PRIVATIZATION IN DEVELOPING COUNTRIES

Gordon O.F. Johnson
Deputy Director

CENTER FOR PRIVATIZATION

Statement for

The President's Commission on Privatization

January 8, 1988

TABLE OF CONTENTS

PRIVATIZATION IN DEVELOPING COUNTRIES

Statement for the President's Commission on Privatization

Gordon O.F. Johnson
Deputy Director

Center for Privatization

I. EXECUTIVE SUMMARY

A. Importance to U.S. taxpayers

AID's privatization initiative is one of the most important new programs in the history of the Agency. Not only does it reverse an extended period of promoting growth through and by government, but it also works to make U.S. exporters more competitive in foreign markets against European and Asian competitors (a "more level playing field"). Bribery and corruption occur primarily in connection with transactions involving government bureaucrats and state-owned enterprises; by helping to transfer control and ownership of state enterprises into the private sector, we are making it much easier for U.S. firms to comply with the U.S. Foreign Corrupt Practises Act, a burden which our foreign competitors have not had to cope or put up with.

B. Complexities in Developing Countries

One characteristic of privatization is common to both developed and developing countries: Privatization is a political process which happens also to have important financial and economic implications. Because it is first and foremost a political process, it is critical to put a high priority on building political support constituencies as part of any privatization program. That is the most important single lesson to be learned from the British who have been the world's most visible and successful privatizers.

In most other respects, however, the privatization problems in developing countries are far more complex, and in some cases even completely unique:

* Tremendous variety in type and size of enterprise

* State enterprises are a means to deal with the political problem of unemployment

* Entrenched management and employees often enjoy very substantial privileges and perquisites which they do not wish to lose

* Perceived values of state enterprises often bear no relationship to real market values and critics talk of "selling the family jewels"

* The most likely private investors may be politically unacceptable--foreigners, ethnic minorities or "cronies"

* There is a shortage of managers and entrepreneurs to make the business succeed in the private sector

* The private sector is often highly suspect and privatization is perceived as "a way to make the rich richer"

* Government policies are set to hassle business far more than they help

C. The Center for Privatization

The Center for Privatization is a consortium of six companies set up under a contract with the Bureau for Private Enterprise in the Agency for International Development. Its basic objectives are to build a source of knowledge and expertise in privatization for use by AID in Washington and in the Country Missions, and to provide technical assistance in planning and implementing privatization programs in developing countries.

* Originally set up for two years, the contract has been extended to five;

* During the first two years of the contract, services have been rendered by the Center in over 30 countries and involved over 100 consultants;

* One third of the USAID Missions served thus far have already chosen to add their own funding to carry on work initiated with funds from the Bureau for Private Enterprise.

* The small Center staff in Washington is headed up by two individuals with over 60 years combined senior management experience in the private sector. The new Director of the Center is the just retired former Chairman/CEO of SCM Corporation, which he joined in 1957 and led to become a Fortune 500 company with worldwide operations in a variety of fields.

D. Privatization policy guidelines

Policy guidelines developed by AID and the Center in carrying out our assignments in developing countries include the following:

1. Restructuring a state enterprise to attempt to make it more efficient (other than certain legal or debt or other short term restructuring to make the enterprise saleable) is not a worthwhile investment of time or money and is not privatization.

2. Maintain a low profile for the U.S. role in privatization. Because it is a political process, it requires a strong committed host government to make it succeed. Outsiders cannot force it.

3. Encourage equity expansion. Broadened ownership of property strengthens political democracy. "Democratization of capital" is an important goal for a privatization program because it helps to develop broader support constituencies.

4. Avoid "ad-hocracy". An ad hoc approach to privatization tends to strengthen the bureaucracy. Privatization needs a plan, with policies, procedures and a committed staff with access to the very top of the host government.

5. Measure success by evaluating the "demonstration effect" of each transaction, not the quantity of transactions. Because privatization is an ongoing political process, not a single event or transaction, the basic objective of a sound program of privatization must be to demonstrate that good things happen when you privatize.

6. Allocate resources to favor those countries where there is a genuine will and commitment to create a favorable investment climate which will attract local capital back from overseas and mobilize hidden domestic capital, rather than drive capital out of the country. Privatization then becomes an important signal to demonstrate that commitment to potential investors.

8. Maximizing the selling price should not be the primary objective of a privatization program. What really counts is having a committed buyer or group of buyers able and willing to invest time and money to make the enterprise grow, and thus create meaningful unsubsidized jobs with a future to replace subsidized "make-work" jobs of the past.

E. Other points to remember

Government cannot be both a referee and a player. When the government takes off its referee shirt, and starts to play in the game as well as referee, other players soon get the message as to who will win and leave for better pursuits elsewhere.

The business of government is not the government of individual businesses. Governments have more important things to do!

Privatization is a political process; it must be viewed and evaluated as an ongoing process of systemic change, not as an individual event or transaction.

II. INTRODUCTION

A. AID/PRE privatization initiative

One of the most important recent policy shifts in U.S. foreign assistance programs has been the shift away from promotion of growth through and by government as the means to achieve economic development, and the attempt instead to achieve growth in developing countries by broadening and strengthening the private sector and free market forces. Channeling our aid through governments was direct and logical, but the hoped for economic development either did not occur or was slow in coming. Other forces at work in their economies threw these countries deeper in debt, with more and more local capital flowing into safer investments overseas rather than into the desired domestic investment. Entrepreneurs moved into government bureaucracies where the rewards for a signature on the right documents could be much greater than the returns from 16-hour days in the private sector. Growth in goverment was accompanied by growth in inefficiency and corruption.

Development of a healthy private sector required a shift away from high visibility government project assistance to emphasize assistance conditioned upon agreements by governments to change policies to open up markets to competition and remove government-imposed hoops, hurdles and hassles in doing business. Privatization of state-owned enterprises, which had become the source of a sizeable share of foreign indebtedness and operating budget deficits in most developing countries, became an important policy objective for the Agency for International Development and its Bureau for Private Enterprise (PRE).

In September 1985, the Bureau for Private Enterprise entered into a contract with Analysis Group Inc., an "8(a)" firm in a consortium with five other companies, to provide technical assistance in carrying out this objective. Setting up the mechanism in the private sector to make privatization happen allowed the government to focus on policy guidance and objectives, with the private sector consortium responsible for implementation.

B. U.S. government interest/objectives in privatization

The over-arching U.S. Government interest in privatization is the enhancement of our national well-being and security that results from the creation and strengthening of democratic societies around the world. History shows that competitive markets generate greater likelihood of progress towards forms of government which provide for popular representation than do authoritarian institutions.

This new emphasis in developing countries on the development of a healthy private sector and the transfer of ownership and control of state enterprises to the private sector is also important for U.S. taxpayers because it makes it easier for U.S. exporters to participate more fully in foreign markets--a critical objective if we are to reduce our foreign trade deficit. Simply stated, U.S. firms are at a competitive disadvantage compared to foreign competitors when selling to foreign government enterprises. The U.S. Foreign Corrupt Practices Act enhances that disadvantage. (I come out of 30 years in a capital equipment manufacturing business, with customers in 90 countries around the world, and I can testify from first hand experience that our European and Japanese competitors are far more skilled in dealing with government enterprises in the developing world than we are.)

Privatization of state enterprises overseas not only makes good economic sense for the host country's growth objectives; it also helps U.S. exporters; it is one of the ways to achieve a "more level playing field" for U.S. firms in global markets.

C. <u>Privatization overseas is more complex than in the U.S.</u>

Whereas the privatization issue in the U.S. deals primarily with the transfer of services, in developing countries there is a vast array of government enterprises built up over the past 30-40 years, generally with help from foreign lenders--other governments, multinational institutions and commercial banks. The list is endless, and ranges from large utilities (e.g., telephone, electricity, transportation, water, waste collection/disposal) to large and small industrial and agricultural firms (e.g., agricultural marketing organizations, banks, cement companies, cotton and dairy products producers, food processors, foundries and steel mills, hotels, sawmills, sugar refineries, and textile factories, to name just a few examples.)

In addition to the wide variety of state enterprises and activities, there are additional complexities inherent in the environments of most developing countries...

> ...Employment in state enterprises is often a means for governments in developing countries to deal with their unemployment problems. (Some countries deal with the problem through unemployment compensation systems; some put their unemployed into the army; most developing nations, on the other hand, seem to favor state enterprises as the place to put their unemployed.) Any successful privatization program must deal with the problem of overcoming strong political and union resistance from employee constituencies whose livelihoods may appear to be threatened.

...Entrenched bureaucracies have become a way of life, with privileges and perquisites difficult to equal in the private sector. Entrenched bureaucracies are usually strongholds of opposition to privatization--but these same bureaucracies must be involved in making the privatization program work.

...Valuations of enterprises to be sold often bear no relationship to the real world of what a willing buyer would pay, and it is difficult for government officials and politicians to face these realities in public. It is particularly difficult when the opposition accuses the government of selling off the people's patrimony--the nation's crown jewels.

...In many countries, the most likely investors are not always politically acceptable. Not only are foreigners suspect, but there are often local ethnic minorities who are politically unacceptable. Another pitfall to avoid is the possible sale of state enterprises to cronies of government officials--privatization must not be allowed to create a form of "crony capitalism".

...A special problem in most developing countries is the fact that privatization is perceived as a process which only makes the rich richer. There is considerable resentment and suspicion of the private sector in many circles and developing countries have not yet built up the extensive system of checks and balances now in place in the developed countries to assure open markets and free competition.

...a universal problem is the shortage of qualified local managers and entrepreneurs, who will be essential to the success of the enterprise after it is privatized.

Certainly some of the above problems do exist to some degree in planning a privatization program in the U.S., but not to the same magnitude.

One element is a constant everywhere, however, in both the developed and the developing world: The privatization process is a political process. It is like aiming a fire hose directly at a brick wall--the closer you get, the more you get back in your face. The secret to successful privatization, which has been demonstrated over and over again in the U.K., is that it must be structured so as to create more winners than losers. Whatever it takes to make that happen must be built into the program. A well implemented privatization program can be a political asset rather than a political liability, but it takes careful planning and a well thought out public awareness program to develop support constituencies.

There are other lessons learned from our experience overseas which may by useful for the Commission, but before going further, it may be helpful at this point to tell you more about the Center for Privatization.

III. THE CENTER FOR PRIVATIZATION

A. Consortium of six companies

The Center for Privatization is a consortium of six companies, headed up by Analysis Group Inc. (AGI), the prime contractor, a minority-owned diversified engineering and technical services firm. The five firms in the consortium who worked with AGI in preparing the original proposal are:

Arthur Young & Co., one of the world's largest and most diversified professional services firms.

Equity Expansion International, which focuses on expansion of ownership and participation opportunities among workers, farmers and the general public.

Ferris & Company, Inc., Washington's largest investment banking firm, with extensive financial advisory experience in developing countries.

International Phoenix Corporation, which advises on production, marketing, joint ventures and technological transfer in the agricultural, industrial and service sectors.

Public Administration Service, a non-profit firm providing research, consulting and training services to a worldwide clientele for over 50 years.

Each of the member companies brings a wide range of skills to the consortium. From time to time it has also been necessary to go outside the consortium to locate the most skilled practitioner for the particular job to be done.

The Center has been headed up for the past two years by a Director and Deputy Director who between them brought to the Center some 60 years of senior management experience in the private sector. Senior members of the staff have extensive overseas operating experience. The staff of eleven includes six professionals.

With the retirement of Alexander Tomlinson, our first Director, at the end of 1987, we were fortunate in attracting Paul Elicker, retiring Chairman/CEO of SCM Corporation, as the new Director to carry forward a much expanded work program.

B. Two basic objectives

The Center was charged with two basic objectives in its original statement of work:

1. To become a center of knowledge and information about privatization for the use of AID and its Missions overseas.

2. To provide technical assistance to AID/PRE and Missions in planning and implementing privatization programs in those countries where there appear to be good prospects for success.

C. Experience in the first two years

The overseas work of the Center picked up momentum at about the time of the AID Administrator's International Conference on Privatization, in February 1986. Since that time we have handled assignments in 30 countries on 55 projects, involving over 100 consultants.

The technical assistance assignments have included a variety of tasks, of which the following are typical:

...reconnaissance surveys for policy reviews and privatization planning

...privatization seminars, conferences and workshops

...country strategy development--organization/criteria etc.

...enterprise viability studies and valuations

...privatization impact evaluations--building support constituencies

...marketing plans--preparation, soliciting bidders, negotiating terms of sale

...media/public awareness programs

Exhibit A, attached, contains a summary of Center activities by country in 1986 and 1987, and Exhibit B contains a general review of privatizations completed or under way in developing countries.

IV. HOW THE CENTER OPERATES

A. AID operating strategy

As with any new direction for an established institution, change comes slowly, and the emphasis on the private sector and privatization required a strong commitment from the top, with a clearly enunciated policy statement. This occurred during and after the February 1986 International Conference on Privatization, and has been followed up with all-mission cables and in Mission Director meetings. The commitment is articulated on a continuing basis and in a variety of ways.

The Bureau for Private Enterprise responds to requests from Country Missions by providing initial "seed money" funding for technical assistance through its contract with the Center for Privatization, but only after assuring itself that there are genuine prospects for privatization and that the Mission requesting help is prepared to provide additional funding later if the initial phase is successful. This strategy provides an effective measure of how well the Center is meeting the needs of the Missions. (Ten of the thirty countries served thus far have funded additional work by the Center, either directly from the Country Mission or from one of the AID geographic bureaus.)

B. Variety of privatization mechanisms

The word privatization is new to most dictionaries, and as with any new word has different meanings for different people. For the Center, privatization can involve a variety of transactions, all of which have in common the objective of transferring ownership and control of the enterprise or activity to the private sector. Privatization would include any of the following:

Complete divestiture of the enterprise

Sale of assets (going business or liquidation)

Partial divestiture (selling less than 100% of equity)

Spinning off selected segments of an enterprise

Contracting out, franchising, leasing (where genuine control passes to the private sector)

It is important to note here that restructuring a government enterprise to allow it to act like a private commercial enterprise, and thus hopefully improve its efficiency, is <u>not</u> privatization by our definition. Too often these "solutions" are at best only temporary. While it may be possible to devise systems which can provide profit incentives and some form of management-by-objectives, governments have not thus far been successful in simulating the incentives that come from the fear of what will happen if management does not make a profit! (Very few government enterprises are ever liquidated in bankruptcy proceedings and very few officials in state enterprises have their lifetime savings at stake in their business.)

C. Policy guidelines

1. Maintain a low profile for U.S. role

Privatization is basically a political process and requires a strong and committed government to carry it out. The U.S. can assist with the political, technical and institutional complexities, but unlike other assistance programs, this should not come with a "made-in-the-USA" label. Opposition elements trying to preserve the status quo will try to discredit privatization as the latest form of American imperialism, and we should not give credence to their argument.

2. Encourage equity expansion

Privatization of state enterprises offers a unique opportunity to strengthen political democracy through broadened equity ownership. We have very few developing country examples thus far of successful transitions to employee ownership, in whole or in part, but an important objective of the Center is to find ways to adapt U.S. experience with worker participation in ownership through Employee Stock Ownership Plans (ESOP's) to the culture and political/economic systems in the developing world.

For enterprises with assets already in place, the sunk costs are most likely not recoverable and related debts must be handled separately in order to make a commercially viable company. These assets can, however, serve as a basis for employee ownership where the government does not have raising cash as its immediate objective. (In our opinion, it is far more important to look at who the new buyers are, and their prospects for success, than it is to try to get the maximum cash return on the privatization transaction. The real objective behind a successful privatization program must be to create meaningful jobs--jobs with a future instead of jobs with a past.)

3. Avoid "ad hocracy"

Privatization is an ongoing process, not a single event or transaction. Thus it is critical to avoid the trap of trying to privatize precipitously. There must be a plan; there must be clear policies and procedures; there must be a committed staff in place within the host government, with access to the very top of that government.

4. Look for a positive "demonstration effect"

An important corollary to the need for a plan, is the recognition that one of the key elements in selecting candidates for privatization is an analysis of the probable "demonstration effect" of each transaction. Remember that we are dealing with an ongoing process, not a single event or happening. The first ones in particular must be perceived as successful. Our objective in the Center is not simply to privatize state enterprises, but rather to demonstrate that good things happen when you privatize.

5. Look for a positive investment climate

Successful privatization requires a policy environment in which investors are willing to invest and where privatized state enterprises can indeed be successful after privatization. There are some who argue, in fact, that privatization should usually be postponed until critical policy changes are made. We feel on the other hand that privatization can be a key catalyst in helping to bring about policy change and to demonstrate to potential investors that the government is indeed serious and interested in creating an attractive investment climate. Certainly in creating the best possible demonstration effect for a geographic region, we try to focus first on that country within the region which has the most favorable conditions for investment.

V. WHY PRIVATIZE?

A. General

There are a number of reasons which account for the growing interest in privatization in developing countries around the world. The most basic of all is the growing recognition that government owned and managed enterprises generally don't work as well as privately owned enterprises--and for those exceptions which do seem at present to work as well, we caution their supporters to think ahead to predict how long that state of bliss will continue. It may well be that this is exactly the right time for privatization--before the inevitable characteristics of government owned and operated enterprises begin to set in! (Exhibit C, attached, contains a list of typical characteristics of state-owned enterprises prepared by the Center--a list which is constantly growing.)

B. Reduce financial drain on the government

Probably the single most important factor in bringing privatization to the fore as a viable government policy is the recognition that operating losses cannot continue indefinitely --even in a government enterprise. Inabilities to continue borrowing to finance losses create pressures in turn to stop budget losses. The first impulse is to try to privatize the big losers--the "white elephants". Occasionally this can indeed be done, but more often than not, the stage must first be set with smaller successful privatization transactions to demonstrate the government's commitment to developing a viable private sector and attracting investors.

C. Raise capital--convert fixed assets to cash

A second frequent objective for developing countries early in the privatization process is to look at it as a way to raise cash. In some instances this may indeed be possible, but in most cases in developing countries the cash which can be raised turns out to be far lower than the early expectations. The market valuations simply do not match up against the original cost or book values.

This political embarrassment can be minimized by concentrating instead on other more important objectives which will continue to be remembered long after the original sale price has been forgotten.

D. Expand/broaden capital ownership

As pointed out earlier in this paper, "democratization of equity capital" can be an important and politically meaningful objective for privatization where the enterprise is large enough to support a public stock offering, or where the situation lends itself to employee ownership. Having politically acceptable buyers is one of the most critical factors in determining the eventual success of a privatization program in the eyes of the public.

F. Attract new capital

Debt/equity ratios have been far too high for most developing countries in the past, and privatization programs offer a means to attract equity capital--both domestic capital and foreign capital. Privatization can be particularly effective in attracting capital from overseas nationals as well as in attracting back overseas funds held by local nationals.

Privatization plays an important role in debt/equity swaps because when the funds go to the government to buy a state enterprise they do not flow directly into the economy creating inflationary pressures. Use of debt/equity swap funds for privatization does not monetize the nation's debt, in other words. Thus privatization is an effective way to convert foreign debt into equity investment when tied into a country's debt/ equity swap program.

F. Enlarge capital markets

Capital markets in most developing countries are rudimentary at best, if they exist at all. At first glance that fact would seem to work against privatization, but the other side of that coin is the fact that privatized state enterprises offer a significant source of new equity offerings which would enlarge the domestic capital markets.

G. Create growth-oriented jobs instead of "make-work" jobs

The ultimate objective of privatization must indeed be the creation of jobs--unsubsidized jobs--jobs with a future instead of jobs with a past

H. Free up governments to focus on policy instead of operations

The business of government is not the government of individual businesses. Governments have more important things to do!

VI. ATTACHMENTS

A. CFP COUNTRY ACTIVITY LISTING, 1986-1987

B. PRIVATIZATIONS COMPLETED OR UNDERWAY IN DEVELOPING COUNTRIES

C. TYPICAL CHARACTERISTICS OF STATE-OWNED ENTERPRISES

EXHIBIT A

CENTER FOR PRIVATIZATION

COUNTRY ACTIVITY LIST 1986-1987

COUNTRY	Study, Conference, Training	Strategy Development	Implementation Analysis	Specific SOE Project
Bangladesh	x	x		
Belize				x Banana lands
Bolivia		(x)		
Dominican Republic				x Solid Waste Collection x Electric Company
Colombia	x			
Ecuador		x	x	x CFN holdings x Hotel/Cement (IESS)
Egypt	(x)	x		
Fiji	x			
Gambia		x		x Produce Mktg Board x Sawmill
Grenada		x		x Two banks/ Electric company
Guatemala				x Telephone company
Guinea		x		
Honduras	x	x	x	x CONADI & COHDEFOR holdings
Jordan	x	x		x Royal Jord.Airlines x Amman Transp.System (x) Telecommunications
Kiribati		x		
Nigeria	x			
Panama		x		
Pakistan		x		
Papua New Guninea		x		x Insurance company & others
Peru		x		
Philippines	x	x	x	x Natl.Food Authority holdings
Portugal		x		
Rwanda		x		
Senegal		x	x	x Truck farm
Somalia				x Fish process.plant
Sri Lanka		(x)		x Food extrusion plant
Swaziland				x Royal Swazi Insur. Corporation
Thailand	x	x	(x)	
Tunisia	x	x	(x)	
Turkey	x			x Government agric. cooperative

( ) indicates pending assignment

October 1, 1987

EXHIBIT B

CENTER FOR PRIVATIZATION

Privatizations Completed or Underway in Developing Countries

One of the most frequently asked questions in planning for privatization in developing countries is, "who else is doing it?

The attached summary highlights some of the significant privatization activities being planned or underway in developing countries, in many cases with the support and assistance of USAID Missions and the Center for Privatization.

Enclosures

Privatizations Completed or Underway in Developing Countries

I. AFRICA

Congo

Under a World Bank/IMF sponsored economic reform program, the Congo government will privatize several large state-owned farms, an animal feed factory, a poultry plant, and cement, record, and textiles enterprises.

Gambia

In qualifying for US aid in 1985, the government agreed to privatize the rice trade and lift controls on rice prices. This along with other policy measures has allowed the rice market to flourish and has created an environment for further privatization efforts. The government is planning to sell a state-owned sawmill, and is also examining the possibilities of privatizing the Produce Marketing Board, the largest state-owned enterprise in the country.

Guinea/Conakry

The government plans to liquidate a fruit processing enterprise at the urging of the USAID mission. The World Bank reports that as a part of the overall structural readjustment, a total of 90 commercial, industrial and banking enterprises have already been liquidated or privatized, and approximately 80 additional commercial/ industrial enterprises will be privatized or liquidated.

Malawi

The government has decided to divest the assets and holdings of the Agricultural Development and Marketing Corporation, one of 3 major state-owned enterprises in the country.

Nigeria

In April 1985 the Federal Military Government announced that it would liquidate all the major export market boards in the country. As a result of their liquidation, prices and production increased and private entrepreneurs were encouraged to enter the market. In addition, a government-owned agribusiness conglomerate was partially liquidated and sold to the private sector. Several other agribusiness enterprises were either liquidated and or sold by many of the 19 states. Plans are underway to sell a series of state owned hotels to the private sector and several private investment banks are now preparing prospectuses.

Senegal

The government has liquidated two agricultural enterprises with assistance from USAID; while the World Bank reported the sale of six agribusiness and manufacturing enterprises (textiles, water wells, farm implements, petrochemical distribution, and tuna/tomato canning) to the private sector, as well as the liquidation of two additional state-owned agribusiness enterprises.

Togo

The government launched its privatization program with the highly publicized lease of a shut-down steel mill on terms that were very profitable for the lessee. This has attracted considerable attention from foreign investors in other Togo investments. Since the initial leasing, Togo has privatized ten more companies and liquidated eight.

II. ASIA & NEAR EAST

Bangladesh

The government undertook an ambitious privatization program, selling off numerous industrial enterprises (jute, steel, chemical, etc.). The USAID mission supported a comprehensive post-privatization study to identify "lessons" from Bangladesh's experience.

Jordan

The government has commissioned a study to determine the feasibility of privatizing the bus system. Also under study is the sale of the Royal Jordian Airlines.

Philippines

An Assets Privatization Trust has been established under President Aquino. The privatization of sections of the National Food Authority is underway.

Malaysia	The government's first privatized property, the Klang Container Terminal, will be floated on the public market in 1989. The government also plans to privatize four additional port services (the conventional cargo, dry bulk terminals, stevedoring and marine services). A bill to provide for privatizing of the Malaysian Railway has been passed and a feasibility study for privatization of the postal service is being conducted.
Sri Lanka	The Parliament has enacted legislation that paves the way for privatization. Initial plans to privatize a food extraction plant are underway. There is significant interest in studying the possibility of privatizing telecommunications in the country.
Thailand	The number of state enterprises has been reduced from 105 to 65 since 1962. Recent divestitures include a marble plant, jute mill, a hotel and a paper mill. Current National Plan calls for more privatization.
Turkey	The Turkish government with assistance from the World Bank and the IMF has developed a Privatization Master Plan. In 1984, the government offered "revenue sharing certificates" for the Bosphorous Bridge and the Kaban Dam, selling-out in under three hours to over 15,000 investors. The government has established a full time privatization staff and has undertaken a series of measures to improve the overall climate for private investment. The government's primary emphasis is on share offerings in expanding capital markets.

III. LATIN AMERICA & THE CARIBBEAN

Belize	USAID assisted the government in divesting the banana marketing board, involving the sale of state plantations to private growers and a management reorganization of the banana marketing board. The government, also with the assistance of USAID, has partially divested a state meat-processing facility and contracted out its management.
Chile	The Pinochet government's "popular capitalism" privatization was set back by economic collapse in the early 80's. It became active again in 1985 with privatizations, both full and partial, in a broad range of state-owned enterprises, including electric utilities, telecommunications, steel, nitrates and banking. Workers now own 100% of two firms and shares in seven others.
Costa Rica	The government sold its aluminum plant and other holdings of CODESSA to a USAID mission trust which is offering the operations to the private sector.
Grenada	The government, with the assistance of AID, has proposed the privatization of two state-owned banks, and is studying the possibility of privatizing the electric company.
Honduras	Legislation was passed (12/85) allowing the privatization of the government development bank's portfolio of sixty companies and other state-owned enterprises. USAID is assisting a top level Privatization Commission in privatizing a paper mill, a foundry, a food processing plant, a dairy products company, sawmills, hotels, sugar mills and others. One sawmill was leased in 1986.
Jamaica	USAID assisted in the lease of hotels in 1985. The government then sold much of its stake in the National Commercial Bank in 1986 shifting the majority of stock-holdings to private sector. It plans to sell its remaining shares in the coming years. It is scheduled to sell the hotels and a state-owned cement plan in the summer of 1987.

EXHIBIT C

TYPICAL CHARACTERISTICS OF STATE-OWNED ENTERPIRISES

1. Bureaucratic management--emphasis on process rather than results.

2. Frequent changes in top management.

3. Overstaffing--nepotism--political patronage--excessive overtime--lost work ethic.

4. Required employment of civil service/military in top posts.

5. Confusion over conflicting social/political/economic objectives.

6. Political interference in decision making and daily operations.

7. Lack of accountability at all levels.

8. Inability to delegate--decisions go to the top.

9. Inability to negotiate and make politically tough decisions.

10. Easy acceptance of financial losses for social reasons.

11. Economic subsidies, direct and indirect, leading to misuse of limited resources. For example:

    Tariff protection and import restrictions
    Sole source supplier contracts for other govt agencies
    Tax exemptions
    Low interest borrowing with government guaranties
    Legal restrictions to limit competitor market entry

12. Operate outside the government budgetary process.

13. Lack of accurate or up-to-date financial records--rarely recognize depreciation or debt service costs, for example.

14. Assets underutilized--poor planning/feasibility studies.

15. Assets overvalued--unwillingness to recognize market value.

16. Poor maintenance of capital equipment.

17. Antiquated/outmoded production facilities, procedures and technology.

18. Lack of know-how and budget funds for marketing.

19. Insensitivity to consumer needs and desires.

20. Inability to reward good performance or penalize unsatisfactory work.