had varied success in helping missions to assist their host governments in designing and implementing privatization programs.

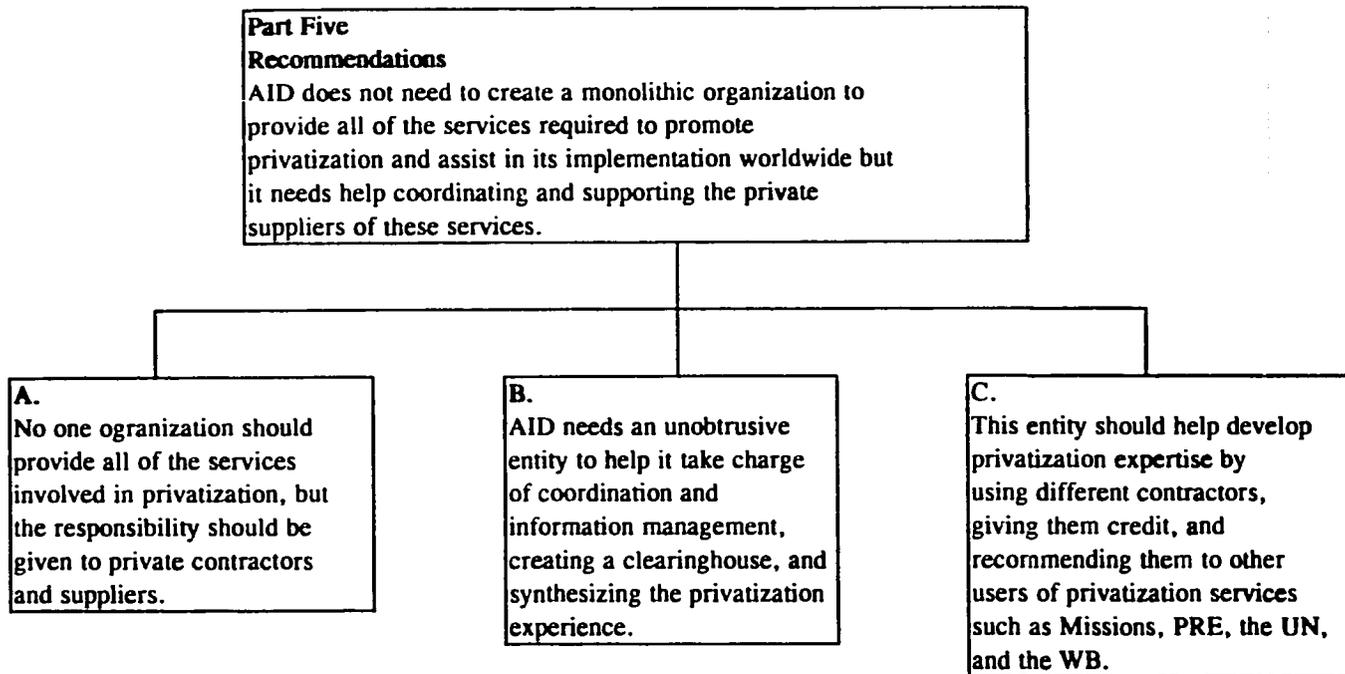


APPENDIX 9 (Continued)
STRUCTURE FOR THE REPORT OF THE
DIVESTITURE AND PRIVATIZATION PROJECT EVALUATION



1/2-

APPENDIX 9 (Continued)
STRUCTURE FOR THE REPORT OF THE
DIVESTITURE AND PRIVATIZATION PROJECT EVALUATION



APPENDIX 10
DIALOGUES

CFP PRIVATIZATION DIALOGUES, 1986-1989

The Center for Privatization dialogues were half-day sessions designed to allow present and potential CFP consultants to share information on their privatization experience with each other, along with a small group of AID and World Bank officials directly involved with privatization. They are intended to be training sessions for "practitioners," not education sessions for those who need to know more about privatization. Approximately 60 invitations were sent out, on a personal by-name basis, and 30-35 persons would attend. The dates and topics were as follows:

1. December 10, 1986: "Valuation"

Focus on the role, methodology and approach to valuing a state-owned enterprise candidate for privatization.

Advance Reading: Book of four papers on valuation.

2. February 19, 1987: "Dealing with the Bureaucracy and Excess Employees"

This was a sharing of experiences on these two topics by consultants who had worked in (a) Malaysia and Cameroon dealing with excess employees, and (b) Ecuador, Egypt and Honduras dealing with resistance in the bureaucracy.

No Advance Readings

3. June 4, 1987: "Developing a Country Privatization Strategy"

Discussion of three principal phases of privatization: Diagnosis, Strategy and Implementation, with a 3-page list of discussion topics.

Advance Reading: Draft Illustrative Country Privatization Framework.

Follow-up: CFP Publication, "Country Privatization Strategy," July, 1987

4. September 23, 1987: "Financing Privatization: Debt/Equity Swaps and Public Offerings"

Thomas Coyne from Chase Bank and Roger Leeds from JFK/Harvard made presentations on debt/equity swaps and the National Commercial Bank public offering in Jamaica.

Handout Reading: "Debt Capitalization Programs" (Chase)

Follow-up: CFP Publication, "Debt/Equity Swaps: A Review of an Underutilized Privatization

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Mechanism," (Peter A Thomas, Nov. 1987)

5. December 11, 1987: "Lessons from Togo and Guinea"

Opportunity to hear from two World Bank officials about the Bank's experience in these two countries.

Advance Readings: Materials on Togo and Guinea.

6. March 25, 1988: "Critical Issues Dealing with SOE Employees"

Four-person panel (AIFL; ILO; Africa TUC; Equity Expansion) to present and discuss employee concerns and possible answers.

Advance Readings: Selection of papers dealing with SOE employees.

7. June 22, 1988: "CODESA Case Presentation"

Presentation by Alec Tomlinson.

Advance Reading: CODESA Evaluation Report

8. March 13, 1989: "Political Aspects of Privatization"

Consultants were asked to suggest and discuss experience in specific countries related to the ten basic issues raised in Paul Elicker's December presentation at the regional Mediterranean Conference on Privatization in Istanbul.

Advance Reading: CFP publication, "Some Political Aspects of Privatization," (Paul Elicker, Dec. '88)

APPENDIX 11
OCCASIONAL PAPERS AND REPORTS FROM FIELD MISSIONS

CENTER FOR PRIVATIZATION

OCCASIONAL PAPERS *

Country Privatization Projects, CFP's Assignments (1986-1989)

Privatization Survey for Developing Countries (Privatization Matrix Database), July 1989

Quarterly Bibliographic Report (Update of privatization reference database utilizing USAID Microdis software)

Privatization Alumni Update (update on Center activities for seminar alumni)

Privatization Mini-Case Study Summaries- 1) Togo 2) Belize 3) Jamaica 4) Guinea Conakry 5) Philippines

Why Privatize, June 1987

Country Privatization Strategy, July 1987

Privatization Marketing Handbook (Draft), August 1989

Basak, Z. *A Turkish Privatization Case Study*, April 1988

Borgatti, Joseph J., L. Gray Cowan, Ronald Ivey, et al. *Valuation of State-Owned Enterprises*, December 1986

Borgatti, Joseph J. *Corporacion Financiera Nacional (CFN), Ecuador*, September 1986

Cowan, L. Gray. *Privatization for Development*, September 1989

Edwards, Howard W. *Successful Approaches to Privatization: A Conference Paper*, July 1987

Edwards, Howard W. *Privatization Conference Scope, Definition Paper: An Approach to Effective Conference Planning*, August 1989

Elicker, Paul H. *Some Political Aspects of Privatization*, December 1988

Floor, Richard E. *Divestiture of Underperforming Assets*, May 1986

Giroday, Jean de la. *Development of a Country Privatization Strategy*, February 1986

Hotvedt, A., Peter Thomas, Sinan Aksik. *Africa Telecommunications Study*, October 1987

Johnson, Gordon O.F. *Privatization in Developing Countries, Testimony to the President's Commission on Privatization*, January 1988

Johnson, Gordon O.F. *Privatization Strategy Guidelines (Draft)*, September 1989

Love, Andrea J. *Worldwide Privatization Activities*, August 1989

Segura, Jorge F. *Privatization of SOEs in Honduras*, March 1987

Thomas, Peter A. *Debt Equity Swaps: A Review of an Underutilized Privatization Mechanism*, November 1987

Tomlinson, Alexander C. *Telecommunications Privatization in Developing Countries*, November 1988

Wilson, Ernest J. *Policy Analysis, Social Science & Public Policy: Lessons for Privatization (Draft)*, August 1989

Selected papers are available for wide scale distribution while others are made available on request to Center consultants, USAID personnel and practitioners.

APPENDIX 12
LIST OF PERSONS CONTACTED

APPENDIX 12

LIST OF PERSONS CONTACTED

WASHINGTON D.C.

Neal Peden	PRE, Assistant Administrator
Christopher Russell	PRE, Deputy Assistant Administrator
Lance Marston,	ANE (Asia Near East Bureau), Head of Private Sector Office
Jim Schill	LAC (Latin America Caribbean Bureau) Head of Private Sector Office
Russell Anderson	PRE/PD Head
David Cowles	PRE/PD Project Officer
Raymond Malley	AFR/MDI (Market Development and Investment) Consultant and Ex-A.I.D.
Frances Johnson	AFR/MDI
Neal Zank	PPC Private Sector Office
Eddie Neal	Scientex President
Jack Wilson	Scientex Managing Director, International Services
Julie Cirillo	Scientex Financial Director
Paul Haire	Ex-PRE: First Project Officer
Lou Faoro	Ex-PRE: Second Project Officer
Paul Elicker	CFP Executive Director
Gordon Johnson	CFP Deputy Director
Joe Sconce	CFP Director for Latin America
Edward T. Lafarge	CFP Financial Director
Robin Schaefer	CFP Administrator
David Levintow	CFP Director for Near East and Africa
Andrea Lo	CFP Director of Research
Rebecca Maestri	CFP Program Analyst
Michael Field	CFP Research Assistant
Paula Donovan	World Bank: Tunisia Desk Officer
John Nellis	World Bank
Susan Goldmark	World Bank
Roger Leeds	IFC
Dr. Plionis	Arthur Young
Norman Kurland	Equity Expansion
George A. Ferris, Jr.	Ferris
Rifat Barokas	Phoenix International
Ted Sitkoss	Public Administration Service Manager
L. Gary Cowan	Consultant for CFP and PPC/PD/PR
Alex Tomlinson	Consultant for CFP and previous Executive Director
Rene Springuel	IDTI
Jalil Shoraka	President Aries Group
Bill Riley	Tunisia Desk Officer
Fariborz Ghadar	President International Management Group
Charles Feigenhoff	Vice-President, IMG

TUNISIA

USAID

Monica McNight	Private Sector Officer
Nancy Tumavick	Project Management Office
George Carner	Mission Director
Rachid Nafti	Deputy Private Sector Officer

Jamel Saghir
 Tony Adassey
 Robert Rucker
 Eric Madison

CFP Adviser to Prime Minister's Office for Privatization
 CFP Adviser to the Stock Exchange
 Mission Economist
 2nd Secretary for Political Affairs, U.S. Embassy

GOT

Salah El Hannachi
 El Hadj Gley

Permanent Secretary in Charge of Development
 Director General of Industry, Ministry of National Economy

Dr. Ezzedine Larbi
 Mohamed Jebali

Economic Adviser to the Prime Minister
 Director General for Public Enterprises, Prime Minister's Office

Hassine Trad
 Mohamed Ksibi

Secretary General, Tunis Stock Exchange
 Direction of Labor Inspection, Ministry of Social Affairs

Others

Somsey Norindr
 Lis Bisgaard
 Raouf Menjour
 Ahmed Mansour

Deputy Resident Representative, UNDP/Tunis
 Project Officer, UNDP/Tunis
 Expert Comptable
 Expert Comptable

EGYPT

USAID

Dave Schroeder
 John Foti
 Jerry Barth
 Karl Jensen
 Dan Rathbun
 Larry Brown
 Greg Huger
 Negui El Feyoumi
 Paul O'Farrell
 Amal Amin
 Adel Azzaki
 Bill Averill

Project Officer, Agricultural Office
 Office Director, Agricultural Office
 Project Officer, Trade and Investment
 Project Officer, Trade and Investment
 Deputy Office Director, Trade and Investment
 Office Director, Trade and Investment
 Associate Director for Trade and Investment
 Assistant to Associate Director for Trade and Investment
 Mission Economist
 Project Officer, Trade and Investment
 Project assistant, Agricultural Office
 National Agricultural Research Project and former CFP Consultant

Government of Egypt

Mr. Ezzi
 Mr. Abdel Noor
 Mr. Khedr

Chairman of the Principal Bank for Development and Agricultural Credit (PBDAC)
 Deputy Chairman, PBDAC
 Under Secretary for Agricultural Economics and Statistics, Ministry of Agriculture
 Director of Agricultural Statistics, Min. Agri.

Mohamed Said

Others

Nabil Shokr Allah

Vice General Manager and Commercial Manager for MEDCO EGYPT CO. (farm machinery)
 General Manager of MEDCO EGYPT CO.

Mr. Mohamed Youssef
 Robert Kalish

Director of Laboratory Services, Anvil Micronutrients Corp. (collaborate with MEDCO)

Amir Rizkalla
 Omar Mohana
 Mounir Neamatalla
 Fathi El Fehly

Deputy Manager of MELARCGYPT (animal feeds)
 MISR/Iran Development Bank
 President, EQI
 Chairman, TRENCO

Shamsi El Sioufi Ex-Chairman, Refractories Co.
Many members of the staff at Alexandria Tire Co.

JORDANUSAID

Richard Rousseau Project Officer, Private Enterprise & Project Development Office (PEPD)
Berry McDonald Project Officer, PEPD
Tom Oliver Deputy Mission Director
Khalid Al-Naif Consultant, PEPD

Government of Jordan

Dr. Mohammad Smadi Secretary General, Ministry of Transport and Communications
Ziab Annab Minister of Industry and Trade
Basil Jardaneh Minister of Finance
Maha Khatib Ministry of Planning

Parastatals, Private Sector, and Others

Moh'd Shahid Ismail Director General and Deputy Chairman, Telecommunications Corporation
M. S. Arafah Director General, Jordan Electricity Authority (JEA)
Muhamad Azzam Corporate Planning, JEA
Walid Jaouni Assistant Director General, JEA
Jamal rghib Makhoul Corporate Planning Manager, JEA
Dr. Zuhair Khalifeh Director General, Jordan Investment Corporation
Sami Al-Rashid General Manager, Amman Development Corporation
Ibrahim Bilbeisi General Manager, Amman Financial Market
Mazen Dajani Partner, Saba&Co. Accounting firm
Husam Abu-Ghazaleh President and CEO, Royal Jordanian Airlines
Montasser Oklah Programming Department, UNDP

HONDURASUSAID

Victor Paz Privatization Project Officer
George Wachtenheim Deputy Mission Director
Jorge Segura Valuation Expert and acting COP, Technical Working Group.
Kermit Moh Acting Director, Private Sector Office
Lars Klassen Program Officer
Mr. Vellarde Project Officer, Private sector Office

Government of Honduras

Valdemar Ochoa Sub-director of Providad Administrada, President of the Valuation Commission

Others

Marco Mendieta Managing Partner, Mendieta y Asociados
Benjamin Villanueva Director, COHEP

APPENDIX 13
TASK COMPLETION STATUS

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CFP MEMORANDUM

DATE: Sept. 15, 1989

TO: PAUL - TED - DAVID - ANDREA - ROBIN - JOE

FROM: Gordon

SUBJECT: Workplan Status 9/18/89

We should have as many "Task Completion Reports" done by September 30 as possible. Following is my understanding of the assigned responsibility for, and current status of, the 11 tasks covered in the contract under "Assistance to PRE." (A copy of the contract clauses is attached.) Please let me know if there are any tasks which will extend beyond 9/30, and what the expected completion date is.

1. Strategy: (GOFJ)

(a) Alec is drafting the AID/PRE strategy, with a September 30 target completion date, but a further extension has been requested to benefit from forthcoming assignments in Sri Lanka and Pakistan.

(b) GOFJ has substantially completed a new draft of the country strategy - copies have been circulated to subs, consultants, and selected AID staff for comments.

2. USAID Mission Programs: (AJL)

Andrea is preparing a completion report to PRE for this task, with appropriate enclosures, summarizing what was done. The issue of "action plans for selected AID Missions" needs some acknowledgment from PRE that these were not practical as separate entities from on-going project work requested by Missions under Mission generated scopes of work.

3. Donor Dialogue Mechanism: (DL)

David is preparing a report to PRE (with appropriate enclosures) summarizing what was done and providing recommendations for the dialogue "mechanism".

4. Publications: (AJL)

Andrea is finalizing the paper from Ernie Wilson.

"At least twice per year" means at least four papers, dating from 9/29/87, when Mod 5 of our contract was signed. Topics

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require "review and consent of PRE" beforehand. We need to nail these down and finalize them.

Our 6/30 Quarterly Progress Report proposes to use, in addition to Wilson's paper, the following:

Country Strategy Guidelines (Task #1 report)
 Privatization Marketing Handbook (Task #6 report)
 Privatization Conference Planning Guide (Task # 7)
 "How-To" Guide Basic Text (Cowan book)

In addition to, or in lieu of, the above, other possible papers to "publish" in compliance with this clause of our contract, which contain "lessons learned", and which would be "useful to privatization practitioners and governments wishing to privatize," would include:

Paul's paper "Some Political Aspects of Privatization"
 Why Privatize? (UNCTAD 1947 paper)
 Financing Mechanisms (Kostrewski)
 Developing Public Understanding and Support
 (Jayasinghe or Peter Thomas)
 ESOPs (Asmon/Kurland generic for Egypt)
 Valuation (Chapin or Barry Goodman papers)

5. Country Priority Criteria: (PE)

Paul is drafting a proposed system for PRE.

6. SOE Marketing Study: (GOFJ)

Arthur Young completed their draft on 6/30. It has been reviewed within CFP and substantially revised. Ready to finalize pending PRE decision to hold a presentation meeting with other interested AID staff.

7. Conferences: (DL)

PAS completed their revised "Conference Planning Guide," including suggestions from CFP, on August 18. This is ready to finalize, subject to clearance from PRE. David is preparing a cover memo, per PRE request, to respond to the specific questions raised in the contract task description.

8. Privatization Data Base: (AJL)

Andrea is preparing one more update of the June 30 "Privatization Survey" of privatization transactions, "actual and in the pipeline," and there will be one more update of the bibliography. Also required is a "marketing notice" to advise "the AID network and non-AID donor resources" that AID has access to this data base.

9. Consultant Roster: (GOFJ/RS)

Robin is inputting the balance of CFP consultant names needed to comply with the requirement for a roster covering "those utilized in attainment of contract objectives," together with an update of data sheets on firms utilized.

10. Training: (AJL)

Andrea is preparing a report on the issues involved in training host government officials, to answer the questions in the contract task description, including consultation with AID's Office of International Training.

11. Communications: (GOFJ)

Gordon will finalize the draft plan for "broad dissemination of information about the Agency's objectives and activities."

APPENDIX 14

**THE PRIVATIZATION PROCESS, SCOPE FOR AID'S ROLE WITHIN IT,
AND IMPLICATIONS FOR THE NEXT PROJECT**

APPENDIX 14

THE PRIVATIZATION PROCESS, SCOPE FOR AID'S ROLE WITHIN IT, AND IMPLICATIONS FOR THE NEXT PROJECT

The Process

The process of establishing a privatization program is a complex one with many different overlapping phases and many necessary conditions, which can be accompanied by many complementary reforms to strengthen the overall economic environment. While there are many more in-depth articles and documents which have been prepared on the subject, the first part of this section will provide a cursory overview necessary to set the stage for discussion of the options for A.I.D.

The evaluation breaks these elements into two principal kinds of activities: 1) promotion and awareness building activities and 2) implementation activities. While not mutually exclusive, the first set of activities necessarily precedes the second set, initially, and then they may run concurrently.

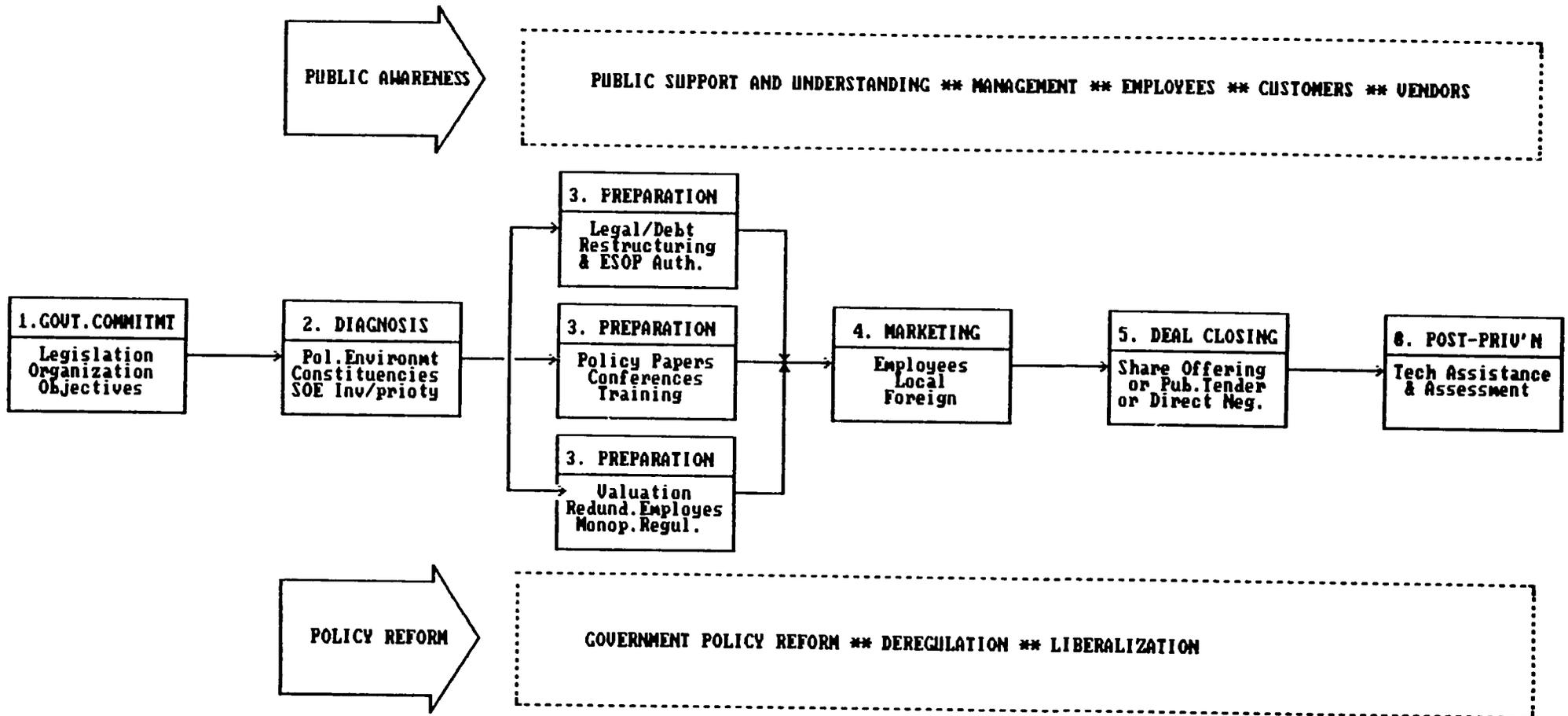
The Figure 1, on the next page, presents an illustrative flow chart of privatization implementation activities developed by the CFP. These include all aspects of the analysis, design, and establishment of the program leading through the actual divestiture of the SOEs. Some of the elements of the chart, the policy papers, conferences and training listed as preparation under step 3, may actually need to take place before step 1, government commitment, in order to generate that commitment.

As is evident from the chart, there are many activities which are preconditions to the actual divestiture of SOEs which comprise the Strategy Design and Preparatory phases of implementation:

- Developing government commitment to the process, which first involves promoting the concept and building HCG awareness on the issues. Government commitment may eventually be measured by the actual steps they have taken in passing legislation, creating an organization to implement the process of privatization and stating their objectives for the program (budgetary savings, equitable distribution of government enterprises, economic liberalization, reducing the foreign debt burden, etc.).
- Diagnosing the environment (legal, economic, social, political constituencies, etc.) and understanding the nature of the SOEs to be privatized. This is not exclusive from the step above, and may actually be a prerequisite to helping the government determine its objectives and shape the legislation needed to sanction the program. It will often lead to the design of a strategy which will present a clear road map to the HCG managers to guide them through the pitfalls of the process.

EXHIBIT I

ILLUSTRATIVE PRIVATIZATION FLOW CHART



14-4

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- Specific and detailed preparation of the activities identified in the strategy to lay the groundwork for the actual divestiture of the SOEs such as: developing consensus among all the concerned parties through conferences and media campaigns; developing a more detailed understanding of conditions within the SOEs, the specific requirements for divesting them, their value; training the HCG staff to carry out the program; and developing specific legislation or systems for carrying out the divestitures.

Once the groundwork has been laid, the actual divestiture of SOEs can proceed more smoothly. Again, there is the potential for overlap in the phases and several early divestitures may be tried before going back and refining the strategy and systems based on the lessons learned from the activities to date. Some of the actual steps for SOE specific divestiture include:

- Valuation of the specific firm;
- Identification of potential buyers (may be a function of the government's objectives for the overall program) and targeting the sale towards them (marketing);
- Selection of the method of divestiture (public offering, open auction, sealed bid) and form of payment (cash, buy-out, debt for equity swap); and
- Concluding the sale.

Missing from this last series of steps is a very important element which is often the source of much of the philosophical debate on privatization: preparing the firm for divestiture. This may require redeploing labor, improving or changing the SOE management systems (accounting, personnel, procurement, etc.), changing the legal status of the company to allow it to be sold, and/or reviewing the legal/regulatory framework which surrounds that specific SOE. This step falls between the first and the second phases and the amount of emphasis placed specific elements within it varies by donor agency and HCG (A.I.D./W often takes a different approach from the World Bank, and A.I.D. Missions often find themselves face to face with local political realities while trying to promote privatization programs which they may prefer to ignore under other circumstances).

A.I.D.'s role

An important issue for A.I.D. is where to go from here: what lessons have we learned about privatization in general and how can A.I.D. use its resources most appropriately to successfully promote and implement privatization. This evaluation has focused on activities under the Divestiture and Privatization Project and has not looked at A.I.D.'s other experience in privatization outside of the Project. As such it is impossible for us to evaluate all of A.I.D.'s experiences in privatization to determine A.I.D.'s comparative advantage in this field. However, some preliminary thoughts provide a structure for developing a hypothesis and identifying the areas which A.I.D. should target. This section provides the evaluators' impressions on this subject.

In Part III, we discussed the critical role of the host governments in privatization and the need for A.I.D. Missions to interact effectively with them. Since privatization is essentially an internal political decision process for the HCG, it is difficult for A.I.D. to force a role for itself in the process, unless it is welcomed by the HCG.

Part III, along with the Figure 1, lists the range of activities which are required to take a country through the design of a privatization program to the actual divestiture of SOEs. Developing countries are at different stages in the privatization process with a wide range of SOEs (varying by size, ownership, legal structures, and complexity) to privatize. The kind of assistance A.I.D. should provide will depend on several factors:

1. The level of sophistication of the HCG and its development of a privatization process. With greatly varying internal capacities to understand, manage, and implement the process, there is a wide range of possible interventions for A.I.D. between different developing countries. The more advanced the privatization program within a country, the smaller the role for A.I.D. to play. Similarly, the more sophisticated the HCG, the smaller the role A.I.D. will probably have to play.
2. The level of complexity of the SOEs to be privatized. More complex SOEs generally require more sophistication and greater inputs to privatize them, and vice-versa. A.I.D.'s intervention will depend whether it can provide the proper quality and quantity of resources. In general, investment banks provide the highest quality service, but also cost the most. For a very large company with a high potential sale value, requiring the sophistication of an investment bank, the private sector is probably the appropriate intermediary to handle the transaction.
3. The level of complexity of the economy. It appears to be generally true that the more complex a country's economy, the more services there are locally available which are required to implement the different phases leading up to a privatization (particularly valuation and brokering the deal). The more resources locally available, the smaller the role for A.I.D.
4. The capacity of the A.I.D. Mission to provide the necessary assistance. The evaluation has highlighted the requirement for a strong internal technical capacity to manage the process rather than relying on infrequent punctual visits from outside consultants to shape and direct the program. This may be limited by a budgetary constraint from the Mission's operating funds. In addition, depending on which part of the overall process the Mission chooses to support (preparatory versus divestiture), there are significant budgetary implications for the bilateral program which the A.I.D. Mission may not be able to meet. For example, the technical assistance for valuing large companies or structuring complex deals can be extremely costly or the particular program may be very expensive to finance (for example, the IFC is providing a large team of investment bankers for six months to the Philippines to arrange the privatization of the national airlines, taking an equity participation in the deal, while the Mission in Egypt is contributing \$38 million to establish the ATC ESOP and the Privatization program in Costa Rica cost more than \$100 million).

Presenting this in a visual framework demonstrates an approximate set of cases where A.I.D. can be most effective supporting a HCG. Figures 2 and 3 demonstrate the potential and varying roles that A.I.D. can play in the privatization process, divided between simple and complex economies. Figure 2 presents a case that for countries with relatively simple economies, A.I.D.'s role evolves, and gradually diminishes, as the sophistication of the privatization program increases (moving from low to high x values)¹. The potential shape of the program changes from providing primarily awareness building and preparatory phases (diagnosis and design, policy analysis, etc.) to gradually providing more direct assistance towards the actual divestiture of the companies. As the privatization program becomes very advanced, the need for A.I.D. to provide any assistance gradually disappears.

¹ The numbers used on the x axis are purely hypothetical to illustrate the point.

FIGURE 2
SCOPE FOR ASSISTANCE
A.I.D. Role in a Simple Economy

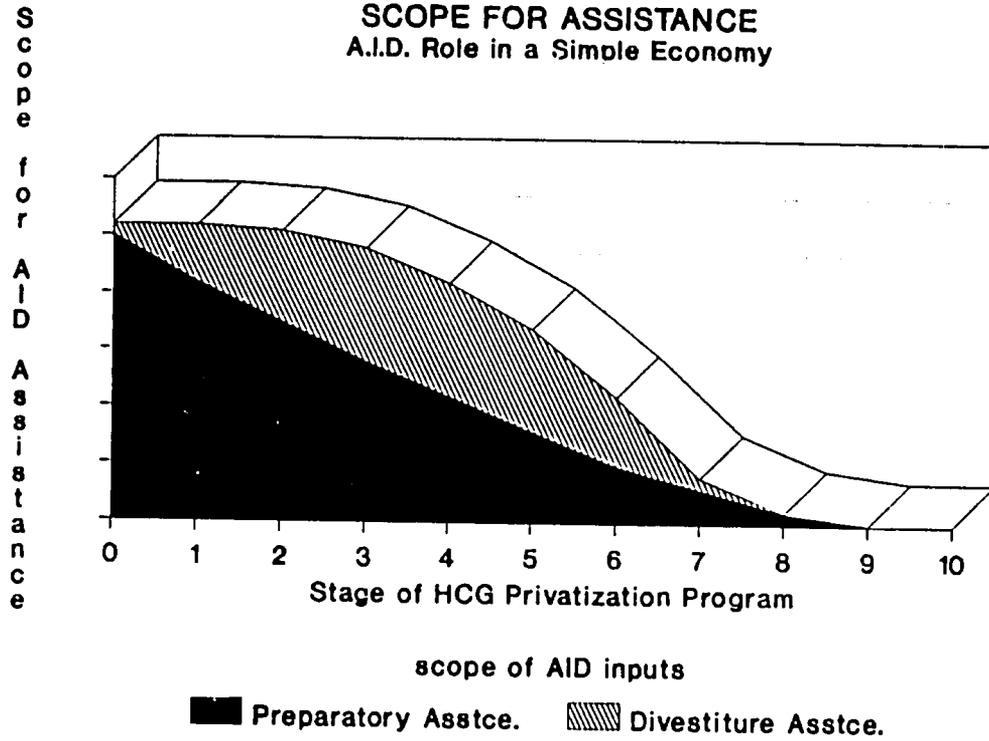


FIGURE 3
SCOPE FOR ASSISTANCE
A.I.D. Role in a Complex Economy

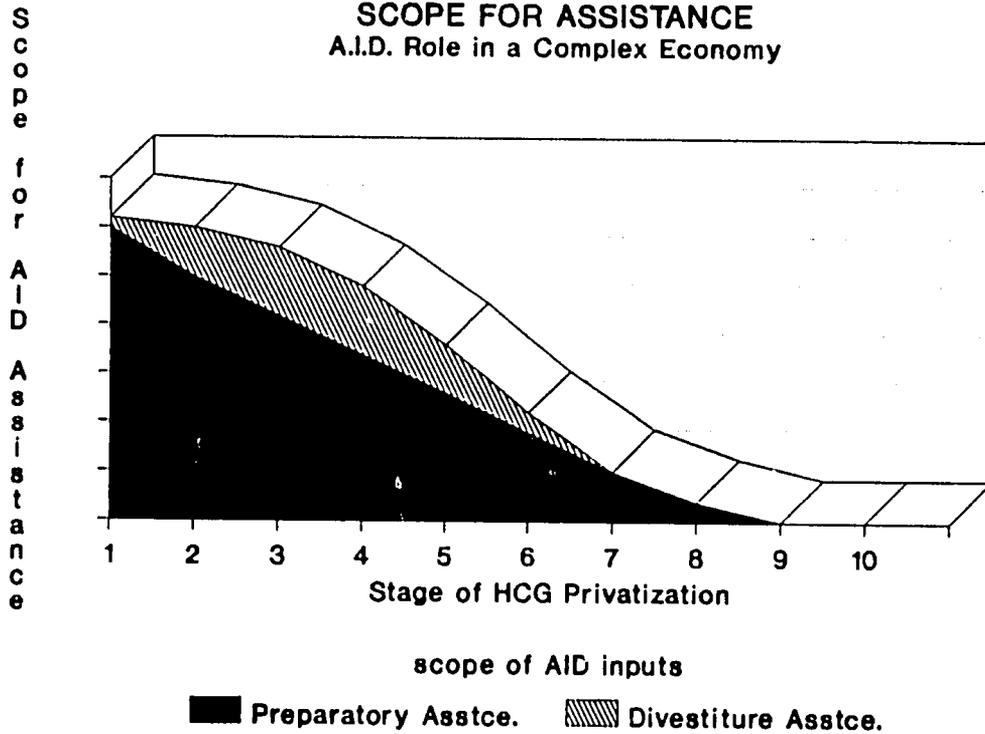


Figure 3 presents the case for more complex economies. Once again, A.I.D.'s primary role early on is to provide program development (design and diagnostic) assistance and then some actual divestiture assistance. Since the local economy is more complex, local actors can effectively fill a greater role in the evaluation and transactional side of the divestiture process. For very large companies, which surpass local capacity, it may be necessary to turn to multinational investment banks or a donor which has the financial capacity to provide the necessary assistance, such as the IFC. A.I.D. meanwhile can still maintain an advisory role to the government.

Comparing Figure 2 with Figure 3, we note that the scope for A.I.D. to assist with the actual divestitures in the simpler economy is greater than it is in the more complex economy. This is the function of the availability of technically capable local resources and the complexity of the SOEs to be privatized, mixed with the generally available A.I.D. resources to be devoted to the program.

Having identified these potential roles for A.I.D., the issue of comparative advantage arises: which roles should A.I.D. play and which ones should it leave to the private sector or the other donor agencies. It is fairly clear that the appropriate role for A.I.D. to play in privatization will vary by country and by company to be privatized.

Implications for the Next Project

This analysis brings us to the issue of what services should A.I.D./Washington or the PRE Bureau provide under a follow-on project. The decision tree in Figure 4, on the next page, shows the range of choices A.I.D. has at its disposal depending on the level of assistance it decides to provide. In the different options presented, it is assumed that each progressive option builds on the previous option, incorporating most or all of their elements.

1. Under the first branch of the tree, AID does not provide assistance to the implementation of privatization programs

Option A: Under this first level of assistance, A.I.D. provides only promotional and awareness building assistance and does nothing to assist actual implementation of privatization. This could be a centrally based operation, producing literature, running conferences and training seminars, and trying to direct A.I.D. policy, but is not involved in any field work. This level of assistance does not require the real technical capability necessary to manage implementation.

2. On the second branch, A.I.D. has decided to support the implementation of privatization and must now acquire the technical capability to help HCGs design and implement a privatization program.

Option B: Under this option A.I.D. provides centralized support to HCGs. The technical capability to manage privatization programs and understand all the elements which go into the program would exist in a centralized organization, supplied by PRE. The responsibility for the quality of the work and the outcomes lies with the PRE project. Missions would have to accept a subordinate role to this centralized unit with all the technical capacity. This is analagous to the role of the unit in the IFC, which is Washington based and manages the IFC's privatization programs.

Given the decentralized nature of A.I.D. and the critical role played by the Missions to interface with the HCG and keep a program moving along, this option is not very viable for A.I.D., leading us to the next branch on the tree where PRE provides support to Mission managed privatization programs. Under the following options,

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STARTING POINT

OPTION A
AID DOES NOT SUPPORT PRIVATIZATION IMPLEMENTATION:
 AID concentrates on promotion only and has no need for technical capability for implementation.

AID SUPPORTS PRIVATIZATION IMPLEMENTATION:
 AID acquires the technical capability to implement privatizations and takes responsibility for the outcomes of the technical assistance it provides.

OPTION B
AID PROVIDES CENTRALIZED SUPPORT:
 Technical capability exists in a centralized organization provided by AID/PRE. Responsibility for the quality of the work and the outcomes lies with the AID/PRE project. Missions accept a subordinate role; e.g. IFC.

AID PROVIDES DECENTRALIZED SUPPORT:
 Missions take the lead, hire appropriate technical capability, take responsibility for the quality of the consultants' work and the outcomes.

OPTION C
AID/W TAKES A GUIDING ROLE:
 PRE provides Missions with short-term assistance for the preliminary phases of implementation (writing scopes of work, policy formulation, strategy design); provides information and training; and sponsors research. The Project is fully funded by core funds; i.e. no buy-in mechanism. Missions acquire additional resources independently and competitively.

AID/W PROVIDES THE CONTRACTING MECHANISM AS WELL:
 PRE provides the above-mentioned core funded services plus the buy-in mechanism, which gives Missions easy access to the limited set of project resources.

OPTION D
AID/W SHARES RESPONSIBILITY:
 PRE creates the infrastructure to guarantee the work of the consultants and shares responsibility for the outcomes; e.g. Divestiture and Privatization Project and its Center for Privatization.

OPTION E
AID/W DOES NOT TAKE RESPONSIBILITY:
 PRE provides only the contracting mechanism, and does not take responsibility for the consultants chosen by the Missions or for the outcome of their work. Missions deal directly with contractors.

FIGURE 4

IMPLEMENTING PRIVATIZATION IN DEVELOPING COUNTRIES:
A DECISION TREE OF THE AVAILABLE OPTIONS FOR A.I.D. SUPPORT

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Missions must take the lead, have the appropriate technical capability in house to manage the process. They will take responsibility quality and output of the consultants' work.

Option C: Under this option, A.I.D. takes an initial guiding role. PRE will provide the Missions with short term assistance for the preliminary phases of implementation (writing scopes of work, helping address policy formulation, and strategy design). PRE will supply provide information and training to the Missions, and will sponsor applied research. Activities under this part of the program are fully core funded, with no buy-in mechanism for Missions to access the Project's resources for activities other than those for preliminary phases of a privatization program. The Mission would have to acquire the internal technical capability to manage its program, either through a direct hire, PSC, or issue a contract for technical assistance. For further work in this field, Missions would acquire the additional resources they would need independently, either through IQCs or other competitive selection.

The purpose for separating out the additional technical work is to prevent conflicting demands on the limited project resources. The project is designed to try to understand and develop a new field of intervention in developing countries which requires significant thought and focused attention. Having a wide open mandate to seek buy-ins can detract from the focus of the project, with project staff devoting their energies to generating work under the buy-ins, staffing the buy-ins, dealing with the problems and extra work generated by the teams in the field fulfilling the buy-ins, etc. This has been one of the detracting elements under the current project, with half of the professional staff focused on generating and servicing buy-ins rather than substantive issues.

Options D and E: These options build on the previous option, but add on a buy-in function which gives the Missions easy access to those resources available under the Project's contractors. Two very important elements must be taken into consideration under these options: responsibility for the product and dilution of effort. The latter was addressed in the previous paragraph. The issue of responsibility for the product will shape the structure of the contract.

Option D presents a structure similar to the present one where the prime contractor takes responsibility for all services provided under the contract, and gets paid for processing the work provided by the subcontractors. This continues to provide a significant financial incentive for the core staff on the Project team to devote many of their efforts towards fielding teams rather than on participating in the more substantive assignments and on the issues of interest to the project in the field. This makes it difficult for the core staff to participate in reconnaissance missions, policy strategy designs, etc.

Option E presents a different structure, one with multiple components with different functions. A core staff continues to fulfill the substantive technical role under the project and serves as an advisory unit to PRE helping PRE to shape its inputs and assistance. It provides for technically qualified staff to provide the elements in Option C, above. In addition there is a pool of subcontractors who will serve as a resource base for technical assistance. The subcontractors can be used under the core funded activities, if their personnel are selected to participate, or they can be used to field the teams under buy-in requests from the Missions.

In the case where Missions elect to use the buy-in mechanism, the core staff serve as advisors to the Missions and PRE on who the best personnel are to be used, but only the firm selected to supply the personnel derives any financial benefits from the buy-in, with no funds running through the prime contractor. In this case the buy-in serves simply as an IQC type mechanism to field the necessary resources and the teams are responsible to the Missions they assist, not the prime contractor or PRE.

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This removes elements of conflict of interest from within the contract yet keeps the core staff involved in ensuring that good resources are reaching the field as well as getting access to all of their work and helping to design their scopes of work. This also keeps the management of the privatization program within the Mission, which will have already recruited the necessary assistance to make the program function effectively.