

PROJECT ASSISTANCE COMPLETION REPORT

Project Title: Divestiture and Privatization
Project Number: 940-0008
Funding Period: FY 1985-1989
LOP Funding: \$20.034 million contract
Implementing Agency: Analysis Group, Inc.
PACD: September 30, 1989

I. PURPOSE

The purpose of the Project was to provide technical assistance to AID missions, host governments and the private sector to promote the concepts of divestiture and privatization.

II. BACKGROUND

The Project was authorized in 1985 as part of the Bureau for Private Enterprise's program of assisting the economies of Lesser Developed Countries (LDCs) to become viable and self-sustaining. An economy that is free from central planning and has limited government control of business allows for economic growth through entrepreneurship. Transferring assets from the public sector to the private sector encourages managerial efficiency, minimizes corruption, encourages decentralized decision-making and creativity, and promotes a more economic allocation of resources. Most importantly, economic pluralism supports democratic pluralism.

The Project represented a new approach toward economic reform of state-owned enterprises (SOEs). In the past AID assistance was directed toward making SOEs more responsive to the private sector, more efficient, and/or more attractive for buy-outs. This approach was not successful and AID Policy Directive No. 14 was issued to ensure that missions devise country privatization strategies.

The primary activities in the Project were to be as follows:

- a) Develop and implement a strategic plan to further privatization as a mechanism for LDCs to accelerate economic growth;
- b) Analyze the AID portfolios to ascertain the impact of privatization on portfolios;
- c) Analyze the portfolios of multilateral development institutions to determine level and focus of privatization activity;

- d) Review availability of literature and training applicable to privatization;
- e) Develop comprehensive roster of individuals and firms with the ability to provide long and short term expertise directly relevant to the privatization needs of LDCs;
- f) Analyze privatization experiences in developing and industrialized countries to determine applicability to LDC;
- g) Respond to USAID mission requests to provide short-term consultancies in a variety of areas related to privatization;
- h) Develop AID country-specific privatization strategies; and,
- i) Hold privatization policy discussions with host country private and public sector leaders.

Eighty percent of the assistance to LDCs was to be short term in nature and was to cover the following areas; strategic planning, macro and micro economic analysis, legal/regulatory analysis, financial analysis, technical specialties (agriculture, industrial, service industry, transportation), corporate restructuring, equity placement, marketing, taxes, and project design and evaluation.

III. SUMMARY OF INPUTS AND ACCOMPLISHMENTS

The Privatization and Divestiture project was originally authorized on July 6, 1985 and was estimated to be completed in FY 1987. The original authorization was for \$2 million in core funds and \$1 million in mission buy-ins. The project was extended to FY 1991; total funds obligated under the project were \$20,033,609.60, total funds expended were \$17,136,875.45.

The initial scope of work had the contractor designing privatization strategies for 5 countries. By the completion of the project, AID-assisted privatization efforts had taken place in 46 countries. A report summarizing privatization strategies, efforts to date, barriers to reform, and the economic conditions facing privatized industries was written for each country. Specific AID in-country accomplishments include the following:

- Bangladesh;** Privatization of the Bangladesh Agricultural Development Corporation.
- Belize;** Arranged for commercial bank financing for banana farmers and liberalized the operations of the Banana Control Board.

Bolivia; Assistance to Industrial Transition Commission in privatization or divestiture of more than 50 SOEs owned by regional development cooperations.

Cameroon; Report on status of privatization.

Chile; History and evaluation of Pinochet privatization program, recommended USAID assistance strategies.

Columbia; Presented privatization papers to the National Economist Association and to the Chamber of Commerce of Bogota.

Costa Rica; Evaluation of divestiture strategy for 10 SOEs owned by the National Development Corporation. Utilized local currency privatization trust fund established by USAID. Established conference with GOCR legislator to evaluate political dilemma of selling over-valued SOEs.

Dominican Republic; Reports on privatization of trash collection and electric power. Participation in WORLDNET Dialogue program on privatization.

Ecuador; Privatization programs for hotel and cement company. Recommendations for debt/equity swaps and sealed bids vs. stock exchange offerings.

Egypt; Private joint venture with a public sector enterprise; the first use in Egypt of an Employee Stock Option Plan. Plan for divesting part of agriculture sector.

Gambia; Privatization feasibility studies for the Gambia Produce Marketing Board, National Investment Company, and Automobile Maintenance and Repair. Privatization plan for Nyambai Sawmill was successfully implemented. Assisted National Investment Board in improving privatization performance monitoring.

Guinea Conakry; Specific recommendations for Guinea's privatization program. Plans for privatizing four agriculture parastatals.

Guatemala; Reports included privatization prospects for various components of the state telecommunication SOE and the use of ESOPS for privatization of SOEs.

Guyana; Recommendations to the GOG for long-term privatization strategies and assessment of strategies already underway.

Honduras; Technical services provided to National Investment Corporation and the Forestry Corporation in the following areas; valuation, legal and financial cleanup, public awareness, marketing, negotiating strategies and financing methods.

India; Identification of privatization possibilities in urban services.

Indonesia; Draft of a decree and procedures for implementing a deregulation fund. Presentation of paper at privatization conference.

Jordan; GOJ partially implemented recommendations for privatization of the Amman Public Transport Corporation and the Royal Jordan Airlines. In concert with the World Bank, helped commercialize the Jordanian Telecommunication Corporation.

Kenya; Study of Kenyan private sector attitudes toward investment in SOEs.

Kirbati; Identification of SOEs with privatization potential.

Liberia; Feasibility study, and preliminary valuation, for privatization of Liberian Sugar Company.

Malawi; Evaluation of results of Agriculture Development & Marketing Corporation privatization efforts.

Mauritania; Determined realistic potential for privatization of parastatals.

Mozambique; Study of parastatals eligible for Pre-Export Revolving Fund.

Morocco; Moroccan officials attended 1986 AID privatization conference in Washington.

Nigeria; Address to Nigerian Securities and Exchange Commission incorporated into resolution written for President.

Pakistan; Review of privatization activities undertaken by government. Pakistani officials attended 1986 AID privatization conference in Washington.

Panama; Assistance to the Investment Council of Panama in developing a National Divestiture Strategy, including analyzing equity in SOEs and establishing export-development finance institutions.

Papua New Guinea; Recommendation of SOEs for privatization, plan for divestiture of government-owned shares of commercial entities.

Paraguay; Strategy for, valuation of and legislative recommendations to implement privatization of Industria Nacional Del Cemento.

Philippines; Established frame-work for divestiture of the National Food Authority (NFA) and the Philippine Associated Smelting and Refining Corporation. Evaluated progress of NFA privatization efforts.

Peru; Evaluation of GOP's privatization plan.

Rwanda; Divestiture strategy for GOR including options for "spinning-off" some functions of certain SOEs to the private sector.

Senegal; Specific recommendations made for privatization of farming enterprise, including areas of production, provision of inputs, cost reduction procedures and types of equity participation.

Somalia; Investigation into potential for divestiture of fisheries, meat processing and coastal development industries.

Sri Lanka; Privatization feasibility study, with potential ownership structures, for the Ministry of Health Food Extrusion Factory Complex.

Suriname; Plans for privatization of five SOEs.

Swaziland; Feasibility study for privatization of the National Insurance Corporation. Staffing recommendations for the Public Enterprises Unit.

Tanzania; Report on privatization efforts and attitudes.

Thailand; Participation in Bangkok privatization conference, recommendations incorporated into Thai economic development plan. Draft of privatization plan for the National State Enterprise Board, plans for Telephone Organization of Thailand and Communications Authority of Thailand. Plan for

prioritizing privatization of utilities.

- Tunisia;** Consultancy to stock exchange on privatization of SOEs. Coordination of multilateral assistance for privatization. Conducted conference on management buy-outs.
- Turkey;** Directed two week privatization orientation program in Washington with Turkish government officials. Co-sponsored regional conferences on privatization.
- Uganda;** Co-sponsorship of privatization conference at which Ugandan President gave a policy address. Developed a tendering process and credit/privatization finance scheme to assist in privatization of 7,000 Property Board properties.
- Zaire;** Non-related enterprises owned by mining parastatal evaluated for privatization and liquidation. Assisted in reducing government's ownership in Zaire Shell.
- Zimbabwe;** Summary of government privatization efforts.

Two reference works were published to provide assistance to USAID missions and AID/PRE; "Country Privatization Strategy Guidelines" and "Proposed Strategy for Divestiture and Privatization for AID/PRE". In summary, the contract provided privatization consultancy services to USAID and host governments on a demand-driven basis.

IV. DEVELOPMENT IMPACT

This initial PRE divestiture and privatization contract was successful in implementing the process of downsizing the state-owned sector of the economy in 10 countries. Specific country successes are listed in the above section. Although successful in isolated instances in many more countries, domestic political and social motivations, as opposed to long term economic concerns, oftentimes create barriers to privatization on a larger scale.

In general, the benefits of privatization are becoming known to LDC governments. Donor countries, domestic private sectors and multilateral development institutions have all played a role in encouraging the development of private sector responsibility for activities previously in the domain of state-owned enterprises (SOEs).

V. LESSONS LEARNED

In order for privatization and divestiture to be successful several factors must be addressed when designing a country strategy:

a) A process for divestiture and privatization must be established, this process must include:

- 1) political in addition to economic motivations,
- 2) valuations for SOEs must be realistic, and
- 3) SOEs must be privatized sequentially after examining inventory of SOEs and determining priorities;

b) Country objectives (greater economic efficiency, budgetary pressure of deficits, need to raise revenues or investment levels, political capital) should be precise;

c) Legislative reform is necessary at an early stage; and,

d) Strategy and implementation should be taken seriously to send the proper signals to local government officials, the local private sector and the international business, development and political communities.

VI. CONTINUING RESPONSIBILITIES

As LDC private sector development and economic reform continue to be priorities for A.I.D., it was decided by the Bureau of Private Enterprise to continue to provide privatization and divestiture services to host governments and USAID personnel. A new project was initiated in FY 1991; Privatization and Development, 940-0016 with Price Waterhouse as the primary contractor.