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Mid-Term Review

Divestiture and Privatization Project
(940-0008)

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EXECUTIVE SUMMARY

Bureau for Private Enterprise

Divestiture and Privatization Project

(940-0008)

1. Project Purpose:

Under A.I.D. Contract #PDC-0008-C-00-5058-00, effective September 27, 1985, the Contractor, Analysis Group, Inc., is to provide technical assistance to A.I.D. Missions, host governments and indigenous private sectors to promote the concepts of divestiture and privatization, and to plan, implement and evaluate such activities.

2. Purpose of the Review:

To assess the progress of PRE's Divestiture and Privatization project from inception through April 1987, and provide information to assist the PRE Bureau in its ongoing decisionmaking regarding the direction of activities under the project. As requested by PRE, the team assessed the Contractor's performance of each of the tasks in its statement of work and reviewed project management and the Contractor's working relationship with A.I.D. In doing so, the team reviewed PRE files and reports and other documents prepared by the Center for Privatization (hereafter referred to as "the Center"), interviewed representatives of the Center, subcontractors, and A.I.D., including PRE, regional bureaus, PPC and Missions. The team also reviewed cables from 18 Missions sent in response to a request from PRE to 23 Missions for brief assessments of their experience with the Center.

3. Findings and Conclusions:

a. The Center for Privatization has provided valuable short-term technical assistance services to A.I.D. Missions. Those services contributed to advancing the privatization process in most of the countries served.

b. PRE, and consequently the Center, placed highest priority on the task of providing technical assistance to Missions, and paid less attention to the strategic planning and information/education tasks of the Center's scope of work.

c. Demand from A.I.D. Missions for privatization technical services is growing. Most of the Center's initial assignments have generated requests for follow-on services. Demand for specialized expertise to actually implement divestitures will increase, in addition to continued demand for reconnaissance and planning skills which have predominated to date.

d. Several Missions have already provided buy-in funds for follow-on assignments, indicating satisfaction with the Center's services and a high priority accorded to privatization. After actual implementation gets underway in each country, substantial funds may be required for technical assistance as well as resources for financing divestitures. This will constrain program expansion.

e. Project experience revealed that privatization of state-owned enterprises is basically a political process which contains financial and technical elements, and not the reverse. As such, it is a slow process whose outcomes are unpredictable.

f. The Center has not yet completed its first task, which was to assist PRE to "develop and implement a strategic plan to further privatization..." PRE did not define what it wanted in this task. This and other tasks were given little attention by PRE and the Center, with attention focused instead upon providing short-term consultant services in response to Mission requests.

g. The Center staff did not have regular access to Missions for promotional and planning purposes. This hindered the Center's fulfillment of its second set of tasks, which involved development and implementation of privatization strategies in 10 countries.

4. Recommendations:

a. PRE and the Center must redefine the contract scope of work based on current A.I.D. priorities and PRE requirements for the future.

b. Based on the high-quality work performed to date by the Center, as demonstrated by Mission responses, PRE should consider allowing the Center to take more initiative in contacting Missions for reconnaissance and planning purposes.

c. PRE has created a competent center of privatization expertise through this contract, which should be permitted to grow into a self-sustaining entity if it is capable of doing so.

d. PRE and other A.I.D. units should look to the Center for future privatization services, but continue to use other sources as appropriate.

I. Introduction

A. Background

This project was initiated in September 1985 by means of an SBA 8(a) contract with the Analysis Group, Inc. (AGI). The contract objective was to provide A.I.D. (PRE and Missions) with "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." (See Annex C)

The contract was for two years and was funded at a $2.9 million level. In addition, Mission (or regional bureau) "buy-ins" were encouraged. Both PRE and the Contractor expected that the contract would be extended and increased if experience were satisfactory. To date, PRE has added $0.3 million, and Missions and regional bureaus have committed $3.9 million in "buy-ins" for a total estimated level of $7.1 million, and more is expected.

AGI sub-contracted with five organizations to give it access to a wide range of expertise. They are Arthur Young and Co., Equity Expansion International, Inc., Ferris and Co., International Phoenix Corp. and Public Administration Service. The contractor hired project staff, set up operations a few blocks from the State Department and called its office "The Center for Privatization" (hereafter referred to as "the Center").

The contract has been amended several times to provide "buy-in" funds from Missions and the Regional Bureaus and to extend its termination date to September 1989 to accommodate a major "buy-in" from the Honduras Mission. PRE plans to add additional funds to the contract this fiscal year. As of May 1987 the Contractor has committed almost all of the original PRE funding. PRE has recently approved a Contractor request to augment the Center's staff, adding a Latin America liaison person and administrative staff.

B. Review Methodology

The purpose of the review was to assess the progress of the project and to provide information to assist the PRE Bureau in its management of the project. PRE/PR selected a team comprised of Robert Pratt, consultant, Michael Zak, PPC/CDIE and Karen Anderson, consultant, to perform the review between April 6 and May 22, 1987.

As requested by PRE, the team assessed the Contractor's performance of each of the tasks in its statement of work and reviewed project management and the Center's working relationship with A.I.D. (See Annex A). In doing so, the team reviewed reports and other documents prepared by the Center, and PRE files; interviewed representatives of the Contractor, sub-contractors and Center staff, and A.I.D. staff including PRE, regional bureaus, PPC and Missions. (See Annexes B and D). PRE requested 23 Missions to comment on their experiences with the Center; 18 replied by cable before the end of the study. (See Annex E).

The team received full cooperation from all those contacted, and found them eager to reflect on their experiences to date and to build upon them for the future. Both PRE's and the Center's expectations appear to have been high at the outset that a number of "privatizations" would be achieved within the two-year contract time frame. Pressure to do so increased following the Deputy Administrator's instruction at the February 1986 A.I.D. Privatization Conference that each A.I.D. Mission complete two privatizations per year. The team found only one completed privatization that can be directly associated with this project. However, we found a great deal of privatization work in progress associated with the project, and numerous actual and anticipated requests for follow-up technical assistance. We are confident, therefore, that within a reasonable time frame, future reviews will identify privatizations which were facilitated by this project.

II. Summary of Conclusions and Recommendations

A. General

Conclusions:

1. The Center for Privatization has provided excellent short-term technical assistance services to A.I.D. Missions. Those services contributed to advancing the privatization process in most of the countries served.

2. PRE established implementation priorities which were not reflected in the contract scope of work. In response to those priorities, the Center paid less attention to the strategic planning approach and information/education functions in favor of ad hoc short-term consultancies. Those assignments represented only one of the twelve tasks in the contract scope of work. Very little has been accomplished on the other tasks with the exception of the literature review and roster, although many of the short-term assignments covered work called for by other tasks (c.1-5).

3. Demand from A.I.D. Missions for privatization technical services is growing. Most of the Center's initial assignments have generated requests for follow-on services. Demand for specialized expertise to actually implement divestitures will grow in addition to demand for the broader reconnaissance and planning skills which have predominated to date.

4. The Center fills an important niche in A.I.D.'s array of technical support services for its Missions by providing expertise on privatization planning and implementation. Missions obtain technical assistance for broader economic structural adjustment policy-making and sectoral issues from other sources.

5. Several Missions have provided buy-in funds for follow-on assignments, indicating satisfaction with the Center's services and a relatively high priority accorded to privatization. However, once actual implementation gets underway, substantial funds may be required for technical assistance. This will inevitably constrain program expansion.

6. Privatization of state-owned enterprises (SOEs) is basically a political process which contains financial and technical elements. As such, it is a slow process which should not be rushed if environments are not conducive, and which does not lend itself to a steady series of divestitures over time, such as two per year as A.I.D. policy expects. Experience suggests that divestitures may occur in clusters, following prolonged preparatory periods. In most countries, a number of SOEs are owned by one government holding company. Once a privatization policy and plan are developed, which may take several years, the actual divestiture of a group of enterprises may occur rapidly.

7. Shortage of capital available for private investment in privatized SOEs will limit privatization prospects in many countries.

8. Although the Center has been able thus far to obtain consultants at rates within the A.I.D. salary ceiling, we anticipate that compensation requirements to obtain services of appropriate experts for specialized tasks will pose a problem in the future.

Recommendations:

1. PRE and the Center must redefine the contract scope of work and agree on staffing and budget requirements and performance targets based on current A.I.D. priorities. PRE must then provide, or arrange for, funding to enable the Center to perform accordingly.

2. The Center should concentrate on its comparative advantage, which is a unique specialty among management consulting firms currently available to A.I.D.

3. PRE and the Center should place first priority on field assignments which are central to Missions' core development strategies. Funding for follow-on divestiture work will more likely be forthcoming for such assignments than for divestitures of enterprises unrelated to Mission strategies.

4. A.I.D. must acknowledge that privatization can be a slow, complex process and not expect a series of successes to emerge uniformly from each A.I.D. country.

5. Assistance in financial markets development should frequently accompany privatization work.

6. PRE should be prepared to consider requests to waive the A.I.D. salary ceiling limit on consultant fees.

B. Contract Tasks

1. Strategic Plan (Task b.1.)

Conclusions:

1. PRE did not define the purpose and nature of the strategic plan called for in the Contract, and the Center did not complete one.

2. PRE, and consequently the Center, gave top priority to responding to Mission requests for short-term technical assistance, and did not pursue preparation of the strategic plan.

3. The Center lacks any mutually agreed plan to guide its operations other than to respond to requests for consultants. This contributed to confusion about interpretation and implementation of the entire scope of work.

Recommendations:

1. Before proceeding further with preparation of a strategic plan, PRE and the Center should define its purpose and content.

2. The team recommends that the Center prepare a strategy and work plan to guide its program during the remainder of its contract, governed by the policy guidance provided in the A.I.D. Policy Determination #14, PRE priorities and Mission demand for privatization services.

2. A.I.D. Portfolio Analysis (Task b.2.)

Conclusions:

1. The Center did not understand clearly the purpose and methodology for performing this task and is uncertain whether to complete it, or to repeat it annually.

2. Work done on the portfolio analysis to date has not been used by the Center or by PRE.

3. PRE and the Center did not communicate adequately about this task and PRE did not monitor its performance closely.

4. Given PRE priority to respond to ad hoc Mission requests for assistance, the team sees little need for such a study.

Recommendations:

1. PRE should delete this task from the contract scope of work. Instead, the Center should review Mission program documents as appropriate to inform itself about priority country programs and to guide its own technical assistance program.

2. If PRE requires a periodic analysis of USAID portfolios, it should prepare its own. Doing so would serve all of its field-oriented programs and not just the Privatization project. PRE should discuss with PPC/CDIE the possibility of establishing a tracking system for privatization activities on A I D 's development information system.

3. Multilateral Development Institutions Portfolio Analysis (Task b.3.)

Conclusions:

1. This task is of very low priority to both PRE and the Center and its utility as a formal Contract task is questionable. The Center's current practice of maintaining liaison with the IBRD and IFC is appropriate for its program needs.

Recommendations:

1. PRE should delete this task from the Contract scope of work. Instead, the Center should communicate regularly with all relevant institutions about their privatization - related work in countries where the Center is working.

4. Literature and Training Review (Task b.4.)

Conclusions:

1. The Center has developed a useful bibliography of articles on privatization, but found that nothing was currently available on training.

2. The Center's "research services" are used by the Center and A.I.D., but demand is greater from non-A.I.D. sources (universities and others). PPC/CDIE has also been providing information to Missions and A.I.D./W on privatization.

3. PRE has not demonstrated much interest in this task, which is poorly defined in terms of objectives,dissemination of information to end-users, and level of effort and cost recovery.

Recommendations:

1. PRE should clarify its objectives for this task, redefine it, discuss a division of labor with PPC/CDIE and allocate the funds required to carry it out.

2. The Center should concentrate on serving its own and A.I.D.'s information needs and not attempt to develop an information dissemination program to outside institutions because its budget is limited and future is uncertain. If prospects improve for long-term sustainability of a research and information dissemination service, then it would be worth considering expanding the service. In that event, cost recovery should be pursued from non-A.I.D. users.

5. Roster of Privatization Expertise (Task b.5.)

Conclusions:

1. The Center is participating with Coopers & Lybrand and Arthur Young & Co., in developing a computerized roster which it will use in conjunction with its existing system. The team doubts its principal intended recipients (USAIDs) will use it.

Recommendations:

1. The Center should complete its work on the roster and then concentrate its efforts on maintaining a roster of experts for its own use.

2. PRE should send the roster to Missions and request feedback from them on its use in order to determine whether to maintain and/or disseminate it in the future.

6. Analysis of Privatization Experiences (Task b.6.)

Conclusions:

1. PRE and the Center have not defined the purpose and methodology of this task.

2. Missions and their counterparts would benefit from relevant privatization experiences of other countries.

3. The Center's own work already represents a useful body of experiences that should be recorded and shared with Missions and others. Although that experience is still almost exclusively limited to pre-divestiture planning and preparatory work, it is nonetheless valuable to those who are just beginning the process. Timely dissemination of those experiences could be very helpful.

4. To the extent that the Bangladesh assignment was to serve this objective, its cost was excessive.

Recommendations:

1. PRE and the Center (in consultation with the regional bureaus) should redefine this task and assign high priority to it. A series of concise "cases" should be prepared, presenting lessons learned from some of the assignments which the Center has performed. PRE and the Center should develop a concrete plan for disseminating the cases, based on a "market survey" of Missions. The plan should include a specific level of effort, budget and time frame. They should consult with PPC/CDIE for guidance in presentation and audience targetting.

7. Short-term Consultancies for Missions (Task b.7.)

Conclusions:

1. On PRE's instructions the Center concentrated on these assignments, but reported them in fulfillment of Tasks c.1.5. (Technical Assistance to Missions) as well as this task. The Center effectively double counted its assignments

to meet the terms of its scope of work, with PRE's tacit approval. Both parties misinterpreted the intent of the work scope and were remiss in not defining it.

2. The Center responded to 34 Mission requests for short-term consultancies. With few exceptions, the Missions are pleased with the services received.

3. Many assignments have contributed significantly to starting the privatization process, but only one assignment has led to a completed privatization to date. The contract did not provide enough time or funds to accommodate the lengthy process of completing privatizations.

Recommendations:

1. The Center should account for all of its short-term consultancy assignments against this task. As longer-term projects materialize from the initial assignments, such as Honduras, they should be managed and reported under a different category. Tasks c.1-5 should be redefined to accommodate the longer-term projects.

8. Technical Assistance to Missions (Tasks c.1-5)

Conclusions:

1. PRE did not attempt to define these tasks and the Center did not seek clarification.

2. The team concludes that the contract was to have had a two-track approach to field work. Task b.7 was to accommodate Mission demand for short-term ad hoc assistance for which no strategically-based selection criteria would be applied. Concurrently, the Center was to identify ten priority countries, through some unspecified process, and assist those USAIDs and host country counterparts develop country privatization strategies and implement those strategies, including the divestiture of specific enterprises. This strategic approach was presumably to have been guided by the "strategic plan" called for in Task b.1, which was never completed.

3. The strategic approach was abandoned early in the contract when PRE established its priority for the Center to respond to ad hoc Mission requests. This may have occurred in part because the other tasks had not been well defined. The original intention was apparently to pursue both approaches, not one or the other.

Based on the positive USAID responses to the very limited amount of contacts with the Center, the team concludes that USAIDs would have welcomed greater opportunities to discuss privatization strategic planning activities contemplated by Tasks c.1-5 than was permitted by PRE.

Recommendations:

PRE and the Center, in cooperation with regional bureaus, should re-evaluate the meaning and objectives of these tasks and redefine them to meet current program objectives.

9. Conferences

Conclusions:

1. The Center's comparative advantage rests with providing technical support (planning and speakers) for conferences which are organized and implemented by local entities in contrast to taking on full responsibility for their planning, organization and implementation.

2. Conference participation provides the Center excellent opportunities to develop productive relationships with USAIDs and host country counterparts which may lead to follow-up assistance for national privatization initiatives.

Recommendations:

1. The Center should continue to provide technical support for country-specific and regional conferences, but not accept full responsibility for planning, organizing and implementing them.

2. PRE's strategy for supporting privatization conferences should rely on the Center to provide technical resource people to them to strengthen the linkage between conferences and follow-on technical assistance.

3. PRE should request the Center to develop a plan for conference participation which will maximize their pay-off in terms of educational value and "business development."

C. Institutionalization Prospects

Conclusions:

1. The team agrees that maintenance of a "privatization center of excellence" merits consideration, but cautions that without substantial core funding from PRE to underwrite it, the risks to A.I.D. and the Contractor will be substantial. We conclude that continued core funding from PRE will be required to maintain the Center as it is presently constituted. Without it, the Center may compete for short and long-term contracts but would not be able to afford the information/education functions which should be strengthened now.

2. Based on previous A.I.D. experience, we anticipate that other management consulting firms will compete successfully for a share of A.I.D.'s privatization business. Concurrently, the Center's service delivery capabilities would probably be enhanced by competing for non-A.I.D. financed privatization business.

Recommendations:

1. PRE, in consultation with the regional bureaus should consider carefully the demand for a preeminent center of excellence for privatization services and the costs of maintaining one. It should also encourage the Center to seek assignments from non-A.I.D. sources, as long as that does not detract from its meeting A.I.D.'s requirements.

III. Review

A. Contract Tasks

The Contractor's scope of work is divided into two sections. The first is described as assistance to PRE and the second as assistance to A.I.D. Missions and through them host countries' private and public sectors. The first group contains three categories of tasks as follows:

- Strategic planning to further divestiture and privatization as a mechanism to promote economic development;

- Information gathering and synthesis from other donors, A.I.D., the U.S. private and educational sectors and selected developing countries, and;

- Identification and coordination of short term consultancies to respond to requests from A.I.D. Missions and host countries.

These three categories are, in turn, broken down into seven tasks which the Contractor is to perform. Our review assessed the performance of each. Our findings, conclusions and recommendations pertaining to them are provided below. It should be noted when considering the Contractor's performance of the tasks that the scope of work is stated in an unusual manner. The "technical assistance to PRE" group of tasks is prefaced by the following statement: "The Contractor shall provide technical assistance, including support staff, to enable PRE to", followed by the seven tasks. The team inquired about the meaning of the phrase "...to enable PRE to". Although that phrase implies that the Contractor was merely to assist PRE to perform the seven tasks, both PRE and the Contractor have disregarded that phrase and proceeded on the basis that the Contractor is to perform the tasks. Nevertheless, the presence of that phrase in the scope of work may in fact reflect, if it did not cause, differing perceptions and interpretations of the Contractor's role and the responsibilities held by PRE and Center staff.

Task 1. "Develop and implement a strategic plan to further privatization as a mechanism to be utilized by developing countries to accelerate economic growth."

Findings

We were informed that Center staff have prepared several drafts of a strategic plan, but have not completed and submitted a final plan to PRE. According to the draft first year work plan drawn up by Center staff and dated January 1986, a first draft of a strategic plan was to be completed by February 1986 and revised by March 1986.

Center staff informed the team that PRE verbally requested in early 1986 that they defer work on the strategic plan and concentrate on responding to Mission requests for technical assistance. Pressure to do so intensified following the A.I.D. Privatization Conference in February 1986. PRE staff confirm that they placed first priority on providing support to A.I.D. Missions and Regional Bureaus, and did not press for completion of a strategic plan. However, the current PRE project officer recently requested in writing that the strategic plan be completed.

PRE did not define, either in the contract work scope or subsequently, what it expected in or from a strategic plan. The Center staff lack a clear perception of what the purpose of a plan is and for whom it is intended. The team inquired of both parties whether the strategic plan was to guide the Center's work or to serve as an A.I.D. privatization strategy. Although both parties told the team that it is to be a strategic plan for A.I.D., to guide implementation of its Policy Determination #14, the Center expressed doubt that an outside contractor should attempt to prepare an A.I.D. strategy. Nevertheless, neither party said that its purpose should be limited to that of serving as a strategic plan for the Center's operations.

During the first six months of the contract, the Center attempted to identify some priority countries in which to concentrate its work. However, PRE instructed the Center to place first priority on responding to Mission requests, without regard to other criteria. The team cannot judge the relative merits of the two contrasting approaches, but the ad hoc approach does not require an analytically derived strategic plan as a guide. On the other hand, if a sound strategic plan had been developed and agreed upon by both parties at the outset, the subsequent ad hoc approach might have been modified by strategic priorities.

Conclusions

1. The Center does not have a clear understanding of the purpose of this task. The objective, elements and users of a strategic plan have not been defined.

2. Priority given by PRE to respond to Mission requests for short-term technical assistance and to conducting conferences relegated the preparation of a strategic plan to the back burner.

3. PRE did not clarify what it wanted in terms of the strategic plan, formalize its instruction to the Center to defer its preparation, or delete it from the contract work scope.

4. The Center lacks any mutually agreed plan to guide its operations. An operationally oriented strategic plan, or an annual work plan, would serve that purpose.

5. The Center did not persist in seeking clarification of this task from PRE.

Recommendations

1. Before proceeding further with preparation of a strategic plan, PRE and the Center should agree, in writing, on its definition.

2. PRE should request that the Center prepare a strategy and work plan to guide the Center's activities during the remainder of its contract, governed by the policy guidance provided in the A.I.D. Policy Determination #14 and PRE priorities.

Task 2. "Analyze the A.I.D. project portfolio to ascertain the impact of privatization mechanisms on the portfolios and the need to revise the PRE strategic plan to meet the realities of implementation. The analysis shall be accomplished through a review of the A.I.D. Congressional Presentation, Country Development Strategy Statements for all A.I.D. countries and approximately 75 Project Identification Documents, approximately 50 Project Papers and approximately 35 evaluations."

Findings

The Center has not completed this task. The Research Director did prepare a draft report based on review of available documents (CDSS, CP, ABS and some project papers and evaluations). This draft report was shown to the PRE project officer, who offered some suggestions, but it was not subsequently completed and submitted to PRE.

The analysis was not a productive exercise. In fact, the author, in the conclusion section, questioned the purpose and methodology. We do not know if that conclusion was communicated informally to PRE, but there is no evidence that it was formally communicated. Furthermore, there is no evidence that PRE or the Center sought to clarify the objectives or modify the scope or methodology of the task in response to the Research Director's conclusions.

The draft report provides definitions of the terms "privatization" and "mechanisms" as used in the statement of the task. The first conforms to the definition contained in PD #14, but the second clearly does not reflect the meaning intended in Task 2. The draft report defines "privatization mechanisms" as "...types of financing schemes which Missions have been using...", e.g., PL 480, ESF, CIP and grant funds. We interpret the term to mean modes of privatization, such as sale of assets, contracting out, Employee Stock Ownership Plans (ESOPs), etc., rather than the category of A.I.D. funds used to support privatization activities.

This fundamental misinterpretation of the scope of work has not been corrected by PRE. This indicates a lack of oversight by PRE and apparent lack of communication between the PRE Project Officer and the Center about this task.

Conclusions

1. The Center did not understand clearly the purpose and methodology for this task.

2. The Center and the PRE Project Officer did not communicate adequately about this task and PRE did not monitor its performance closely.

3. Center staff are uncertain whether they are expected to repeat the exercise each year.

4. Work performed to date does not seem to have been used by the Center or by PRE.

5. Given PRE priority to respond to ad hoc Mission requests for assistance, the team sees little need for such a study. This is corroborated by the fact that no use has been made of it after 18 months. In early 1987, PPC prepared a matrix of Mission privatization programs and plans and gave a copy to PRE. That report provided much of what was apparently intended by this task.

Recommendations

1. We recommend that this task be deleted from the scope of work as a formal "deliverable". Instead, the Center should stay abreast of Mission program strategies and privatization activities as appropriate to guide its own technical assistance program and to inform PRE upon request.

2. PRE should discuss with PPC/CDIE the possibility of establishing a tracking system for privatization activities on A.I.D.'s Development Information System.

Task 3. "Analyze the portfolios of multilateral development institutions to determine the level and focus of privatization activities."

Findings

The Center has had difficulty gaining access to information about privatization activities in MDB project portfolios. It has established contacts with the World Bank and IDB, but found that few projects are clearly identified as privatization projects per se. Many of the MDBs' projects focus on revitalizing or improving the performance of state owned enterprises, which is not consistent with A.I.D.'s privatization policy.

The Center staff have obtained some information from the World Bank, but no others as yet. Consequently, they have not given any report of their findings to PRE apart from the Privatization Matrix Database (see Task #4). There is no evidence that PRE has asked for the analysis, despite the fact that the Center's first year work plan called for completing this task by March 28, 1986.

The Center interpreted this task as requiring a one-time analysis and report to be given to PRE, but has found that development and maintenance of ongoing, informal liaison with MDBs is more useful. However, the Center did not clarify this issue with the PRE Project Officer.

Conclusions

We conclude that this task as originally interpreted by the Center is of low priority to both PRE and the Center. The utility of this exercise as a discrete task is questionable. The Center's current practice of maintaining liaison with other donor agencies is appropriate for its program needs.

Recommendations

The Center should check routinely with relevant MDBs and others about their privatization-related activities in a given country prior to beginning an assignment there. This function should be an integral part of pre-assignment preparation work rather than a separate, formal task. We recommend that PRE redefine this task accordingly.

Task 4. "Review the availability of literature and training applicable to privatization."

Findings

The Center's activities under this task are conducted by the Research Director and two part-time research assistants. They have prepared a 115 page bibliography of 300 entries listing articles on privatization which the Center possesses. Although the contract scope of work does not provide for dissemination of materials, the Center has been responding to requests for information since early 1986. Aside from information requests from A.I.D./W and Missions, the Center has received and fulfilled requests from Center consultants and sub-contractors, MDBs, consulting firms, independent consultants, and universities. These have included requests for the Center's bibliography, for duplication of specific articles, and for more analytical work which the Center terms "special searches". Requests for information are fielded by the Research Director or a research assistant using the materials compiled for the bibliography. Recently the Research Director has attempted to limit responses to those who are likely to reciprocate with useful information or other assistance in the future.

The Research Director estimates that 56 requests were received in 1986. Eleven were from A.I.D./W and Missions, 12 came from Center consultants and sub-contractors, 15 were from universities, and the remainder were from MDBs, consultants and firms. From January to mid-April 1987 the Center received 36 requests, of which 15 were from universities, 8 from A.I.D., 5 from Center consultants and subcontractors and the remainder from unaffiliated organizations and consultants. According to the Research Director, requests from universities and requests for analytical searches have been growing most rapidly, and consuming the most time.

The Research Director has also developed a Privatization Matrix Database which summarizes information regarding privatization efforts worldwide from reference documents and other sources. The Center staff is considering sending it to A.I.D./W, Missions, universities, MDBs, investment banks, consultants, and others. They hope this will serve as an inducement to those organizations and individuals to reciprocate by submitting materials to the Center. The Center will also offer the recipients the option of receiving updates of the matrix. While this is an interesting initiative, the Center does not seem to have a clear understanding of the amount of work it may entail, nor how it will be financed.

The task as stated is unclear as to the purpose of the literature and training review and use to be made of it. The contract does not provide funds specifically for the task and there is no budget for disseminating materials obtained. The Center staff does not have a clear understanding of PRE's objectives for this task or how to proceed. If the purpose is merely to inform the Center to guide its work, then the work can be done with modest resources. But if the Center is to provide high-quality literature review and research services to A.I.D. and other institutions worldwide, the costs will be large and must be provided by PRE, unless provided on a fee-for-service basis. The Center and PRE are ambivalent on this point.

The Center has not made a survey of its information services clients to determine use made of materials sent or potential demand for future services.

Conclusions

1. The Center has done an effective job of developing a bibliography of articles on privatization which is being increasingly recognized and used by non-A.I.D. sources, but has found that nothing is currently available on training.

2. The staff performs an important function of providing information to Center consultants to prepare them for field assignments and to A.I.D. staff engaged in privatization programs. PPC/CDIE has also been providing information to Missions and A.I.D./W on privatization.

3. The task is ill-defined in terms of objective, end-users and level of effort.

4. PRE has not demonstrated much interest in this task.

5. Dissemination of materials collected is not included in the Center's work scope and budget.

Recommendations

1. PRE should clarify its objectives for this task, redefine the scope of work and provide the funds or a cost recovery mechanism to carry it out.

2. Because PRE support for the Center will continue for only six months, and 18 months if extended, the team recommends that the Center not attempt to develop an information dissemination program to outside institutions. It should concentrate on serving its own and A.I.D.'s needs. If prospects improve for long-term sustainability of an information dissemination service, then it would be worth considering expanding the service. In that event, cost recovery should be pursued from non-A.I.D. users.

Task 5. "Develop a comprehensive roster of individuals and firms with the ability to provide long term and short term expertise directly relevant to the needs of developing countries' activities in privatization. The roster will include approximately 100 firms and 250 individuals listed by field of specialty, as agreed to by PRE. The roster shall be made available to all A.I.D. Missions."

Findings

Following contract inception, the Center began to develop a computerized roster, based on its own criteria and questionnaire/data sheet. Shortly thereafter, the Center's staff discovered that Coopers and Lybrand and Arthur Young and Company were also expected to develop similar rosters for the Private Enterprise Development Support (PEDS) and Financial Markets contracts which they have with PRE. Coopers and Lybrand, Arthur Young and the Center then collaborated on the preparation of a roster. The Center worked with Coopers and Lybrand on methodology and selection criteria and is responsible for identifying and selecting privatization experts for the roster. Its Coordinating Committee reviews candidates and makes the selection for the Center.

Several problems have arisen concerning the roster. Some project subcontractors have been reluctant to submit their own employees' names for the roster, fearing that they may be "stolen" by other firms. As a precaution, they have given their firms' addresses for the individuals. Concern has also

been expressed that A.I.D., or the Center, could be liable to criticism or potential litigation by persons not included on the roster if it is presented as an official A.I.D. list of approved consultants. However, if the roster is open to all persons who profess expertise in privatization, it could easily lose its value.

We were told that the roster is currently operational. The Center is unclear about how PRE intends to use it, how the system will screen candidates for assignments and how it will be maintained in the future. The Center has been functioning for 19 months without the roster, but expects to use it in conjunction with its existing system for identifying and selecting consultants.

Conclusions

1. The Center is developing a computerized roster which it will use in conjunction with its existing system. If Missions actually use it to select their own consultants it will make them less dependent on the Center and PRE for privatization services.

Recommendations

1. The Center should complete its work on the roster and then concentrate its efforts on maintaining a roster of experts for its own use.

2. PRE should send the roster to Missions and regional bureaus and request feedback from them on the use made of it. If experience warrants continued maintenance and/or dissemination of the roster by the Contractor, PRE should arrange for it.

Task 6. "Analyze experience in privatization and divestiture in industrialized and developing countries to determine applicability to specific developing countries' situations."

Findings:

The Center sponsored two "privatization dialogues" and attributed them to this task. The first was held December 10, 1986 and addressed "valuation of a state-owned enterprise." Discussion centered on papers prepared by Center consultants Joseph Borgatti and Ron Ivey, by L. Gray Cowan (PPC), and excerpts from the Microsoft instruction manual for valuation computer software. Nineteen participants attended, including ten Center staff, sub-contractors and consultants; two A.I.D. staff; two World Bank representatives;and five academics.

The second "dialogue" was held February 19, 1987. Its agenda consisted of a Center progress report and update and discussion of "resistance in the bureaucracy", "potential employee termination": and "other critical issues." Twenty-five persons participated in the dialogue, including 15 Center staff, sub-contractors and consultants and five A.I.D. staff.

The previous PRE project officer told the team that these "dialogues" were not a productive use of the Center's time and budget. In his opinion, their effect was to promote the Center's image in this country rather than to promote privatization in LDCs.

The Center's objective in holding the "dialogues" was to strengthen the skills of privatization practitioners associated with the Center by sharing experiences among them.. The benefits would accrue to Missions and their counterparts via the consultants' country assignments. The dichotomy between the project officer's and Center's perceptions of this task had not yet been resolved. The task was never defined.

In addition to these two "dialogues", we found that the Bangladesh assignment, which was initiated as a Task b.7 assignment actually corresponded principally to this task, at least in its original design. Its purpose was to analyze the history, policy, context, industrial structure, rationale and outcome of privatization and divestiture activities in Bangladesh. Although this research assignment was intended

to generate lessons from the Bangladesh experience, and the Center reported on this assignment as fulfilling this Task in its fifth Quarterly Report, there is no plan for utilizing and disseminating its findings.

Conclusions

1. We conclude that this task was given low priority by the Center and PRE because nothing was done during the first 14 months of the contract, and yet the "experiences" were presumably intended to guide the Center's and A.I.D.'s privatization work.

2. The PRE Project Officer did not define this task and the Center does not know what was intended by it. The team sought to understand PRE's and the Center's perceptions of the purpose of this task, how it differed from task b.4 above, if it should be a one-time task or continuous, how much it should cost, how experiences would be disseminated, and how the Center and PRE have utilized the results. We found that these questions had not been addressed. The task has been essentially neglected by both the Center and PRE.

3. Based on discussions with Mission representatives, we conclude that dissemination to the field of some specific experiences and lessons learned from the project would help them and their counterparts understand better what can be done in this complex field. Communication of such experiences will encourage others to move ahead with appropriate privatization initiatives. The Center feels its participation in conferences facilitates dissemination of experiences to USAID and host country counterparts.

4. Based on the team's review of 16 country assignments, we conclude that the Center has already accumulated a useful body of experience from which useful "lessons learned" can be derived. Although the experience to date is almost exclusively limited to pre-divestiture planning and preparatory work, that experience is nonetheless valuable to those who are just beginning that process. Timely dissemination of those experiences to Missions could be very helpful.

5. To the extent that the Bangladesh assignment was to serve this objective, its cost is excessive -- $136,044.

Recommendation:

PRE and the Center should redefine this task and assign high priority to it. A series of concise "cases" should be prepared, presenting "lessons learned" from some of the assignments which the Center has performed. PRE and the Center should develop a concrete plan for disseminating the "cases", based on a market survey of A.I.D. Missions, and perhaps some other organizations, to determine exactly what would be most useful. The plan should include a specific level of effort, budget and time frame. They should consult with PPC/CDIE for guidance regarding presentation and audience targetting.

Task 7. "Respond to A.I.D. Mission requests to provide short term consultancies in a variety of areas relating to privatization; including legal/regulatory, financial, economic, sector or industry specific consultancies, etc."

Findings

The team inquired about the distinction between this task and the group of tasks described below as technical assistance to Missions. We found that the Center reports on its country assignments as fulfilling the "technical assistance to Missions" tasks (c.1-5) as well as meeting this task. In effect, this task has been rolled into the other group and does not constitute an additional set of activities. This has been done without any written acknowledgement from PRE.

Despite this implicit decision by the Center and PRE to combine these two tasks, the team found that almost all of the country assignments actually correspond to this task rather than to the other. The country assignments are listed below and a sample of them are discussed briefly in Annex F. They were all conducted in response to Mission requests for short-term consultancies on an ad hoc basis. None of them resulted from a pre-planned initiative by the Center based on a strategic plan and selection of priority countries as sections c. and b.1. imply. Relative importance of assignments in terms of potential economic and social impacts was a function of each Mission's selection process and privatization strategy. Consequently, we discuss the country assignments here.

Missions are satisfied with the services they have received from the Center. PRE sent a cable to 23 Missions which had used the Center's services, requesting that they respond with their perceptions of the value of the Center's work, CFP's probable future role in their countries, and the extent to which the Center services had stimulated privatization. (A copy of the cable is included as Annex F.) Of 18 Missions which responded, all which expressed an opinion characterized the Center's work favorably. Most found the Center very responsive to Mission requests, and praised the quality of the consultants provided. More than three-fourths of the responding Missions anticipated further use of the Center's technical services. While the Missions could not yet report privatization of specific enterprises as a result of the Center's work, most said that the consultant's visit had played a catalytic role in advancing privatization in their countries. They cited consultant contributions in such areas as prompting public discussion of privatization for the first time, defining terms of reference for future privatizations, and developing privatization strategies which were subsequently adopted by host-country governments. Several Missions have already had, or have requested, follow-on services from the Center, funded through "buy-ins".

One assignment has led to a major follow-on assistance program which will be funded by the Honduras Mission. The Center helped prepare a country strategy and a Project Paper for a privatization project, and has been asked to provide long-term technical assistance for the project. This will be provided through a $2.5 million "buy-in" and two-year extension of the PRE contract. This Honduras project should be accounted for under Task group c. below from now on, as it will include most of the elements described therein.

The ad hoc country assignments fall into two categories -- broad reconnaissance visits and enterprise-specific assessment and planning. They vary considerably depending on particular circumstances in each country, but usually recommend an approach for divesting one or more enterprises, with follow-on technical assistance from the Center. To date, only one divestiture has been completed -- the Banana Control Board Farms of Belize.

Initial visits have been financed by PRE funds provided to the contract; most follow-on assignments have been funded by Missions or Regional Bureaus.

The Center and PRE advised the team that PRE placed top priority on responding to Mission requests for assistance, thereby assigning secondary importance to the planning and "research" tasks of the scope-of-work. It is logical, therefore, that the vast majority of country assignments reflect an ad hoc, passive response approach as opposed to the proactive strategic approach described in Section C.

Conclusions

1. In response to PRE priority on responding to Mission requests for short term assignments, the Center concentrated on them but categorized them as if they were part of the strategic approach called for in section c.1-5 of the work scope and reported them against this task. The Center effectively double-counted its country assignments to meet the terms of its work scope, with PRE's tacit approval. We conclude that both parties misinterpreted the intent of the work scope and were remiss in not defining it.

2. The Center responded to 34 Mission requests for short-term consultancies. With few exceptions, the Missions are pleased with the services received.

3. PRE and the Center underestimated the time required to complete concrete privatizations. The process of completing a privatization or divestiture is lengthy, and the contract did not provide sufficient time or funds to accommodate the full process. We derive this conclusion from the fact that the Center has performed satisfactorily approximately 34 country assignments and yet can account for only one completed divestiture. Even that one, in Belize, was almost complete when the Center intervened.

4. Conclusions derived from the team's review of 16 country assignments follow:

a. The way in which consultant reports are handled can enhance or detract from assignment impacts. In one case the consultant did not leave a draft report before departing, the Center did not send a draft for Mission review, and the final, printed version did not arrive at the Mission until three months after the consultant departed. This impacted negatively on the assignment, which was technically well conducted. In another case the consultants prepared and

submitted draft reports to the Mission, and made excellent presentations of their findings to the host country counterparts before departing. That Mission made that procedure clear at the outset and provided the consultants maximum support to enable them to comply.

b. Some assignments deal with state-owned enterprises which are closely related to, and derive from, Missions' core development programs and strategies, e.g. in Gambia, Philippines, Honduras. Other assignments are targets of opportunity, e.g. in the Dominican Republic, which are not central to the country program. Prospects for Missions providing follow-on "buy-in" funding are greater for the former and the Center should place highest priority on them.

c. Center consultants have conducted seminars for host country participants on several occasions in the course of carrying out technical assignments in Senegal, Bangladesh, Egypt, and Ecuador. This reflects very positively on the high regard in which they are held by the Missions and counterparts. The seminars have served to advance the privatization initiatives in each case.

d. A Center consultant to Senegal produced terms of reference for a World Bank privatization study. This represents excellent collaboration between A.I.D. and the World Bank.

e. The Center has provided consultants to Missions on very short notice with good results, e.g. Dominican Republic -- four weeks from request date.

f. The assignments illustrate the maxim that privatization is basically a political process which includes financial and technical factors, rather than the reverse. Consultants have been sensitive to political issues, but on one occasion a team's report was used to generate opposition to privatization.

g. One Mission identified privatization technical skills training as an entry point to further its privatization strategy. In the course of carrying out this assignment, the consultant generated interest among key officials in broader issues and was asked to return and conduct a workshop. Education can be an effective and non-threatening privatization promotion tool.

h. The former PRE Project Officer disagreed with technical decisions reached by the Center and Missions on several occasions, causing friction between PRE and the Center. In each case, the assignments were performed to the satisfaction of the clients (Missions).

Country Assignments

Africa

1. Gambia - Privatization Opportunities (005)
2. Gambia - Privatization Study for the Nyambao Sawmill (031)
3. Guinea - Review of Privatization (018)
4. Guinea - Privatization - Agri-Business Section Phase I (033)
5. Nigeria - Privatization Process in Action (011)
6. Rwanda - Privatization of State-Owned Enterprises (006)
7. Senegal - Mission on Privatization (004)
8. Senegal - SENPRIM Truck Farm Operation (015)
9. Somalia - Divestiture of Somali Marine Producers (016)
10. Swaziland - Review of Royal Insurance Company and the Insurance Market (038)
11. Swaziland - " " "

ANE

1. Bangladesh - Divestiture Study (025)
2. Bangladesh - Privatization Strategy Development (040)

3.	Egypt	-	Capital Markets Authority Workshop (035)
4.	Fiji	-	South Pacific Regional Conference
5.	Jordan	-	Survey of Initial Prospects for Privatization (017)
6.	Jordan	-	Privatization of the Public Transport Corp. (032)
7.	Pakistan	-	Reconnaissance Visit
8.	Papua New Guinea	-	Action Plan for Privatization of Government Shareholdings (029)
9.	Philippines	-	Recommendations on Privatization Program (013)
10.	Philippines	-	Divestiture Plan for the National Food Authority (014)
11.	Philippines	-	Privatization Conference
12.	Portugal	-	Review and Assessment of Privatization Prospects (010)
13.	Thailand	-	Privatization Conference
14.	Tunisia	-	Privatization Conference
15.	Turkey	-	Assessment of TARIS Operations and Privatization Potential (009)

LAC

1.	Belize	-	Divestiture of the Banana Control Board Farms (002)
2.	Dominican Republic	-	Prospects for Privatization - Solid Waste Collection (027)

3.	Ecuador	-	Privatization Survey and Program Design (012)
4.	Ecuador	-	Plan for Privatization (Hotel Quito - Industrias Guapan) (039)
5.	Ecuador	-	Strategy Implementation Bridging
6.	Honduras	-	Privatization of State-owned Enterprises (007)
			CONADI Strategy Design/Development (007)
7.	Panama	-	Assessment of the Privatization Program (008)

Tasks c. Technical Assistance to A.I.D. Missions

Findings

The team devoted considerable effort to determine the distinction between this group of tasks and task b.7 above, without much success. As noted above, the Center has accounted in its quarterly reports for all of its country assignments against this group of tasks, c.1-5., as well as task b.7. This is inappropriate because the two tasks were conceptually distinct. Tasks c.1-5 called for a strategic, planned approach to be applied in ten countries. By specifying ten countries for this intensive treatment, some selection process is implied. The team could not equate this implicitly analytical approach with the ad hoc response approach imposed on the Center by PRE. The latter is appropriate for task b.7 but not for tasks c.1-5.

We found that PRE and the Center have not made a serious attempt to clarify the meaning of these tasks. As a result, whereas almost all of the country assignments to date really correspond to task b.7, the Center has attempted to interpret them as being part of the strategic approach called for in section c. as well.

The team sought to clarify the meaning of tasks c.1-5 listed below:

c.1. "Develop approximately 10 A.I.D. country specific privatization strategies."

- What is an A.I.D. country specific privatization strategy? Has PRE defined it?. Has the Center defined it?
- Who feels a country-specific strategy is important?
- Are there priority countries?

c.2. "Policy discussions with host country private and public sector leaders."

- What does PRE expect from this?
- How do PRE and the Center perceive this being done?
- Does this refer to the same 10 countries as in c.1, or to any countries?
- The Center includes conferences under this task. Does PRE agree?

c.3. "Implement privatization strategies in approximately 10 countries, including the following tasks:

i. Sector or industry specific analysis including agriculture, industrial, financial, transportation, service industries, tourism, etc.

ii. Enterprise/firm specific analysis including organization, production, financial control, marketing, personnel policies, restructuring joint ventures, risk analysis, etc.

iii. Policy/legal/regulatory analysis including enabling legislation, taxes, business licensing, macroeconomics, etc."

- Should these 10 countries be the same as in c.1?
- What does "implement privatization strategies" mean? Is it distinct from c.4 and c.5 below?
- Are some kinds of sectors, industries, enterprises or policy issues more important than others?

c.4. "Design, implementation and evaluation of approximately ten country specific projects."

- How does this differ from c.3?
- Should these ten projects be in the same ten countries and be part of the strategies as in c.3?
- Are there priorities and selection criteria for choosing projects?

c.5. "Analysis of the business, financial, managerial, technological and economic conditions of state-owned enterprises or institutions which could be considered for privatization."

- Did PRE intend this to be a distinct task, separate from c.3 and c.4?
- The Center merged it into c.4 and does not report on it separately.
- These subjects are elements of a divestiture project and do not represent a separate task.

The confusion over this part of the work scope may be due, in part, to the fact that the overall strategic plan (Task b.1.) was never completed and agreed to by the Center and PRE. The team feels confident that a thorough "negotiation" of a strategic plan at the outset would have served to define and/or change these other tasks. It is unfortunate that neither party sought to define them.

The team heard several theories about task c.1-5, as follows:

- Task b.7 assignments were to be funded by PRE budget and Task c. assignments were to be funded from Mission "buy-ins." In order to meet current PRE policy, Task c, assignments would, therefore, have to be follow-on work stemming from Task b.7. assignments. If this were the case, then selection of the ten countries would be determined randomly by "success" of Task b.7 work.

- Work under Tasks c.1-5 was to be funded from a Privatization Fund that A.I.D. intended to establish. It was to provide up to $250,000 for the Center's services in each of ten countries. The Fund did not materialize, but the work scope was not reduced accordingly. That arrangement implies that only ten countries were intended to be served by Tasks c.1-5. Therefore, the ten countries mentioned in Tasks c.1,3 and 4. were intended to be the same countries.

As stated previously, the team reviewed country assignments as part of Task b.7. We devoted our time with reference to Tasks c.1-5 to attempting to determine what PRE had intended by them and how the Center had interpreted them. Our efforts were largely unrewarded.

Conclusions

1. The relationship of these tasks to Task b.7 is unclear. PRE did not define these tasks and the Center did not seek clarification.

2. The team concludes that the contract was to have had a two track approach to field work. Task b.7 was to accommodate Mission demands for short-term ad hoc assistance for which no strategically based selection criteria would be applied. Concurrently, the Center was to identify ten priority countries, through some unspecified process, and assist those USAIDs and host country counterparts in developing country strategies and implementing those strategies, including the divestiture of specific enterprises. This strategic approach was to have been guided by the "strategic plan" called for in Task b.1, which was never completed.

3. The strategic approach was abandoned when PRE set its priority for the Center to respond to Mission requests because there was not a clear understanding of the meaning of Tasks c.1-5. The original intention was apparently to do both, not one or the other.

4. Based on the positive USAID responses to the very limited amount of low-key "marketing" done by the Center, we conclude that Missions would have welcomed greater opportunities to discuss prospective Center assistance for privatization strategic planning activities contemplated by Tasks c.1-5 than was permitted by PRE.

Recommendation

1. PRE and the Center, with other A.I.D. offices as appropriate, should reevaluate the objectives of Tasks c.1-5 carefully and redefine them to meet current A.I.D. objectives. In doing so, they should assess anticipated demand from the field for such services.

B. Conferences

The contract scope of work does not include planning, organizing, implementing or participating in privatization conferences. However, in response to an A.I.D. initiative to support regional and country-specific conferences as follow-up to the A.I.D. Privatization Conference, PRE asked the Center to assist with several conferences in Asia and the Near East. To date the Center has participated in conferences in Fiji, Thailand, the Philippines and Tunisia. In addition, a Center representative discussed the prospects for a conference in Pakistan.

Findings

The appropriate role for the Center to play in privatization conferences has become an issue. PRE, in response to requests from the ANE Bureau and Missions, has asked the Center to play a major role in conferences.

The team reviewed briefly the Center's conference experiences and assessed its contributions to the Missions and to the Center's program.

1. Fiji (Feb. 1987): The Center accepted an assignment to plan, organize and conduct a regional privatization conference for the South Pacific area. This became a large and complicated task for which the Center sub-contracted assistance from two other organizations. Some observers claim that the Center did not perform satisfactorily on this assignment and that other organizations were called in to fill its organizational gaps.

2. Thailand (August 1986): The Center provided a consultant to participate in a privatization policy conference sponsored by the Public Enterprise Institute of Chulalongkorn University. The USAID, which requested the Center's participation, reported that the consultant did a good job in presenting some outside experiences for the Thais to consider in developing their own privatization strategy.

In the course of participating in the conference, the Center representative encouraged the USAID to continue its dialogue with the Thais on privatization and to call upon the Center for further assistance. This "soft-sell" marketing effort paid off later in the year when the USAID asked for the Center's help with a prospective privatization of several financial institutions. The Center responded quickly with candidates, but the assignment did not materialize.

At the time of this study, the USAID had recently received a formal request from the newly created National Public Enterprise Board (NPEB) for technical assistance in developing a detailed privatization strategy and action plan. Although causality is not conclusive, the positive relationship which emanated from the Center's successful participation in the conference, followed by its responsiveness to the subsequent USAID request, encouraged the NPEB to make its request to USAID. The USAID, in turn, requested the Center's assistance, which is expected shortly.

3. Pakistan: The Mission invited a Center representative to visit Islamabad for a few days to examine the possibility of supporting a privatization conference. According to the Mission, he did a fine job and provided a useful report based on his meetings with GOP officials. However, political sensitivities at that time precluded moving ahead with a conference.

That visit may actually have produced important dividends for the Center and PRE's privatization objectives. The Mission has been steadily pursuing a policy dialogue with the GOP about privatization and has now requested the Center's help to design a scope of work for the GOP's use in moving ahead with it. Depending upon GOP receptivity to that exercise, the Mission will consider further use of the Center's services. A Mission representative advised the team that the Mission's and GOP's positive reaction to the brief work of the Center's consultant last year contributed to the dialogue process and has encouraged them to turn to the Center for assistance.

4. Philippines (December 1986): The Center provided financial and technical support for a privatization conference in December 1986 which served to officially "kick off" privatization in that country. PRE and the Center suggested that the Conference include a panel on valuation techniques, and provided two valuation experts to participate in the panel discussion. Mission representatives reported that the panel was the most popular event of the conference, that the total assistance was extremely valuable and that they "look forward to a continuing close relationship with CFP."

5. Tunisia (April 1987): A Center consultant assisted the USAID with the planning and implementation of the International Privatization Conference held in Tunis April 22 - 25, 1987. The Mission and Tunisian counterparts planned

and sponsored the conference and requested only limited technical and financial assistance from the Center. The consultant devoted several days in December 1986 to reviewing plans for substantive content and organizational format of the conference and then served as resource person to the conference organizers and as evaluator of the conference impact. The Mission reports that it has been very pleased with the consultant's professional and objective approach.

The Mission took advantage of the consultant's presence in Tunis to discuss a possible future role for the Center in Tunisian privatization activities. It is "favorably disposed to continuing discussion of a possible buy-in to the PRE-CFP contract" if GOT plans call for such assistance. The Mission has been pleased with the quality of the consultant's services and found the Center's support for the conference very satisfactory.

Conclusions:

1. Based on the experience of four conferences which the Center assisted, we conclude that the Center's comparative advantage rests with providing technical support (planning and speakers) to conferences which are organized and implemented by local entities (Thailand, Philippines, Tunisia) in contrast to taking on full responsibility for a conference (Fiji).

2. Conference participation provides the Center excellent opportunities to develop productive relationships with USAIDs and host country counterparts which may lead to follow-on assistance for national privatization initiatives.

Recommendations:

1. The Center should continue to provide technical support for country-specific and regional conferences, but should not accept full responsibility for planning, organizing and implementing them.

2. PRE's strategy for supporting privatization conferences should rely on the Center to provide technical resource people for them in order to strengthen the linkage between conferences and follow-on technical assistance.

3. PRE should request the Center to prepare a plan for conference participation that will maximize its pay-off in terms of educational value and "business development."

C. Institutionalization Prospects

The team was asked to consider the prospects for the Center for Privatization to become partially, or even completely, independent of PRE financial support in the future; in effect, to become institutionalized as a self-sustaining source of technical expertise for LDCs. The prospects for doing so will depend upon a number of factors, both technical and administrative. Any initiative in that direction should be based on careful analysis, including preparation of a "business plan" as in any new commercial venture. Following is our assessment of the issues and prospects, based on findings from this review.

1. Market: The Center's market has consisted of divestiture of SOEs at the request of LDC government agencies via USAIDs, financed by PRE and USAIDs or A.I.D. regional bureaus. Demand for the Center's services is growing and will probably continue to do so. However, even if A.I.D.'s enthusiasm for encouraging privatization wanes at the end of the contract, LDC governments' interest in it will probably not diminish. Therefore, the basic demand for services will probably continue or expand. But effective demand (ability to pay) may become a problem. That, in turn, is a reason for the Center to become independent of A.I.D., to compete for funds from other sources.

2. Product: Given an adequate market, sustained success will depend on supplying a superior product, especially when competing for funds from USAIDs and non-A.I.D. sources. To date, the Center's clients have been pleased with the quality of services received. The majority of PRE-funded assignments have generated actual or probable USAID-funded follow-on assignments, a good indicator of product quality and client satisfaction.

Most of the Center's assignments have been of a relatively general nature -- reconnaissance, planning and preparatory work. Although demand for that will probably continue, we anticipate an increasing demand for specialized technical services to help in implementing divestitures. The Center has not yet had much opportunity to demonstrate its capability to provide superior services of that type, although it should be asked to do so often during the remainder of its contract.

3. Management: The management issues affecting an independent Center are more problematic than the market or product issues. The Center is the creation of AGI, which had no prior experience in this field. The five sub-contractors contributed their extensive LDC economic development and business experience to the project, but seem to constitute a rather tenuous alliance for purposes of contract performance. The Center's professional staff were recruited by AGI for this contract.

This unusual structural situation presents a basic question as to the Center's identity and institutional strength. The sub-contractors could terminate their association with the Center, or be terminated, at the completion of their sub-contracts, and the Center staff could do the same. The Center, without the current sub-contractors and staff, would be hard-pressed to match its past performance.

Rationale for an Institutional Center: Advocates of an institutionalized Center cite a need for a preeminent, reliable source of expertise for A.I.D. privatization requirements. The best way to ensure that is to select an appropriate institution and negotiate a fully funded contract for a long period of time. However, because of the heavy financial burden that would place on PRE, and lack of independence that would mean for the Center, the Center proposes that it be permitted to solicit business from other sources, such as the World Bank. Doing so would expand the Center's volume of activity, expose it to greater competitive forces, and help to pay for general overhead and administration.

As for nature of services to be performed, or products, the present contract calls for three types: 1) information services; 2) short-term consultant services, and 3) long-term projects. The second was pursued to the exclusion of the first, and the third is just beginning to materialize. The Center must determine what services are most in demand and which will generate the most non-PRE revenue.

Continued PRE support for an institutionalized Center would indicate that A.I.D. regarded the Center to be its preeminent source of privatization expertise. However, that

should not be construed to justify a monopoly on A.I.D. privatization technical assistance. In fact, as other A.I.D. contractors acquire expertise in this field, they will undoubtedly be asked to provide such services, in competition with the Center.

Despite the advantages of competition for A.I.D. business, a number of persons have stated that A.I.D. needs a specialized source of expertise which devotes all of its energy to this subject, develops a cadre of proven experts in this field and imparts lessons learned from careful analysis of previous work.

Conclusions:

1. The team agrees that maintenance of a "privatization center of excellence" merits consideration, but cautions that without substantial core funding from PRE to underwrite it, the risks to A.I.D. and the Contractor will be substantial. We conclude that continued core funding from PRE will be required to maintain the Center as it is presently constituted. Without it, the Center may compete for short and long-term contracts but would not be able to afford the information/education functions which should be strengthened now.

2. Based on previous A.I.D. experience, we anticipate that other management consulting firms will compete successfully for a share of A.I.D.'s privatization business. Concurrently, the Center's service delivery capabilities would probably be enhanced by competing for non-A.I.D. financed privatization business.

Recommendation:

PRE, in consultation with the regional bureaus, should consider carefully the demand for a preeminent center of excellence for privatization services and the costs of maintaining one. It should also encourage the Center to seek assignments from non-A.I.D. services, as long as that does not detract from its meeting A.I.D.'s requirements.