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**PRIVATIZATION OPPORTUNITIES IN  
THE OECS**

**Final Report**

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## EXECUTIVE SUMMARY

The purpose of this study is to provide USAID with an overview of possible privatization opportunities within the Organization of Eastern Caribbean States (OECS). Then to determine what role exists, if any, for USAID in assisting development of privatization initiatives. The study approach and this summary are based upon seven questions (described in Section 1) relating to privatization in the OECS countries.

Section 2 reviews the history of privatization in the OECS countries. It concludes that there has been a considerable amount of experience and that this experience has generally had a favorable outcome. Almost all government owned hotels have been divested as have all telephone companies except one. Public reaction is favorable. Significant outside technical assistance was used in most cases. Grenada and St. Kitts have the most experience with St. Vincent and St. Lucia having none.

Section 3 describes the potential size of the opportunity for privatization; it does not assess specific opportunities nor probability of privatizations occurring. It concludes that the privatization opportunity is small. OECS governments do not dominate the economies relative to other Caricom and Latin American countries. No OECS government spending is greater than 35% of GDP, with the average around 26% (the US is around 28%). State Owned Enterprise (SOE) economic activity as a percent of GDP averages 10% as compared to 75% for Guyana, 66% for Jamaica, and 55% for Trinidad. With the exception of agriculture marketing boards and electric and water utilities, governments are not involved in many large productive enterprises. OECS governments are almost wholly divested in the tourism industry. Governments own little manufacturing or industrial capacity. The OECS SOE's tend to be in activities in which governments around the world are involved (e.g. low-cost housing, port authorities, development banks). In many instances governments have begun enterprises simply because the private sector was unwilling or unable. Significant privatization opportunities exist in Guyana, Trinidad and to a lesser extent Barbados.

Section 4 describes the government attitude as generally positive towards privatization. However, no government other than St. Kitts has assigned any personnel with responsibility for privatization. Few governments have formal policies or plans. Generally speaking privatization is not seen to be a pressing need. Many government officials believe the public sector is as efficient as the private and that government is only doing things the private sector would not undertake. Considerable misunderstanding of the private sector and how it operates exists within the governments. In spite of this, some governments have identified SOE's for future privatization.

Section 5 discusses the significant impediments facing privatization, the largest of which is lack of political will on the part of governments. Four other groups of impediments also pose significant barriers to privatization, including: regulatory and legal barriers, weak capital markets, government control and a shortage of key managerial and technical skills. These impediments are well described in the companion study to this

report "Capital Markets and Private Sector Development in the OECS".

Section 6 concludes that there is limited potential for local ownership of privatized SOE's. The contracting out of government services such as road and building maintenance will almost entirely be to local businesses. Availability of capital, traditional business practices and the perception of the high risk involved will keep most privatizations from being locally controlled. Entities such as utilities will likely require foreign capital and technical and management expertise.

Section 7 discusses the role of various international agencies and banks in OECS privatization. No institution currently has or is planing any privatization program for the OECS countries. They generally perceive the opportunity as being too small, with larger opportunities in other CARICOM countries. Many expressed an interest in participating in privatizations on a case by case basis. No specific plans to support divestment development activities exist. Many institutions have difficulty supporting the front-end development costs of preparing divestment opportunities.

Section 8 describes a modest role for USAID in supporting privatization. It concludes that supporting capital market development and the general improvement of the business environment as having higher priorities. However, in conjunction with those efforts, assistance should be provide for OECS privatization efforts. It is recommended that an individual be given the responsibility within a capital markets program to assist and coordinate privatization activities. Trinidad and Barbados could benefit from this type of assistance.

## **1. INTRODUCTION**

### **A. Purpose of the Report**

This report assesses the general opportunities for privatization of Government activities and enterprises within the OECS. The study identifies the size of the potential opportunity and factors which will influence the success of any privatization efforts. The purpose of this is to determine whether this is a role for USAID in assisting privatization efforts in the OECS.

This report is a part of a larger study (Capital Markets and Private Sector Development in the OECS (1)) which identifies obstacles and opportunities for capital market development and improving the business environment in the OECS countries. Together these reports form a set of activities for USAID which would result in significant economic growth, increased private sector activity, and an increasingly regional approach to economic development in the OECS. This report is not an in-depth analysis of privatization opportunities, but rather a survey of the potential opportunity for increasing the role of the private sector and reducing the government role in the economy.

### **B. Approach**

The study approach asked 7 basic questions in order to determine what the opportunity for privatization was in the OECS and what role if any USAID could play in assisting the privatization process. These questions were:

- 1) What is the OECS experience in privatization? What happened? Who was involved? What was the result of this experience?
- 2) What is the opportunity for privatization? What is the maximum potential based upon government services and state-owned enterprises. (Not an assessment of the likelihood, but rather the size of the opportunity).
- 3) What are the conditions necessary for privatization to move forward? Is there a perception of the need for privatization? What are the major barriers to privatization?
- 4) What are government attitudes towards privatization? What are their future plans?
- 5) What is the potential for local ownership of OECS privatizations?
- 6) What are other International agencies doing in the area of privatization? What are the current and planned role of key agencies in promoting and carrying out privatization in the OECS countries.

7) What is the role, if any, of USAID in privatization initiatives in the OECS?

The answer to these basic questions is designed to provide a straightforward assessment of the privatization opportunity in the OECS. By answering these questions, USAID can determine whether the privatization opportunity merits the substantial political risks and costs of supporting privatizations efforts.

The study does not characterize or assess individual privatization opportunities. Rather it identifies the size and nature of the opportunity, leaving specific assessments to future study.

### **C. Report Organization**

This report is organized in chapters based upon the 7 questions identified above. Sections 2-8 correspond directly to the above questions. In addition, there are appendices which provide supporting information.

Appendix 1 identifies the opportunities for privatization of government activities in the OECS countries.

Appendix 2 summarizes the nature and number of State Owned Enterprises (SOE's) in each country.

Appendix 3 groups similar SOE's for further comparison for each country.

Appendix 4 summarizes the history of privatization activities in the OECS countries.

Appendix 5 contains the terms of reference for this study.

## **2. PRIVATIZATION EXPERIENCE IN THE OECS**

### **Introduction**

There has been considerable experience with privatization in the OECS. Most of that experience has been positive, meeting with considerable public approval. The efforts have been predominantly self-initiated by the governments, with assistance, guidance and technical support often provided from outside the region.

The governments in the Caribbean created State Owned Enterprises (SOE's) in the 1960's and 1970's to promote economic development in areas where the private sector had shown little initiative. With one major exception, the OECS SOE's were not begun out of a strong ideological bias. Rather, they were developed to fill a perceived need in the economy or to initiate economic activity in new areas. Governments built many hotels in the 60's and 70's in order to stimulate the tourism industry. There was a perception that in this area and others, the private sector was unwilling or incapable to undertake these relatively large projects. In contrast, Guyana, Jamaica and to a lesser extent Trinidad had very strong ideological underpinnings for their large SOE sectors.

It is fair to describe many of the SOE's throughout the region as inefficient, poorly managed, overstaffed and suffering from centralized decision making. (2,3) However, it is important to note that many private sector organizations in the Caribbean suffer from many of the same maladies. Thus, the relative poor performance of the SOE's may have more to do with general economic policies and poor management skills than the fact they reside in the public sector.

### **General Experience**

The major privatizations in the OECS have been in the hotel and utility sectors. The governments of Grenada, St. Kitts and Antigua have either sold, signed long-term leases or returned hotels to the private sector. These hotels were generally built in order to stimulate the development of the tourism sector in the absence of private development. It was generally planned from the outset to turn the hotels over to private operation. Only Antigua continues to have government owned and operated hotels, and they are actively trying to sell those operations.

In the utility sector, telephones have been the largest privatization targets. Both St. Kitts and Grenada have privatized their telephone companies, with Cable and Wireless owning the majority of the companies. Dominica has sold 40% of its shares in the electricity company to local shareholders. Both St. Lucia and St. Vincent have discussed increasing local shareholding in their electric utilities. The large size and technical requirements of utilities generally require participation of a foreign investor. The telephone system in the OECS (with the exception of Antigua), Barbados, Jamaica and

Trinidad is now controlled by the Cable and Wireless group.

Government services have been contracted to the private sector primarily in response to pressures on national budgets. St. Kitts has successfully contracted out all public works activities with respect to government properties and buildings. Although no studies have been completed there is the feeling that significant savings have been achieved. Other governments are actively considering the contracting out of many government provided services, but the results have been limited to date.

With the exception of St. Kitts, no government has focussed or organized programs in the privatization area. Most of the privatizations done to date resulted from either a government's need to raise cash or the prodding of some international agency. The lack of a privatization program, or in fact any individual assigned to develop privatization activities, has led to a sporadic approach to privatization. St. Kitts is the only country where a privatization program was developed. As a result their privatizations have been greater in number and relatively more successful. The lack of a privatization plan, with sound criteria, a good public relations program and careful planning, has led to the appearance of panic sales to foreign buyers. The recent experience of Barbados in selling substantial shares in the 2 tele-communications companies is perhaps the most dramatic example of this. In other cases, the groundwork had not been carefully laid, which resulted in short-term resistance to the privatization. Almost all of the privatizations done to date have eventually met with public approval even though there was initial resistance.

International organizations have played a key role in many privatizations. USAID was instrumental in many of Grenada's privatizations, although it is generally accepted that more could have been done if the approach taken by US advisors had been more low-key and flexible. The World Bank and the IADB have assisted St. Kitts in their efforts. Currently, the British Development Division is assisting Anguilla in privatizing its electric utility. There is a significant role for international organizations to play in supporting privatizations. Support for assessments, technical support and encouragement of privatization are key roles that could be played by International organizations.

Substantial outside support has been used to complete the privatizations. In all cases except the contracting out of services, foreign assistance from outside the OECS countries has been used. The requirement for foreign expertise will continue in order to provide the objectivity and fairness required to gain the political support for privatizations.

No follow-up studies have been done to assess the benefits or costs associated with the OECS privatization. The general impression is that they have all been successful, particularly as the hotels and teletelphone companies.

The following section describes the specific experiences of each country. This description is supplemented by Appendix 4 which lists each specific privatization which has occurred.

## Grenada

The major privatization program that took place in Grenada was under an USAID organized and financed project funded in part by the USAID Private Enterprise Bureau and the USAID Project Development Assistance Program. (PDAP) This program was in reaction to many of the nationalizations that took place in Grenada under the Bishop regime. There was some initial resistance to the program, but as the privatizations were seen to be fair and shown to be successful a broader acceptance has been gained.

MAC Associates carried out an inventory on privatization candidates in 1984/85. USAID through technical assistance, helped in transferring the government owned Grenada Beach Hotel to a Trinidadian business group by way of a 99 year lease. This was the largest privatization to occur not involving non-Caribbean investors. A number of smaller hotels have also been privatized or returned to their original owners.

USAID technical assistance identified two commercial banks - Grenada Bank of Commerce and Grenada National Commercial Bank where a valuation and prospectus were to be funded through the AID mission and the Center for Privatization. However, due in large part to hard-line positions taken by a key US advisor, these privatizations were stopped and to date have not been revitalized. There is some indication that support for these privatizations could easily be regained.

USAID's funding under PDAP started the process that led to the privatization of the Grenada Telephone Company. Seventy percent of the company was purchased by the Cable and Wireless group. This group had owned and developed the telephone system in the 1950's and 1960's before nationalization. There was initially strong resistance to this "selling of the family silver". However, C&W invested substantial sums of money and greatly improved the quality of telephone service. Many people now half-jokingly ask if C&W would please take over the electric company.

After the USAID officer who had responsibility for privatization left Grenada in 1986, the program and privatization enthusiasm subsided. The government had not installed any program of their own. Any revitalization of the privatization program will likely require assistance from outside the government.

## St Kitts

St. Kitts is the only government in the OECS to have established a privatization plan and assigned a government officer with responsibility for privatization. There has been a requirement for outside technical assistance in the privatizations done to date, which will continue for future activities.

### Telecommunications

Slender government resources and the realization that government could not find the capital necessary to expand the telephone service in St Kitts' limited operations in telecommunications. Cable and Wireless who already had the contract to provide external service entered into a joint venture (80:20 C&W) to provide local service as well. A recent offering of government shares to the public was undersubscribed, even though Skantel is a profitable company. The general reason proffered is the illiquidity of an equity investment in St. Kitts. Also the offering was only made within St Kitts and Nevis.

### Hotels

The government acquired the Fort Thomas Hotel in lieu of debt owed to Government. Government also owned the Royal St Kitts Hotel which was not efficiently managed. As part of the privatization strategy, government disposed of these two hotels. The potentially negative public response of selling of public sector assets (the "family silver") to foreign investors did not materialize with these sales. C&W, a foreign investor, had already made a massive capital investment to extend the penetration of the internal telephone service and improve the quality, producing positive benefits for foreign investment in the economy through privatization. Both these privatizations required outside foreign technical assistance and are seen as very successful.

### Electricity

The government is in the process of transferring the electricity authority from a government department to a company which will be one hundred percent owned by government. It is government's intention to offer shares to the public after the utility has settled down to a commercial type operation.

The Caribbean Development Bank is providing technical assistance to the Government of St Kitts on the institutional framework, the regulatory machinery, the organization structure and accounting and internal control procedures. The transfer of the electricity undertaking from a government department to a limited liability company was a condition of a loan with CDB.

### Sugar Industry

The World Bank is requiring the Government, as a condition for a structural readjustment loan to privatize the sugar manufacturing facility in St Kitts. The company will be sold to a large English sugar conglomerate, with the sale expected to be complete within the next 12 months.

## Dominica

Dominica has no formal privatization process or plan. Outside technical assistance has been required in the two privatization efforts.

## Electricity

The Government was concerned that not enough investment was being made by the owners Commonwealth Development Corporation (CDC) in new plant and equipment for expansion of the electricity service. After difficult negotiations, CDC sold the utility to the Government for a nominal sum. The Government was interested in public participation in ownership. The government offered 60% of the shares to the employees and the public. All shares were taken up, in part due to the lower than market price at which they were offered. The National Insurance Scheme took up a 20% of the shares. No further divestment by government is currently planned, due to the need for government guarantees to borrow capital.

## Water

The government abolished the waterworks department and established a water and sewerage authority with financial and technical assistance from CIDA. It is government's intention to privatize water at some future date.

## Antigua

The government has leased one hotel for 99 years and is seeking to sell the newly built Royal Antiguan. Budgetary problems have been the motivating factor in the governments decision to sell these assets.

## St. Lucia

No major privatizations have occurred in St. Lucia. The government is in the process of contracting out some service work. Recently, the model farm SOE has been discontinued. It is unclear whether the company was liquidated or the assets have been taken over by private farmers.

## St. Vincent

No major privatizations have occurred in St. Vincent. There have been preliminary discussions about selling some of governments stake in Diamond Dairies and St. Vincent Distillers, but no concrete action has taken place.

## Non-OECS CARICOM Experience

There has been considerable experience in privatization in the Non-OECS Caricom countries. The experience in Trinidad and Jamaica has been well documented. (2,4,5,6) In Jamaica, hotels, the cement company, a large bank and numerous other SOE's have been privatized. However, the government has also taken over many operations such as the oil refinery. The expectation is that considerably more privatization activity will occur in Jamaica as a part of their structural readjustment program.

Trinidad has a committee on privatization which has successfully privatized the telephone company (again to C&W). Future of privatization is in doubt until after the upcoming election.

Belize privatized the banana marketing board in 1987. They have also sold off many banana plantations.

### **3. PRIVATIZATION OPPORTUNITY IN THE OECS**

#### **Introduction and Approach**

This section attempts to define the potential for privatization within the OECS region. It does so by estimating the maximum size of government services and SOE's that could reasonably be privatized. It does not assess the costs and benefits associated with each privatization; it seeks to define the size of the opportunity represented by government activities. By defining this maximum potential USAID can determine the value of pursuing privatization programs within the OECS region.

The importance and character of government participation in the economies of the OECS is demonstrated using this approach. The size of the opportunity has been defined; not the probability that any number of these opportunities will occur. Once the size of the opportunity has been defined an assessment of the merit of pursuing privatization opportunities versus other priorities can be made. At that point studies can be done to assess the potential based upon government willingness, capital availability and commercial viability of the business enterprise.

The approach used was to divide the assessment into two tasks. The first was to estimate the size of government provided services which could be contracted or leased out to the private sector. The second task was to get an accurate estimate of the number, type and size of state owned or controlled enterprises. Marketing and agricultural boards, due to their large size and complexity, were analyzed separately. These boards present a unique problem. Although often not government owned, they are often government controlled. Government plays a substantial role in agriculture in the OECS; a sector important to these economies. This has proven to be a difficult area to assess with respect to privatization.

Complete lack of data on government activities is the single largest factor in carrying out this study. There has only been one recent study on SOE's in the Caribbean in the last 10 years; no studies or data on government services. During interviews it was clear that the government itself did not have full knowledge of SOE activities; annual reports did not exist for most SOE's. An Antiguan Auditor General told Parliament in 1987 that he was not even sure how many SOE's there were in Antigua (4). This is not an isolated incident. Reliable data is extremely difficult to find. Often direct calls to the SOE ended up in tangled administrative chases with statements such as "why do you want that information?, you have to get permission from the Minister/Permanent Secretary, we do not collect that type of information". Suffice it to say this was the most challenging part of the study.

#### **Services**

Only services which are contracted out elsewhere in the world combined with services indicated by government leaders were considered for this study. Areas such as health and education were not included, although some argue government should not be

involved. This approach defines a maximum level of opportunity for contracting out government services. To do this, government budgets were analyzed for each country to determine the level of expenditure for each type of service. There was some difficulty due to the fact that budgets were difficult to disaggregate, services were listed under different ministries or combined with other activities. Corroboration of some numbers with ministry officials was done as an accuracy check.

The services considered included:

- maintenance and construction of government buildings, lands, parks
- maintenance and construction of roads
- agriculture, fishing, forestry and veterinary services
- medical and pharmaceutical services
- post office and communication services
- tourism activities
- land surveys
- cold storage facilities
- maintenance of equipment
- airport administration

Not all services were found or determined for each country. The services included for each country are found in Appendix 1.

The results of this analysis can be seen in Table 1. The table suggests that those services considered eligible for contracting out represent approximately EC \$163.9 million out of total government budgets of EC 1,022 million or approximately 16%. Now this assumes all these activities are contracted out. If an optimistic assumption of 50% contracted out were made it would represent only 8% of government budget and 2.5% of GDP.

A number of international studies have indicated that the private sector produced the same level and quality of goods and services at a range of between 20 and 40 per cent cheaper than the public sector (11). It would therefore not be unreasonable to expect savings in the OECS from private provision of these goods and services of at least 20 per cent. Based upon this the savings to government would amount to EC \$16 million (based upon 50% contracting out of identified services). This represents approximately one-half of one percent of GDP. The savings are not substantial in terms of money. However, the reduction in government activities may signal a change in government attitude towards the private sector and the role and responsibilities of government in the economy.

Based on our discussions with government officials we reasonably expect some transfer of services will occur. This will primarily be in the public works area, as has been partially done in St. Kitts and Barbados. It is expected that most of this will happen within significant outside support.

TABLE I

## GOVERNMENT SERVICES AND AGENCIES IN OECS

	1989						
	TOTAL GOVERNMENT SPENDING	ESTIMATED PRIVATIZABLE GOVERNMENT SERVICES	PRIVATIZABLE AS A % OF GOVERNMENT SPENDING	GDP	GOVERNMENT SPENDING AS A % OF GDP	PRIVATIZABLE AS A % OF GDP	SAVINGS TO GOVT EC\$ MILLIONS AT 20%
	EC\$ MILLIONS						
GRENADA	176.5	23.2	13.1	491.4	35.9	4.7	4.6
DOMINICA	103.4	13.5	13.1	413.0	25.0	3.3	2.7
ST. KITTS-NEVIS	85.4	19.8	26.1	382.4	22.3	5.2	4.0
ANTIGUA	273.4	42.2	15.4	1028.5	26.6	4.1	8.4
ST. LUCIA	202.5	24.0	11.9	604.2	33.5	4.0	4.8
ST. VINCENT	125.6	28.0	22.3	395.3	31.8	7.1	5.6
MONTSERRAT	32.8	4.5	13.7	165.3	19.8	2.7	0.9
ANGUILLA	22.8	8.8	38.6	N/A	N/A	N/A	1.8
TOTALS	1022.4	163.9					32.8

15/1

Privatizing government services does not require significant capital. Generally, the corporations that bid for the contract have existing capacity to do the work. The result is low demand on capital markets and the technical skills required to contract out services. The major issue generally is labor; making government workers redundant. Similarly, governments sometimes are not willing to give up the power associated with control of many of these services.

### **State Owned Enterprises**

This study defines SOE's as those entities which have a separate legal identity and are supposed to earn revenue from the sale of goods and services. There is a lack of accurate and complete data on the SOE's in the OECS. Many government officials interviewed expressed surprise when the number and nature of SOE's in their country was described to them. Governments vary dramatically on what they considered SOE's, with some including hospitals, universities, statutory boards and agricultural marketing boards others not including these entities. The result is a slim and often confusing data base on SOE activities.

A recent study by CARICAD is the most exhaustive attempt to date to understand the nature and magnitude of SOE's in the Commonwealth Caribbean (4). They conclude that the lack of accurate information is surprising and disturbing given the size of the public sector in Jamaica, Trinidad and Guyana. They conclude that "Caricom PSE's present a depressing picture of inefficiency, losses, budgetary burdens, indebtedness, poor products and services, and questionable accomplishment of non-commercial objectives" (4 pg.55) They further conclude that all performance is poor to modest, SOE activities in the OECS are small and might benefit more from reform rather than divestment.

OECS governments are involved in activities similar to governments around the world, including the US. Most of the SOE development was not based on ideological grounds, but rather a feeling of necessity based upon private sector unwillingness or inability to initiate economic activity. Governments were also able to gain access to concessional finance from which the private sector would otherwise not have access. In many respects, the international donors are as responsible for the growth in SOE's as any ideology. With the exception of agriculture, SOE's have made no great inroads into traditional private sector activities. Agriculture is a complex issue, with governments often controlling through marketing boards but normally not owning the means of production.

With the exception of utilities and agriculture, there are few SOE's in the OECS that are significant factors in the economy. Unlike other Caricom and Latin American countries, OECS governments control no large industrial or manufacturing corporations. (St. Vincent with Diamond Dairies and St. Vincent Distillers is a slight exception). Hotels were the closest example and they have almost all been divested.

The impact of SOE's in the OECS relative to other Caricom members can be seen in Table 2. They range from 75% in Guyana to 5.8% in Dominica. The average for the OECS is around 10%. SOE's globally account for about 10% of GDP in both developed and developing countries (12). In Caricom the share is 32.7% with the OECS countries averaging around 10% (4). The share of public ownership in these SOE's varies considerably. The public ownership in OECS SOE's averages around 73% (4). St. Lucia and Dominica have private shareholders in the electric utility, other examples exist.

Typically, the types of enterprises governments are involved in might include:

- Development Banks
- Commercial Banks
- Water and Electric utilities
- Housing Authorities
- Development companies (usually land)
- Agricultural processing industries (generally small)
- National Insurance Schemes
- Port and Airport Authorities
- Import Marketing Boards
- Radio Stations

A few governments are involved in distilleries, dairies and agricultural plantations.

There are over 90 SOEs in the 6 OECS countries we have researched (See Table 3). Of that 90, we have to date collected data on 64 which have revenues of EC\$ 908 million and earned profits of EC\$ 54 million. They have a capitalization in excess of EC\$ 1.6 billion and governments' equity in these SOEs exceeds EC\$ 0.5 billion. The SOEs employ in excess of 7000 persons since 41 of the SOEs employ some 7224 persons.

### **SOE's by Country**

A listing of the OECS SOE's is shown in Appendix 2. This is as complete a list as could be assembled for each country. A brief description of the key points is made for each country.

#### **Grenada**

Appendix II Table I shows that there are 26 SOE's in Grenada. The telephone company and many hotels have already been privatized. They would have represented a significant increase in the value of the governments SOE's. Current revenues for 18 of the SOE's where we have received data, amount to EC\$ 142 million and the net profit is EC\$ 9 million. There are a number of SOE's that are beset by management and financial difficulties. A determination needs to be made whether they should be put on a program

**% IN GDP OF THE PUBLIC ENTERPRISE SECTOR IN  
CARICOM COUNTRIES**

Antigua and Barbuda	16.0
Bahamas	7.4
Barbados	14.2
Belize	11.2
Dominica	5.8
Grenada	12.6
Guyana	75
Jamaica	66
Montserrat	N.A.
St. Kitts-Nevis	N.A.
St. Lucia	7.8
St. Vincent	9.2
Trinidad and Tobago	55

Source: CARICAD (4)

**NUMBER OF SOE's IN CARICOM – 1990**

Antigua	18*
Bahamas	10
Barbados	22
Belize	11
Dominica	13*
Grenada	26*
Guyana	38
Jamaica	127
Montserrat	8
St. Kitts-Nevis	10*
St. Lucia	14*
St. Vincent	16*
Trinidad and Tobago	71

\* Includes Marketing and Marketing and Agricultural Boards

of performance improvement or should be liquidated or privatized. These SOE's probably employ in excess of 2000 and any meaningful divestment program will have to account for substantial layoffs.

#### St. Vincent

Table II shows that there are 16 SOE's in St. Vincent. 10 of them have gross revenues of EC\$ 94 million with a net profit of EC\$ 20 million generated mainly from the banana operations. Apart from bananas, the commercial bank, the distillery, electricity and the dairy, the other SOE's are small operations. The electricity company, on a capitalization of EC\$ 105 million has income of EC\$ 4.3 million before interest charges, giving a rate of return on capitalization of 4.1 percent which is very low for the industry. The expected return should be more of the order of 13 to 15 percent.

#### St. Lucia

Table III shows that there are 14 SOE's in St. Lucia with gross revenues of EC\$ 193 million and net profits of EC\$ 25 million or 13 per cent of revenues. The electric utility, the ports, the commercial bank, water and sewerage and bananas account for 94 per cent of the revenues and in excess of 87 per cent of employment. (See Agricultural Boards section for discussion of the role of banana in government accounts).

#### St. Kitts

Table IV shows that there are 10 SOE's in St. Kitts and 9 of these earn revenues of EC\$ 69 million and incur expenses of EC\$ 76 million. The sugar company incurred a loss of EC\$ 13 million and is now targeted for divestment after consultation with the World Bank. The government does not pay for electricity consumption at the moment, but it is intended that the government will pay for electricity like any other consumer. It is expected that revenues and employment will be higher after the utility's expansion program is completed. The electricity services are being transferred from a government department to a limited liability company. The commercial bank is profitable.

#### Antigua

Table V shows that there are 18 SOE's in Antigua, but data is only available for 5 of them. The telephone company is making a profit but the water and electricity are making substantial losses. Although the Prime Minister has reservations about privatizing utilities, telephone and electricity are good candidates for divestment.

#### Dominica

Table VI shows that there are 13 SOE's in Dominica of which 10 are operating. They earned EC\$ 154 million in 1990 and made a net profit of EC\$ 21 million, EC\$ 12

million of which was earned by the Social Security. The 10 operating SOE's employed 955 persons in 1990. Dominica Electricity, the Port Authority and the Banana Marketing Corporation received grants amounting to EC\$15 million from government.

### **Observations on Opportunities for Privatization**

A general set of criteria for divestment targets has been developed by the World Bank and is shown below (8):

- (a) large asset base (to ensure high purchase price);
- (b) viable products and markets (to ensure attractiveness to potential buyers);
- (c) large financial losses (to maximize economic benefit to government from divestiture);
- (d) minimum need for short-term employment reduction (to ensure minimum negative social effects);
- (e) minimum government-owned or government guaranteed debt (to facilitate terms of sale);
- (f) minimum need for majority foreign ownership (to minimize political opposition);

Based on these criteria there are relatively few candidates for privatization in the OECS. The companies which most readily fit these criteria are rare in the OECS. Typically, they would be industrial, processing or extractive industries with good commercial potential and poor management. Many examples of these exist in Trinidad, Guyana and Jamaica. However, with this in mind a number of broad observations can be made about opportunities for privatization in the OECS. These observations are meant to be illustrative, not analytical or comprehensive. These observations are based on the Tables developed in Appendix 3.

### **Utilities**

Appendix III Table I shows that there are six electric utilities in the six OECS countries being surveyed. They earn EC\$195 million in revenues, have a total capitalization of EC\$356 million and employ 1188 persons. The net profit performance has not been good but some changes have taken place in 1991.

The St. Lucia utility recently received an increase in its tariff, the St. Kitts utility is expected to have a tariff adjustment by year end and should earn a reasonable profit. St.

Vincent has had a policy of low tariffs and government subsidies but the government is now looking at the possibility of a more efficient system of regulation and privatization. No clear position on Antigua is yet known. These changes will make the utilities more viable and a better candidate for divestment.

Appendix III, Table IA shows a range of electric utilities in the Caribbean Area - some investor owned and some government owned. The performance of the investor owned utilities in Barbados, Bermuda and Cayman in controlling distribution losses, and in the ratio of net income to gross revenue has been much better than the government owned utilities in the OECS. On the other hand, the performance of the government owned electric utilities in Bahamas and BVI has been quite exemplary and much superior to those in the OECS. There are few reasons why the electric and telephone utilities could not be transferred to the private sector with a proper system of regulation being put in place as is being contemplated in St Kitts. Table 10 shows that only one utility received any grants from government.

### Water Supply

There are six water and sewerage authorities (see Appendix II Table II). Five of these have revenues of EC\$ 42 million and have a capitalization of EC\$ 158 million and government equity of EC\$ 99 million. The revenues earned on a capitalization of EC\$ 158 million could not provide an adequate rate of return on either equity or total capitalization for a private investor. There is probably limited opportunity for the OECS private sector or foreign investors to invest in this sector.

### Commercial Banks

There are six government owned commercial banks in the six OECS countries. There are two in Grenada and one each in St Lucia, St Kitts and Nevis, Dominica and St Vincent. Some of these commercial banks were at one stage the local branch of a major foreign commercial bank. Others were created by government to provide access to credit to some members of the community that were not always served by the foreign commercial banks. Many of these banks are well run and profitable. All these banks operate under market conditions except in terms of the social security or national insurance deposits of government where they receive preferential treatment in raising these deposits. The governments are generally not interested in privatizing these banks, although they would be good candidates. The exception has been Grenada.

### Seaports and Airports

There are eleven port authorities in the OECS. Five of them earn revenues of EC\$ 50 million and make profits of EC\$ 14 million. Most of the governments that we spoke with indicated that they would not privatize their sea or airports. They did indicate that they would have an interest in obtaining a management contract to operate some of the

airports.

### Broadcasting

There four small broadcasting SOE's as set out in Appendix III Table IX. The private sector could finance the purchase of these units and operate them profitably.

### Miscellaneous

The government of Grenada has experienced many problems with four miscellaneous SOE's and has discussed on many occasions their divestment. They include Central Garage which is a large earth-moving and road construction corporation. The equipment was provided with grant funds. There are not big enough operators in Grenada to take over the operation from government, but it is targeted for privatization with the other three in Appendix III, Table X.

## **AGRICULTURE AND MARKETING BOARDS**

OECS governments exert control over the food and agriculture systems through two mechanisms. Marketing Boards, which are owned by government, have monopoly powers to import key foodstuffs and market them for resale. These are powerful SOE's, which are generally inefficient, compete with the private sector, and are poorly equipped to deal with export of foodstuffs (14). Marketing boards are government owned and operated in all 6 OECS countries. Generally they are given four main powers: regulatory, importation of food, export of domestic production, and domestic distribution. These boards would make good candidates for divestment, although resistance from government is likely to be high.

The second mechanism whereby government influences agriculture is through the agricultural product boards and associations. These boards and associations are privately owned and controlled, but are operating under statutory authority. The government exerts considerable influence over these boards, but it is generally called for by the associations themselves. Compared to Jamaica, Guyana and Barbados however, the OECS government influence is relatively benign. Governments are typically involved in price stabilization, supplies of agricultural inputs, and export arrangements via the marketing boards. The government does not own the growers associations, hence there is nothing to privatize.

We have listed 19 entities as SOEs in agriculture, agri-business and agricultural marketing boards. Seven of these, viz: the banana growers association, the nutmeg, cocoa and arrowroot associations are co-operatives that are owned by the private sector but operate under statutory authority, hence they are technically not SOE's. Of the remaining 12 SOEs, 5 are agricultural marketing and import agencies. Two other SOEs are targeted for privatization by their governments, e.g. Diamond Dairy and St. Vincent Distillers in St. Vincent. The others are in the agro-processing area and could be candidates for divestment.

The entire issue of agricultural policy is currently in flux in the OECS, due to the 1992 EEC single market. USAID is doing significant work in the agricultural area. The ECAP project is intended to assist the governments in increasing the efficacy of governments agricultural policy. The opportunity exists for increased private sector activity in the agricultural area. However, substantial reforms in agricultural policy, diversification of crops and improving quality of produce need to be undertaken.

It is well known that SOEs, including producer co-operatives that are controlled by government through the appointment of board members or the provision of grants of working capital finance have afflicted the agricultural sectors throughout the developing world (13). These agricultural SOEs control all aspects of production. The SOE marketing boards often displaced private traders that were more efficient. Most of these agricultural SOEs have received considerable donor assistance further increasing their inefficiencies and the distortions in the economy. The Banana Growers Associations are in effect private sector operations that receive assistance from government because of the fact that bananas have been the life blood of a number of the OECS countries. Bananas provide valuable foreign exchange and therefore feature prominently in the governments' planning. Results of interviews conducted for this study suggest that there is little government intervention in the banana growers' operations.

The import marketing boards are a clearer case of government interference in the economy. These boards control the import of key foodstuffs in many economies. There is a strong need for reform or liquidation of these operations.

Based on the experience in most LDCs, it would appear that the macro-economic environment of the agricultural sector and agricultural marketing SOEs need to be reformed substantially, if the agricultural sector is going to improve its performance and contribute to GDP.

### **Summary**

The potential for privatization of OECS SOE's is small. Privatizations that do occur will require outside assistance. There are a number of individual opportunities where the government has expressed willingness to divest and the companies appear to be viable operations i.e. somebody would be willing to buy them. These would include Diamond Dairies, St. Vincent Distillers, Grenada's two commercial banks, Antigua's hotel (at a reasonable price) and some of the electric utilities. These privatizations could assist in the development of a stock market and the development of the capital markets. There are significant impediments to divestment on a regional and even local basis (see section 5, Impediments).

Part of the reason for the small opportunity is that the SOE's generally have minimal impact on the economy outside of the utilities and agricultural marketing boards. The entire future of agriculture is unclear, as are the futures of the boards which control them.

#### **4. GOVERNMENT ATTITUDES AND FUTURE PLANS**

##### **Attitudes to Privatization in the OECS**

All governments interviewed for this study (all 6 OECS countries) indicated a willingness to consider privatization. All of Ministers interviewed, indicated a keen desire to see an improvement in the efficiency of the SOE's and further indicated that they supported privatization as long as it did not result in the poorer members of the community having to face significant increases in prices and a reduction in their living standards. Some put forward the view, however, that although OECS governments had intervened in the economy and established some SOE's, their number was quite small compared to other countries in the Caribbean, Latin America and Africa.

Many of the senior public officials that we interviewed also supported privatization and would welcome some assistance in formulating such a program for government. However, most people interviewed did not see privatization as a pressing need. They did not feel that many of their SOE's were things the private sector wanted or would be willing to undertake. In most cases, they claimed this was why the government intervened in the first place. One major reason given for supporting privatization was the potential to act as a catalyst for capital markets. Many people felt that the government would need to take a proactive role in spurring capital and stock market development. Privatization of SOE's was to them an obvious way to do this.

However, with the exception of St. Kitts, no government has any formal privatization plan or personnel dedicated to assessing the potential for privatization. Thus the commitment to privatization is seen as dubious, despite many words to the contrary.

There are many reasons for this, including:

- 1) The government's understanding of the political nature of privatization. That the process is politically volatile, often with clearly defined winners and poorly defined beneficiaries (not including the purchasing company).
- 2) The view that privatization is a negative redistribution of income; that only the rich or existing large companies can afford to purchase the privatized assets.
- 3) The view that the government is only making up for a weak and risk adverse private sector. That their activities are a positive impact on the economy in which otherwise no new economic activities would begin.
- 4) The perception that the private sector was not necessarily any more efficient than the public sector.

5) The perception of the value of a SOE versus its market value. This relates to the public's perception of giving away the national patrimony.

6) The stated preference of many governments to clean-up and improve the efficiency of SOE's before privatizing them.

The primary resistance to privatization appears to be at the senior levels of the civil service and members of parliament. The power associated with control of the SOE's, the ability to provide jobs for constituents are both powerful reasons for the government to drag their feet on privatizing. In general the elected officials appeared more supportive of privatization than the civil servants.

There is a strong need to educate the public sector and the population at large as to the benefits of improved economic activity, of which privatization is one aspect. The understanding of how the private sector values companies is key to much future privatization activity. For example, many utilities in the OECS have a negative net worth. Yet there is a perception of great value of the utilities. (One proposal is to simply distribute the shares to the population).

The need for education of the political and business elite has been addressed in the companion study "Capital Markets and Private Sector Development in the OECS countries" (1). The recommendations made in that study would apply to privatization; that is a need for an increased understanding of the needs and requirements for efficient private sector activity.

#### **Future Plans for Privatization**

In spite of the constraints described above there have been positive privatization experiences. The general experience in the three states in the OECS that have privatized goods and services within the past seven years, has been favorable. The transfer of the majority ownership of the telephone utilities in St. Kitts and Grenada has led to major expansion and improvement of the internal and external telephone service. In those two countries. The privatization of hotels by way of lease or direct sale in both St. Kitts and Grenada has led to increased tourism activity, more employment and more foreign exchange earnings, because of new investment in rooms and other facilities.

The partial divestment of The Dominica Electricity Services has led to both management and the regulatory authority (government) recognizing the rights of the private sector shareholder and the need to earn profits and pay dividends. The ability of the utility to increase prices when necessary, will mean that consumers are not encouraged to waste the energy and foreign exchange resources of the country. This has led to improved earnings and the payment of a dividend each year since partial divestiture.

In part based on these positive experiences, some discussion and in a few cases plans have been made about future privatization activities.

### Grenada

In Grenada, the Minister of Finance in his presentation of the Review of the Grenada Economy in March 1991 reported that the government had conducted a Business Opinion Survey on what areas should be privatized. 70.6% felt that government should privatize agriculture, hotels and transport and 50% said that electricity, water and sewerage should be transferred to the private sector. The Government has identified the National Commercial Bank, the Electric Utility, Gravel and Concrete, Grenada Rock and Asphalt, Central Garage, and Public Transport System as candidates for privatization in any initial privatization initiative. However, no distinct policy, personnel or concrete plans have been made to pursue any privatizations.

### St. Kitts

In St. Kitts, the government has assigned the responsibility for privatization to the Permanent Secretary, Development. The Government, with the assistance of the Caribbean Development Bank, is transferring the electric utility from a government department to a limited liability company by year-end. The Government, with assistance from the World Bank will be privatizing the sugar industry. The government has already contracted out the management of the industry to Booker-Tate from the United Kingdom. There is generally a favorable attitude to privatization on the part of government and officials.

### St. Vincent

In St. Vincent, the government has made a policy decision to privatize Diamond Dairy, St. Vincent Distillers and National Quarries which is not yet incorporated but is leased to a private operator. There have been some informal discussions at the highest level in government about partially privatizing the electric utility. Again, no personnel have been assigned or any firm plans made to move forward.

### St. Lucia

No policy decision has been made to privatize any of the SOE's. The government is of the view that they are performing creditably and although there is room for improvement, there is no pressure to privatize because of inadequate performance. There will be a stock offering in the electric utility of which government controls 40% to the public in 1992.

### Antigua

Although no clear policy has as yet been developed in relation to privatization, government, in principle, has no objection to privatization of SOE's with the exception of electricity, telephone and water. A study, funded by the British Development Division and carried out British Electricity International, recommended the internal telephone system be sold to Cable and Wireless without advancing arguments for and against. It, similarly, recommended that electricity be sold to a United Kingdom interest without setting out the arguments for and against. The recommendations seemed to have been made on ideological grounds and this has made the government very suspicious. A policy paper has recently been put to government recommending that privatization be accepted as a policy option in dealing with the efficiency and effectiveness of SOE's. Government's main concern about privatizing utilities is that the "little man" or small user of the services be not faced with material increases in prices for the services.

### Dominica

Government partially divested part of its interest in the electric utility in 1986. Government currently holds 51 per cent of the National Commercial Bank. The law as it now stands requires that government own 51 per cent of the bank. Government would therefore have to change the law to permit further divestment. There is no intervention in the operations of the bank on the part of government except on insisting that the auditors be part of an international group.

It is government's intention to privatize water as soon as it becomes a viable operation.

It was government's intention that Agro-industries would have been mainly a private sector operation but the project has not yet been successfully launched.

## 5. IMPEDIMENTS TO PRIVATIZATION

Privatization is largely a political process. The lack of political will to undertake privatizations is the major impediment to developing successful, repeatable and cost-effective privatizations. Governments must be able to understand the conditions under which a PSE will be bought by the private sector and have the commitment to see the effort through to completion. The politically volatile nature of many privatization transactions makes many governments wary of undertaking them unless the benefits so outweigh the costs. The general conditions under which OECS governments have sold their assets have been when they are forced to by either structural readjustment conditions or budgetary shortfalls.

There are significant non-political impediments to privatization activities in the OECS. The impediments are the same as those facing the improvement of capital markets and the business environment generally. Once these barriers have been reduced both capital markets and the opportunity for privatization will increase. These impediments have been thoroughly discussed in the companion study on Capital Markets in the OECS (1). These impediments not only affect privatization, but all private sector activities as well as movement towards regional integration. These impediments are holding back all types of private sector development from region wide investments to the more efficient operation of individual companies.

There are four key areas where impediments are significant, including:

- 1) Regulatory and legal barriers which impede the free flow of capital and the ability to easily purchase and sell stock in neighboring countries. These issues are discussed extensively in "Capital Markets and Private Sector Development in the OECS" (1). Generally these include Alien Landholding laws, Foreign Exchange restrictions, and a host of country specific tax, investment and banking laws and regulations.
- 2) Immaturity of capital markets that cannot provide sufficient capital due to low savings rates and high lending to non-productive sectors. A more mature capital market could develop sources of capital that could be used in privatization transactions. Strong capital markets, although not absolutely necessary, are a critical for successful transactions; the OECS capital market is not strong. Illiquidity of equity due to lack of an active stock market is another capital related barrier.
- 3) Related to political will is government control and bureaucratic resistance to divestment of SOE's. There is often a complete lack of understanding of how and why the private sector operates. There is a need to have government policies in place which clearly spell out criteria, timeframes and conditions under which SOE's will be sold.
- 4) A regional skills base which suffers from a shortage of qualified managers to operate

both private and public companies. There is also a shortage of qualified technicians to carry out privatization transactions.

There are a number of specific impediments to increased privatization which include: outdated company law, labor laws which make staff reductions difficult, trade unions, accounting statutes and procedures, the civil service, laws specific to state corporations and opposition political parties. All these issues must be addressed, fortunately they effect all business activities so they can be attacked from many different angles.

Privatization is a subset or specialty of capital market activities. Capital market reforms are necessary before a significant number of privatizations using regional funds are implemented. It is expected that foreign investment will be limited in the Region over the next ten years. This will place even more pressure on the regional capital market to develop. Little will happen as long as many of these barriers remain in place.

One noticeable feature of the privatization experience in many LDCs including the OECS, is that implementation has lapsed well behind stated intentions and that most of the programs have been slow, uneven and plagued by unforeseen obstacles. Several case studies have shown that the inability or delay in setting up the appropriate regulatory structures in LDCs has paralysed privatization programs for long periods of time, given the state's limited administrative capacity. (5,7,8)

Availability of capital may be a particularly difficult impediment to surmount. Capital will flow where returns are highest relative to the risk. Purchase of shares in a government divestment is seen as risky by many OECS businessman. Many OECS businessman want to have control over their corporations. They may not be interested in investing in activities where they do not have control.

For some privatizations, the amount of capital will necessarily require foreign investment. The electric utilities in the OECS have a capitalization of approximately EC \$250 million, relative to a total OECS capital market of EC \$1.6 billion. Any significant local privatization of these utilities could put a significant demand on capital availability. Similarly, availability of foreign capital is expected to be reduced over the next 5-10 years. So even if governments developed the political will to divest many SOE's, the ability or willingness of either the local or foreign capital markets to purchase these companies is questionable.

Henry Bienen and John Waterbury in "The political economy of privatization in Developing countries"(10) concluded the following:-

- (a) The relative small size of the middle-income strata in LDCs (this is certainly the case in the OECS) makes privatization based on popular capitalism difficult.

This is certainly the case in the OECS where there is limited equity capital.

- (b) The narrowness of that middle income group also contributes to the "thinness" of capital markets in LDCs. More importantly, in LDCs, private businesses raise capital through the banking system rather than by selling shares on capital markets.

This is borne out by the capital market study in the OECS (1). Bienen and Waterbury therefore conclude that the stock market is not likely to be a major vehicle for the implementation of privatization in the LDCs and this would apply to the OECS.

- (c) Like the capital markets, the medium and large scale private sectors in the LDCs tend to be thin. This is certainly the case in the OECS and we could not therefore look to a large private sector to facilitate the easy transfer of SOE's to the private sector.

This was the major reason why many LDCs, as part of their economic development strategy, created SOE's in the first place.

The private sector in most LDCs, and certainly in the OECS, have not been strong advocates, nor have they promoted privatization. Most of the private sector's experience has been in the distributive trade and agriculture. They have never been interested in owning or managing utilities or other large SOE's. The governments' intention to embark on a major program would suggest that, if it is transferring SOE's to the private sector, there would have to be some involvement by foreign investors as happened in Grenada and St. Kitts.

A number of studies conclude that privatization is unlikely to overcome the kinds of economic and political forces that undermined public production.(6,9) Unless it is accompanied by a liberalization program, the effects of privatization on both economic efficiency and government expenditures are likely to be modest.

There are a number of ways of getting around the problem of local capital availability, including: Joint ventures with either other local or foreign investors, Leveraged buyouts by management and other backers, Debt/equity swaps, Employee stock option schemes, free transfer of ownership to citizens, management contracts, and leasing of SOE's to private operators. Some of these techniques have been used within the OECS.

## **6. POTENTIAL FOR LOCAL OWNERSHIP**

The issue of local ownership of privatized assets is complex. A number of issues which face any private corporation, availability of capital, managerial skill, illiquidity of equity investments, and legal and regulatory barriers to cross border business transactions and capital flows all pose serious impediments to local ownership. These and other barriers addressed in the OECS Capital Markets study (1) will have to be addressed before local ownership becomes a major factor.

Governments have tried to place a priority on local participation in stock offerings. In Dominica, the Government offered EC \$1.2 million in shares of Dominica Electricity Services to the public in 1986. The public took up 0.8 million and Social Security took up 0.4 million. Other governments have tried to do the same, however in the case of St. Kitts the offer was not fully subscribed, although Skantel was a very profitable company. Thus, even if the capital were available the perception of equity investments is that there are still risky and illiquid. This makes selling of shares in privatizing companies difficult, unless they are priced low or given away.

Large SOE's, particularly utilities and hotels, often need large amounts of hard currency in order to modernize and retain the technical skills necessary to develop these companies. A foreign investor is often the only alternative and they normally will require a controlling interest. Thus the potential for local ownership of large SOE's is seen to be limited. For example the OECS government controlled utilities have a capitalization in excess of EC \$250 million. If all the shares were sold for even half this value it would overwhelm the total capitalization of all OECS publicly traded companies and utilize a significant portion of the equity capital in the OECS region.

The contracting out of government services is seen as having a much higher potential for local participation. In fact, governments are likely to limit participation in bidding for these activities to local companies. This has been the case in St. Kitts and Jamaica where government services have been contracted out .

In addition to the shortage of capital, there is a well documented shortage of management skills in the OECS countries. Simply transferring companies from the public to the private sector does not guarantee access to better management. Many governments prefer not to allow foreign management skills in the country. Scarcity of management skills will reduce the willingness of local private companies to take on the additional responsibility of operating another company.

The difficulty in investing across country borders within the OECS also limits the ability of the local private sector to participate in privatizations. Where one privatization may be too large for a single company, it is difficult to conduct joint ventures or mergers. Removal of the barriers to free capital flows and ownership will result in stronger OECS companies who could take on the challenge of a privatizing enterprise.

A further factor limiting potential for local ownership is the desire by many local companies to retain control over their operations. Willingness to participate in ventures over which they do not have total control limits their ability to participate in privatizing enterprises.

In summary, given capital, management, liquidity and regional business constraints, the potential for privatization of major SOE's is seen to be small. Services which the government might contract out for are seen to be almost exclusively the domain of local business. The governments should be encouraged in their attempts to assure broad based participation in share subscriptions. Even if a company is majority owned by a foreign organization, there are many examples of where local participation has benefitted (e.g. Barbados Light and Power, Skantel).

## 7. ROLE OF INTERNATIONAL AGENCIES

International agencies have played a key role in the privatization efforts completed to date. USAID through their assistance to Grenada has been the most prominent. No other agencies have played a consistent role in privatization in the OECS countries.

A number of other agencies operate either directly or indirectly in the OECS including; the World Bank, the Inter-American Development Bank (IADB), the International Finance Corporation (IFC), the Inter-American Investment Corporation (IIC), the Caribbean Development Bank (CDB), the British Development Division (BDD), the Canadian aid agency (CIDA), the United Nations (UN), the European Investment Bank (EBB), and the Commonwealth Development Corporation (CDC). Two key agencies the IADB and the World Bank do not operate directly in the OECS countries. They operate through the CDB, although they occasionally have a direct involvement as in the case of the St. Kitts sugar privatization.

None of these agencies have a specific privatization program directed at the OECS countries. By and large they view the opportunity as too small, preferring to work on an ad hoc basis. Traditionally, most of these agencies' privatization efforts have focussed on countries in the region that have significant numbers of state owned enterprises in industrial sectors or where the government has dominated economic activity. This is clearly not the case in the OECS countries. In Jamaica for example, the IADB and the World Bank are working together on a large privatization program as part of a structural adjustment plan. High potential for privatization is also seen in Guyana, Trinidad and to a lesser extent Barbados. This is not to say nothing will or has been done in the OECS countries. It is simply a case of greater opportunities existing elsewhere.

Agriculture and utilities do present an opportunity for many of these agencies. Often this comes about as part of a structural adjustment program. It is often difficult for the Banks and large donors to support the early stages of the privatization efforts. The studies, assessments and valuations that must occur before a deal can begin are difficult for them to support in many cases. The role of the bilateral and smaller donor agencies has proven to be critical in the early stages. USAID and the BDD have been the most prominent players in supporting these early stage activities.

The political risks associated with promotion of privatization are seen to be high for many agencies. During interviews, most agency personnel were reluctant to push privatization programs. Generally, they would respond to requests for assistance, but rarely would they initiate such activity. The exception to this appears to be the IMF/World Bank which in the course of structural readjustment programs often insist upon privatization. However, very few OECS countries, to date, have been involved in these type programs.

Lack of coordination between the various agencies has been a hallmark of their activities in the OECS countries. Although not particularly obvious in the privatization

area, it clearly is a problem in the agriculture and economic development areas.

Interviews were conducted with each of the agencies either in Washington or locally. Their overall activities are described in Appendix H of the companion report to this study "Capital Markets and Private Sector Development in the OECS Countries". No agency has a comprehensive privatization plan for the OECS region. Nor do they have any plans to in the near future; it is simply not seen as a priority area. Privatization is encouraged but normally treated on a case by case basis. Most agencies said they would be receptive if approached by a government (or CDB) with a plan for privatization. The larger Banks might have trouble in assisting in the preparation of these plans.

A considerable level of development activity is taking place in the OECS region, as can be seen in Appendix H of the "OECS Capital Market and Private Sector Development" report (1). This level of activity is expected to decline over the next 5-10 years. This will place a premium on donor coordination to maximize activity effectiveness.

Current agency activities in the privatization area include:

- BDD provision of assistance in the privatization of the Anguilla electric company. CDC will purchase the company, with some shares going to local shareholders.
- IFC is currently providing technical assistance on privatization/merger efforts related to Liat and BWIA. This work has been sporadic with no definite decisions on future activities.
- IIC is willing to review privatization projects and believes that it would be allowed to work directly in the OECS region.
- IADB may be considering a privatization program in Barbados based upon the delay in a major loan program for the country.

## **8. ROLE OF USAID**

In determining a role for USAID in assisting privatization efforts in the OECS there are a number of points to be considered:

- 1) Privatization is primarily a political process. Hence there are the obvious dangers associated with the representative of a foreign power trying to influence the indigenous political process. These dangers are well known to USAID and are cautioned against in much of the literature on the subject of privatization.
- 2) Privatization is but one of many private sector activities that can lead to an improved business environment and stronger capital markets. Privatization is only one activity of an efficient and strong capital market. Privatization is one of many activities that could be undertaken to strengthen the private sector and improve capital markets. Improvement in capital markets and the business environment will in itself make privatization more possible in the OECS countries.
- 3) The opportunity for privatization is small in terms of potential impact on the OECS economies. The government operates in areas where governments all around the world traditionally operate, including the U.S. With the difficult exception of marketing and agricultural boards, the government is not a major factor in many traditional private sector areas. In many cases the government has gotten involved in activities because the private has not been seen as willing.
- 4) Many of the obvious targets, hotels and utilities have already been privatized. Many of the SOE's left might be difficult to privatize
- 5) Privatization itself has little impact on regional integration. It will benefit from increased integration, and improved business environment and capital markets. Privatization will not necessarily be a force in realizing those improvements.
- 6) The benefits and costs of privatization have not been assessed in this study; only the potential size of the opportunity. Based upon the data developed in this and other studies (2,4) there may not be substantial benefits to be gained from the privatization of many SOE's.
- 7) The key is to get capital markets improved and remove barriers to capital flow and regional integration. These improvements need to be achieved before substantially more privatization activity will occur. Capital markets are key to privatization efforts.
- 8) All the activities recommended in the companion Capital Markets study for USAID will directly benefit any privatization activity. Activities such as elite education, law and regulatory reform, a regional stock exchange, and provision of technical assistance are all necessary for successful privatization initiatives. It is important to focus on policy reform

within governments to promote capital markets and privatization. These efforts may include seminars and other informational activities on privatization.

9) Other agencies, particularly the IMF and World Bank, are more effective at leading the initiatives for privatization.

10) The opportunity for privatization is substantially greater in Guyana, Trinidad and to a lesser extent Barbados. These countries participation would greatly strengthen any USAID privatization effort.

There is a strong link between privatization and a strong regional economy. Privatization can contribute to a stronger private sector, but will not be the cause of that strength. USAID should focus its activities on improving the business environment and the development of capital markets. Privatization should be seen as a subset of those activities.

As a result the following activities are recommended with respect to privatization in the OECS countries:

1) One individual as part of any capital markets development team, with responsibility for coordinating privatization activities. This person would have technical capabilities enabling him/her to carry out preliminary assessments of privatization opportunities. They would be responsible for assisting the countries in developing privatization policies, coordinating all privatization activities and becoming the focal point for USAID activities in the region. Inclusion of Barbados and Trinidad as beneficiaries in this activity would greatly increase the impact of this activity.

2) Establish a dialogue with the OECS countries to let them know that technical assistance is available for privatization efforts.

3) Provide funds, probably as part of the capital markets program, for technical assistance to provide specialized expertise for specific projects. These short-term personnel could also be used as part of the elite education effort and possibly work on capital market development. This effort would assist the governments in better understanding the benefits of privatization.

4) Create a strong linkage with the PRE Bureau in Washington and particularly their privatization group. Utilize their resources and expertise rather than try to duplicate in the region.

5) Establish coordination with the other donor agencies to maximize efficacy of efforts in privatization. ICC and ICC, in particular, have expressed a strong interest to participate in privatizations within the region.

These recommendations will provide the technical assistance necessary to promote privatization in the OECS region. They are consistent with the higher priority of improving the capital markets, the overall business environment, and efforts at regional integration. With USAID's worldwide experience in privatization and with the considerably more flexible AID privatization regulations, this level of assistance could pay handsome dividends in numbers of successful privatizations.

**APPENDICES**

## APPENDIX I

ESTIMATES OF GOVERNMENT EXPENDITURE ON SERVICES OR  
ACTIVITIES THAT COULD POSSIBLY BE CONTRACTED OUT  
TO THE PRIVATE SECTOR

## GRENADA

TABLE 1

GOV'T ACTIVITY CONSIDERED FOR PRIVATIZATION BY MINISTRY	APPROXIMATE NO.OF PERSONNEL PERMANENT & TEMPORARY	RECURRENT EXPENDITURE	
		1989	1988
		EC\$ 000's	
RADIO GRENADA (A)	41	975	706
MIN OF WORKS,COMMS,PUB UTIL BUILDINGS (B)	94	1,323	1,262
ROADS (C)	617	15,858	10,226
TOTAL A + C PRIVATISABLE		17,181	11,488
TOTAL MINISTRY EXPENDITURE		21,263	14,817
POST OFFICE (D)	119	1,261	884
MIN OF AGRIC,FORESTRY,LANDS,FISHERIES			
AGRICULTURAL EXTENSION (E)	86	1,670	1,355
CROPS (F)	98	526	419
VET & LIVESTOCK (G)	42	752	590
USE & WATER RESOURCES (H)	76	823	562
PRIVATISABLE		3,770	2,926
TOTAL "PRIVATISABLE" EXPENDITURE		23,187	16,004
TOTAL GOV'T EXPENDITURE		176,503	133,189

## APPENDIX I

ESTIMATES OF GOVERNMENT EXPENDITURE ON SERVICES OR  
ACTIVITIES THAT COULD POSSIBLY BE CONTRACTED OUT  
TO THE PRIVATE SECTOR

## DOMINICA

TABLE 2

GOV'T ACTIVITY CONSIDERED  
FOR PRIVATIZATION  
BY MINISTRYRECURRENT  
EXPENDITURE

	1989	1988
		EC\$ 000's
MIN OF AGRIC, LANDS, FISHERIES, TRADE, INDUSTRY, TOURISM & FOREST ADMIN (A)	983	956
AGRI EXTENSION (B)	1,133	1,069
LIVESTOCK DEV (C)	370	381
VETERINARY SERVICES (D)	206	205
LAND RESOURCE DEV (E)	267	249
LAND & SURVEYS AGRI (F)	827	832
TOTAL (A) - (F) PRIVATISABLE	3,785	3,693
TOTAL ALL MIN EXPENDITURE	6,307	5,843
MIN OF COMMUNICATIONS & WORKS		
AIRPORT SERVICES (G)	1,042	918
POSTAL SERVICES (H)	1,210	1,110
TECHNICAL SERVICES (I)	938	961
OPERATION OF STORES (J)	0	0
GEN MAINTENANCE SERVICES (K)	4,337	4,455
TOTAL (G) - (K) MINS PRIVATISABLE EXPENDITURE	7,528	7,444
TOTAL EXPENDITURE	8,929	8,681
MINISTRY OF HEALTH		
OPER OF MEDICAL STORES (L)	1,186	1,140
TOTAL PRIVATISABLE	1,186	1,140
TOTAL EXPENDITURE	14,502	14,344
NATIONAL DEV CORP (M)	1,022	822
TOTAL PRIVATISABLE GOVT EXPENDITURE A-M	13,521	13,100
TOTAL GOV'T EXPENDITURE	103,384	100,416

## APPENDIX I

ESTIMATES OF GOVERNMENT EXPENDITURE ON SERVICES OR  
ACTIVITIES THAT COULD POSSIBLY BE CONTRACTED OUT  
TO THE PRIVATE SECTOR

## ST.KITTS-NEVIS

TABLE 3

GOV'T ACTIVITY CONSIDERED  
FOR PRIVATIZATION  
BY MINISTRYRECURRENT  
EXPENDITURE

	1989	1988
	EC\$ 000's	
AGRIC, LANDS, HOUSING & DEV		
CEMETRIES & PUBLIC GARDENS (A)	244	102
CENTRAL HOUSING AUTHORITY (B)	393	314
TOTAL (A) - (B) MIN PRIVATISABLE	637	416
TOTAL EXPENDITURE	2,367	1,784
COMMUNICATION, WORKS & PUBLIC UTILITIES		
POST OFFICE (C)	1,142	978
WATER SERVICES (D)	1,168	896
ELECTRICITY ICE & COLD STORE (E)	10,746	8,016
PUBLIC WORKS (F)	3,070	1,889
SEA/AIR TRANSPORT (G)	1,246	1,022
TOTAL (C) - (G) MIN PRIVATISABLE	17,372	12,801
TOTAL EXPENDITURE	17,621	14,110
MIN LABOUR & TOURISM		
DEPT OF TOURISM (H)	1,750	1,535
TOTAL EXPENDITURE	2,317	1,925
TOTAL (A) - (H) GOVT PRIVATISABLE	19,758	14,753
TOTAL GOV'T EXPENDITURE	85,439	78,009

## APPENDIX I

ESTIMATES OF GOVERNMENT EXPENDITURE ON SERVICES OR  
ACTIVITIES THAT COULD POSSIBLY BE CONTRACTED OUT  
TO THE PRIVATE SECTOR

## MONTserrat

TABLE 4

GOV'T ACTIVITY CONSIDERED FOR PRIVATIZATION BY MINISTRY	RECURRENT EXPENDITURE	
	1989	1988
	EC\$ 000's	
BROADCASTING (A)	329	261
POST OFFICE (B)	384	458
PUBLIC WORKS DEPARTMENT (C)	2,418	2,229
AIRPORT (D)	742	710
MECHANICAL WORKSHOP (E)	324	154
TOTAL (C) - (E) PRIVATISABLE PUBLIC WORKS	3,485	3,093
TOURISM (F)	314	308
TOTAL (A) - (F) PRIVATISABLE GOV'T EXPENDITURE	4,512	4,121
TOTAL GOVERNMENT EXPENDITURE	32,810	30,060

## APPENDIX I

ESTIMATES OF GOVERNMENT EXPENDITURE ON SERVICES OR  
ACTIVITIES THAT COULD POSSIBLY BE CONTRACTED OUT  
TO THE PRIVATE SECTOR

## ANGUILLA

TABLE 5

GOV'T ACTIVITY CONSIDERED FOR PRIVATIZATION BY MINISTRY	NO.OF PERSONNEL PERMANENT & TEMPORARY 1989	RECURRENT EXPENDITURE	
		1989	1988
		EC\$ 000's	
TOURISM PROMOTION & RESEARCH (A)		689	584
POST OFFICE (B)	8	281	233
MIN OF COMMUNICATIONS,PUBLIC UTILITIES & WORKS			
PUBLIC WORKS DEPARTMENT (C)	14	1,039	965
INFORMATION & BROADCASTING (D)	9	286	238
AIRPORT (E)	20	696	558
WATER & ELECTRICITY (F)	18	4,821	4,143
TOTAL (C) - (F) PRIVATISABLE EXPENDITURE		6,841	5,904
MEDICAL & HEALTH-SANITATION (G)	4	573	531
LANDS & SURVEY (H)		426	258
TOTAL (A) - (H) PRIVATISABLE EXPENDITURE		8,811	7,510
TOTAL GOV'T EXPENDITURE		22,810	21,010

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## APPENDIX I

ESTIMATES OF GOVERNMENT EXPENDITURE ON SERVICES OR  
ACTIVITIES THAT COULD POSSIBLY BE CONTRACTED OUT  
TO THE PRIVATE SECTOR

## ANTIGUA

TABLE 6

GOV'T ACTIVITY CONSIDERED FOR PRIVATIZATION BY MINISTRY	RECURRENT EXPENDITURE	
	1989	1988
	EC\$ 000's	
AGRIC,FISHERIES,LANDS,HOUSING		
VETERINARY & HUSBANDRY (A)	1,477	1,000
CHEM & FOOD TECH (B)	707	456
TOTAL (A) - (B) PRIVATISABLE	2,184	1,456
TOTAL MINISTRY EXPENDITURE	10,854	7,501
MINISTRY OF EXT AFFAIRS,ECON DEV,TOURISM,ENERGY		
ANTIGUA TOURIST OFFICE (C)	871	604
HOTEL TRAINING CENTRE (D)	619	495
OVERSEAS INV PROMO, TRADE,TOURISM OFFICE (E)	5,363	4,177
TOTAL (C) - (E) PRIVATISABLE	6,853	5,276
TOTAL MINISTRY EXPENDITURE	20,089	14,169
PUBLIC WORKS & COMMUNICATION		
WORKS DIVISION (F)	26,863	33,954
CONSTRUCTION DIVISION (G)	384	159
EQUIP MAINTENANCE & FUNDING SCHEME (H)	226	106
DESIGN & CONTROL DIVISION (I)	472	171
TOTAL (F) - (I) MIN PUBLIC WORK & COMMUNICATIONS	27,944	34,390
MIN PUB UTILITIES & AVIATION		
VC BIRD INTERNATIONAL AIRPORT (J)	5,189	3,518
TOTAL MINISTRY EXPENDITURE	6,664	4,406
TOTAL (A) - (J) PRIVATISABLE EXPENDITURE	42,170	44,641
TOTAL GOV'T EXPENDITURE	273,379	212,228

## APPENDIX I

ESTIMATES OF GOVERNMENT EXPENDITURE ON SERVICES OR  
ACTIVITIES THAT COULD POSSIBLY BE CONTRACTED OUT  
TO THE PRIVATE SECTOR

ST. LUCIA

TABLE 7

GOV'T ACTIVITY CONSIDERED FOR PRIVATIZATION BY MINISTRY	NO. OF PERSONNEL PERMANENT & TEMPORARY	RECURRENT EXPENDITURE	
		1989	1988
		EC\$ 000's	
MIN TOURISM (A)	3	44	37
TOTAL MINISTRY EXPENDITURE		381	309
MIN OF HEALTH, LABOUR, INFORM & BROADCASTING			
PUB RELATIONS+INFORMATION (B)	15	522	539
SANITATION & INSPEC (C)	35	2,355	2,151
TOTAL (B) - (C) PRIVATISABLE MIN EXP		2,877	2,690
TOTAL MINISTRY EXPENDITURE		31,521	
MIN OF COMMS, WORKS, TRANSP			
TECHNICAL SERVICES (D)	7	2,174	1,388
GENERAL MAINTENANCE SERVICE (F)	7	12,025	12,501
POSTAL SERVICES (G)	58	2,037	1,485
AIRPORT SERVICES (H)	9	0	0
TOTAL (D) - (H) PRIVATISABLE EXPENDITURE		16,236	15,374
TOTAL MINISTRY EXPENDITURE		52,227	
AGRI, LANDS, FISHERIES & CORP			
EXTENSION & ADVISORY (I)		1,432	1,224
AGRICULTURE ENGINEERING (J)		747	520
LIVESTOCK (K)		589	488
VETERINARY (L)		624	401
FORESTRY (M)		1,109	1,103
LANDS DEPT (N)		317	164
TOTAL (I) - (N) PRIVATISABLE MIN EXP		4,819	3,900
TOTAL EXPENDITURE		9,312	7,671
TOTAL (A) - (N) PRIVATISABLE EXPENDITURE		23,976	22,001
TOTAL GOV'T EXPENDITURE		202,493	189,703

## APPENDIX I

ESTIMATES OF GOVERNMENT EXPENDITURE ON SERVICES OR  
ACTIVITIES THAT COULD POSSIBLY BE CONTRACTED OUT  
TO THE PRIVATE SECTOR

ST. VINCENT

TABLE 8

GOV'T ACTIVITY CONSIDERED FOR PRIVATIZATION BY MINISTRY	RECURRENT EXPENDITURE	
	1989	1988
MIN OF AGRI,INDUS & LABOUR		EC\$ 000's
ANIMAL HEALTH & DEV (A)	408	363
TOTAL MINISTRY EXPENDITURE	5,432	4,493
MIN OF COMMS,WORKS ADMIN		
POST OFFICE (B)	1,286	1,345
ROADS (C)	6,497	6,689
BUILDINGS D)	4,693	4,032
GOVT EQUIP SERVICES CORP (E)	1,000	1,000
AIRPORTS (F)	1,002	583
TOTAL (B) - (F) PRIVATISABLE EXPENDITURE	14,478	13,649
TOTAL MINISTRY EXPENDITURE	16,827	15,726
MIN OF TRADE & TOURISM		
TOURISM REP. AND PROMOTION (G)	1,435	1,297
TOTAL MINISTRY EXPENDITURE	1,924	2,790
MIN OF HEALTH		
MEDICAL STORES (H)	2,431	2,027
ENVIROMENTAL HEALTH SERVICES (I)	2,423	2,701
TOTAL (H) - (I) PRIVATISABLE EXPENDITURE	4,854	4,728
TOTAL MINISTRY EXPENDITURE	21,685	17,849
BROADCASTING (J)	250	250
MIN OF HOUSING (K)	6,524	6,823
TOTAL (A) - (K) PRIVATISABLE EXPENDITURE	27,950	27,111
TOTAL GOV'T EXPENDITURE	125,594	120,170
TOTAL OECS GOVT PRIVATISABLE EXPENDITURE	163,885	149,240
TOTAL OECS GOVT EXPENDITURE	1,022,411	884,785

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## GOVERNMENT OF GRENADA

APPENDIX II  
TABLE 1

## STATE OWNED OR CONTROLLED ENTERPRISES

1990 DATA

EC\$ MILLIONS

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES
GRENADA ELECTRICITY	26	23	3	53	24	149
NAT WAT. & SEW. AUTHORITY	6	7	-1	27	23	220
GRENADA BANK OF COMMERCE	12	9	2	116	13	
GDA NATIONAL COMMERCIAL BANK	13	11	2	128	14	0
GRENADA DEVELOPMENT BANK	3	3	0	39	5	40
GRENADA NUTMEG ASSOCIATION	30	25	5	30		
GRENADA COCOA ASSOCIATION	8	10	-2	28		
GRENADA BANANA GROWERS' ASSOCIATION	11	11	0	1		
PORTS AUTHORITY	3	3	0			
SUGAR FACTORY	1	1	0			
MODEL FARMS	0	1	-1			
MARKETING & NAT IMP BOARD	17	16	0			
AIRPORT AUTHORITY	4	5	0			
GRAVEL & CONCRETE	3	2	1		2	153
GREN ROCK & ASPHALT & CON	2	1	1			
CENTRAL GARAGE	4	5	-1			108
PUBLIC TRANSPORT SYSTEM	1	1	0			
FOOD & NUTRITION	0	0	0			
INDUSTRIAL DEVELOP CORP	1	1	0			
GRENADA BROADCASTING CORPORATION						
TOTAL	145	136	9	421	81	670

ADDITIONAL SOE's

NATIONAL HOUSING AUTHORITY  
 GRENADA DAIRIES  
 GRENADA FISHING DEVELOPMENT CORPORATION  
 NATIONAL FISHERIES CORPORATION  
 SPICE PROCESSING PLANT  
 GRENADA AGRO INDUSTRIES LTD

## GOVERNMENT OF ST. VINCENT

APPENDIX II  
TABLE 2

## STATE OWNED OR CONTROLLED ENTERPRISES

1990 DATA

EC\$ MILLIONS

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES
ST. VINCENT ELECTRICITY	29	28	1	105	35	265
CENTRAL WATER SEWERAGE	6	4				
DIAMOND DAIRY COMPANY LTD	11	13	-1			
ST. VINCENT DISTILLERS	3	3	0			
PORT AUTHORITY	6	4	2			
HOUSING & LAND DEVELOPMENT CORP DEVELOPMENT CORPORATION	N/A	N/A	0			
BANANA GROWERS ASSOCIATION	18	3	15			
ARROWROOT ASSOCIATION	1	2	-1			
NATIONAL SHIPPING COMPANY	N/A	N/A	0			
MARKETING CORPORATION	N/A	N/A	0			
GENERAL EQUIPMENT & SERVICES CORP	5	5	0			
NATIONAL BROADCASTING CORPORATION	1	1	0			
NATIONAL COMMERCIAL BANK	18	15	3			
TOTAL	100	78	20	105	35	265

ADDITIONAL SOEs

AGRICULTURAL DEVELOPMENT CORPORATION  
ST. VINCENT CORPORATION

## GOVERNMENT OF ST. LUCIA

APPENDIX II  
TABLE 3

## STATE OWNED OR CONTROLLED ENTERPRISES

1990 DATA

EC\$ MILLIONS

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES	GOV'T GRANTS
ST. LUCIA ELECTRICITY	49	46	3	112	15	212	0
ST. LUCIA DEVELOPMENT BANK	4	4	0	33	9	45	0
ST. LUCIA MORTGAGE & FINANCE CO	2	2	0	21	1	8	
WATER & SEWERAGE AUTHORITY	13	12	1	43	28	260	0
ST. LUCIA TOURIST BOARD	1	5	-4	0	0	50	5
AIR & SEAPORTS AUTHORITY	31	25	6	149	101		0
ST. LUCIA BANANA GROWERS' ASSN	193	180	13	14	0	715	0
NATIONAL COMMERCIAL BANK	20	16	4	13	5	161	0
ST. LUCIA BROADCASTING CORPORATION	2	2	0	0	0	49	0
URBAN DEVELOPMENT CORPORATION	3	2	1	5	2	10	0
ST. LUCIA HOUSING AUTHORITY	1	1	0	-2	0	14	0
ST. LUCIA MARKETING BOARD	7	6	1	1	1	34	0
TOTAL	325	300	25	390	162	1558	5

ADDITIONAL SOE's

RADIO ST. LUCIA

NATIONAL DEVELOPMENT CORPORATION

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## GOVERNMENT OF ST. KITTS

APPENDIX II  
TABLE 4

## STATE OWNED OR CONTROLLED ENTERPRISES

1990 DATA

EC\$ MILLIONS

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES	GOVT GRANTS
AIRPORT AUTHORITY	0	1	0			22	
ELECTRICITY SERVICES	11	11	0	23	23	114	
WATER SERVICES	0	1	-1			138	
CENTRAL MARKETING CORP	10	10	0	1		45	0
FRIGATE BAY DEVEL. CORP.	2	2	0	14		56	
ST. KITTS SUGAR MANFG CORP	25	37	-13	45	5	2393	3
ST. KITTS - NEVIS NATIONAL BANK	18	12	6	37	22	76	0
ST. KITTS DEVELOPMENT BANK	3	2	0	59	4	17	
ST. KITTS PORT AUTHORITY							
SOCIAL SECURITY	22	7	15	15		43	
TOTAL	69	76	-7	179	54	2861	4

1991

## GOVERNMENT OF ANTIGUA

APPENDIX II  
TABLE 5

## STATE OWNED OR CONTROLLED ENTERPRISES

1990 DATA

EC\$ MILLIONS

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES
ANTIGUA PUBLIC UTILITIES AUTHORITY						72
WATER & SEWERAGE	20	23	-3	69	29	233
TELEPHONE COMPANY	25	15	10	83	58	148
ELECTRICITY CORPORATION	63	85	-22	8	41	283
PORT AUTHORITY	14	13	1	36		192
STATE INSURANCE CORP						
ANTIGUA & BARBUDA DEV. BANK						
ST. JOHN'S DEVELOPMENT CORPORATION	3	2	1	65	65	27
DEEP BAY DEVOPMENT COMPANY						
THE ROYAL ANTIGUAN HOTEL						
HALCYON COVE HOTEL						
ANTIGUA FISHERIES LIMITED						
CENTRAL MARKETING CORPORATION						
AGRICULTURAL DEVELOPMENT CORPORATION						
TOTAL	125	137	-13	262	192	955

ADDITIONAL SOE's

ANTIGUA DISTILLERY LTD  
 CARIBBEAN INVESTMENT CORPORATION  
 ANTIGUA DEVELOPMENT CORPORATION  
 CENTRAL PLANNING & HOUSING AUTHORITY  
 CEDAR VALLEY GOLF CLUB  
 ANTIGUA SHIPWAY  
 CARIBBEAN PROPERTIES LTD

## GOVERNMENT OF DOMINICA - 1990 DATA

APPENDIX II  
TABLE 6

## STATE OWNED OR CONTROLLED ENTERPRISES

EC\$ MILLIONS

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOV'T EQUITY	NO. OF EMPLOYEES	GOVT GRANTS	CAPITAL TRANSFERS FROM GOVT
DOMINICA ELECTRICITY	18	14	3	55	8	165	24	0
DOMINICA AID BANK	4	3	1	46	8	35	0	0
NATIONAL COMMERCIAL BANK	12	7	5	123	5	53	0	0
DOMINICA WATER & SEWERGE CO.	2	3	0	19	20	82	0	3
DOMINICA BROADCASTING CORPORATION	1	1	0	0		33		
DOMINICA EXPORT IMPORT AGENCY	6	5	1	3	0	22	0	0
DOMINICA BANANA MARKTING CORP.	82	85	-4	-2		400	-14	
DOMINICA SOCIAL SECURITY	20	9	12	10		62		
DOMINICA AGRO-INDUSTRIES LTD	N/A	MAY NOT BE OPERATING AT THE MOMENT						
DOMINICA PORT AUTHORITY	9	4	5	22	0	75	5	0
NATIONAL DEVEOPMENT CORPORATION	0	2	-2	1		28		1
TOTAL	154	133	21	277	41	955	15	4

ADDITIONAL SOE's

GOV'T SAVINGS BANK

PUBLIC WORKS WORKSHOPS

## OECS ELECTRIC UTILITIES - 1990 DATA

APPENDIX III  
TABLE 1\$EC MILLION

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES	GOVT GRANTS
GRENADA ELECTRICITY	26	23	3	53	24	149	0
ST. LUCIA ELECTRICITY	49	46	3	112	15	212	0
ST. KITTS ELECTRICITY	11	11	0	23	23	114	0
DOMINICA ELECTRICITY	18	14	3	55	8	165	24
ST. VINCENT ELECTRICITY	29	28	1	105	35	265	0
ANTIGUA ELECTRICITY	63	85	-22	8	41	283	0
TOTAL	195	206	-11	356	147	1188	24

## OECS WATER &amp; SEWERAGE

APPENDIX III  
TABLE 2\$EC MILLION

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES
GRENADA WATER & SEWERAGE	6	7	-1	27	23	220
ST. LUCIA WATER & SEWERAGE	13	12	1	43	28	260
ST. KITTS WATER & SEWERAGE	N/	1	-1	0	0	138
DOMINICA WATER & SEWERAGE	2	3	0	19	20	82
ST. VINCENT WTER & SEWERAGE						
ANTIGUA WATER & SEWERAGE	20	23	-3	69	29	233
TOTAL WASA	41	46	-5	158	99	933

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## OECS DEVELOPMENT BANKS

APPENDIX III  
TABLE 3\$EC MILLION

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES
GRENADA DEVELOPMENT BANK	3	3	0	39	5	40
ST. LUCIA DEVELOPMENT BANK	4	4	0	33	9	45
ST. KITTS-NEVIS DEV. BANK	3	2	0	59	4	17
DOMINICA AID-BANK	4	3	1	46	8	35
ST. VINCENT DEVCO	1	2	0	N/A	N/A	N/A
ANTIGUA & BARBUDA DEVELOPMENT BANK	N/A	N/A	N/	N/A	N/A	N/A
TOTAL DEVELOPMENT BANKS	15	14	1	176	26	137

## GOVERNMENT OWNED OECS COMMERCIAL BANKS

APPENDIX III  
TABLE 4\$EC MILLION

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES
GRENADA BANK OF COMMERCE	12	9	2	116	13	0
GDA NATIONAL COMMERCIAL BANK	13	11	2	128	14	0
ST. LUCIA NAT. COMMER. BANK	20	16	4	13	5	161
ST. KITTS-NEVIS NATIONAL BANK	18	12	6	37	22	76
DOMINICA NAT. COMMERCIAL BANK	12	7	5	123	5	53
ST. VINCENT NAT.COMM. BANK	18	15	3	0	0	0
TOTAL COMMERCIAL BANKS	92	69	23	417	59	290

## OECS AGRICULTURAL MARKETING &amp; IMPORTING BOARDS

APPENDIX III  
TABLE 5

NAME OF ENTERPRISE	CURRENT REVENUE	CURRENT EXPENSES	NET PROFIT/ (LOSS)	TOTAL CAPITLZN	GOVT'S EQUITY	NO. OF EMPLOYEES
GDA NUTMEG & IMPORT MARKTNG BOARD	17	16	0	0	0	0
GRENADA NUTMEG ASSOCIATION	30	25	5	30	0	0
GRENADA COCOA ASSOCIATION	8	10	-2	28	0	
GRENADA BANANA GROWERS' ASSN	11	11	0	1	0	0
GRENADA SUGAR FACTORY LTD	1	1	0	0	0	0
GRENADA MODEL FARMS LTD	0	1	-1	0	0	0
ST. KITTS CENTRAL MARKETING CORP.	10	10	0	1	0	45
ST. KITTS SUGAR MANUFATURING CORP.	25	37	-13	45	5	2393
DIAMOND DAIRY COMPANY LTD	11	13	-1	0	0	0
ST. VINCENT DISTILLERS LTD	3	3	0	0	0	0
ST. VINCENT BANANA GROWERS' ASSN	18	3	15	0	0	0
ST. VINCENT ARROWROOT ASSN	1	2	-1	0	0	0
CENTRAL MARKNG CORP. - ANTIGUA	0	0	0	0	0	0
ANTIGUA FISHERIES LIMITED	0	0	0	0	0	0
ANTIGUA AGRICULTURAL DEV. CORP.	0	0	0	0	0	0
ST. LUCIA BANANA GROWERS ASSN	193	180	13	14	0	715
ST. LUCIA MARKETING BOARD	7	6	1	1	1	34
DOMINICA BANANA MARKETING CORP.	82	85	-4	-2	0	400
DOMINICA EXPORT IMPORT AGENCY	6	5	1	3	0	22
TOTAL	423	409	14	121	6	3609

HISTORY OF PRIVATIZATION IN OECS

<u>ENTERPRISE</u>	<u>TYPE OF DIVESTITURE</u>	<u>PURPOSE</u>	<u>TO WHOM</u>	<u>TECHNICAL ASSISTANCE PROVIDED</u>	<u>AMOUNT RECEIVED EC \$ MILLION</u>
<u>GRENADA</u>					
Grenada Beach Hotel	Lease	The hotel needed to be rebuilt and Govt had no money. Decision to lease land to a hotel chain to guarantee the development of hotel infrastructure	Trinidadian Businessman	USAID	N/A
Horse Shoe Beach	Lease	N/A	Local Hotelier		
Hibiscus Inn	Lease	N/A	Local Hotelier		
Grenada Telephone	Partial 70%	To facilitate the development of telecommunications in Grenada	Cable & Wireless	USAID Initially	33.98
Carifesta Cottages	Total	N/A	Locals		
Apple Inn	Total	N/A	Returned to Sir Eric Gairy		
Seascaple	Total	N/A	Returned to Sir Eric Gairy		

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**HISTORY OF PRIVATIZATION IN OECS**

<u>ENTERPRISE</u>	<u>TYPE OF DIVESTITURE</u>	<u>PURPOSE</u>	<u>TO WHOM</u>	<u>TECHNICAL ASSISTANCE PROVIDED</u>	<u>AMOUNT RECEIVED EC \$ MILLION</u>
		<u>ST. KITTS</u>			
Royal St. Kitts Hotel	100%	Part of a Privatization strategy	Jacktar		20.0
Fort Thomas Hotel	100%	Part of a Privatization strategy	US Company		6.2
Bayfords Dairies	Lease	Part of a Privatization strategy	Canadian		Being Negotiated
Telephone Company	Partial 80%	Funds to expand telecommunications	Cable Wireless		N/A
Sugar Factory	Management Contract		with Booker Tate		N/A
Construction of Electricity Lines	Contracted Out	Skills not available in Electricity Department	Local Contractors		N/A
Government Building Constructio	Contracted Out	Privatization Strategy	Local Contractors		N/A
Maintenance of Building	Contracted Out	Privatization Strategy	Local Contractors		N/A
Painting Services	Contracted Out	Privatization Strategy	Local Contractors		N/A

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**HISTORY OF PRIVATIZATION IN OECS**

<u>ENTERPRISE</u>	<u>TYPE OF DIVESTITURE</u>	<u>PURPOSE</u>	<u>TO WHOM</u>	<u>TECHNICAL ASSISTANCE PROVIDED</u>	<u>AMOUNT RECEIVED EC \$ MILLION</u>
<u>DOMINICA</u>					
Dominica Electricity	Partial		Public NIS employees	Local Consultants	1.2
<u>ANGUILLA</u>					
Anguilla Electricity Services	Joint Venture	(Not Complete)	Commonwealth Development Corporation		N/A
Garbage Disposal	Contracted out to local providers				
<u>ANTIGUA</u>					
Halcyon Cove Hotel	99 Yr. Lease		US Concern		US\$ 12.0 Million paid up front
Royal Antiguan	Government is seeking to sell Hotel.  Management is contracted out to Ramada Renaissance				

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**TERMS OF REFERENCE**

**FINANCIAL MARKETS AND PRIVATIZATION DATA COLLECTION**

**STATEMENT OF DELIVERABLES**

The Regional Development Office/Caribbean (RDO/C) is collecting information in preparation of completing a strategy for providing assistance to the OECS region in financial markets, privatization and, economic trade liberalization activities necessary for the region to compete in a hemisphere dominated by the Enterprise for the Americas Initiative. Once this strategy is complete, project design work, i.e., the Project Identification Document (PID) and Project Paper (PP), will commence for a Private Sector Initiatives Project (PSI).

**I. Approach To PSI Design**

A. Although financial markets, tourism, privatization and trade and investment were potential program elements, there is uncertainty as to which elements would provide the greatest benefit at the least cost and be within Mission capability to design and implement. Data collection and assessment reports will be prepared under this purchase order for financial market, privatization and tourism. The purpose of these data collection and assessment report is to provide a substantial analytical basis for coherently preparing an RDO/C strategy.

B. Four purchase orders will be issued, two for the financial markets activities, one for privatization activities and one for tourism activities. The description for the deliverables for the tourism activities is described in a separate purchase order.

C. The RDO/C Chief, Private Sector Office will provide necessary technical direction to contractor during the data collection activities and drafting of the assessment reports. The PSI Design Committee will review draft assessment reports.

D. A detailed work plan and schedule to meet the report requirements will be developed by the contractors with the Chief, Private Sector Office within five (5) days of issuance of the purchase orders. The plan work shall include orientation, documents review, travel, interviews, assessment, draft preparation, draft presentation and redrafting.

E. The work plan and schedule will require contractor to submit first drafts of the data collection activities and assessment reports five (5) working days before completion of purchase order. The Design Committee will review drafts within three (3) working days of draft submission and the two (2) remaining days before departure will be used for

redrafting and/or refining earlier submissions. Sufficient time and funds are budgeted for this purpose. Contractor will continue to refine first drafts and prepare for Design Committee presentation after submitting first drafts.

F. Contract will be provided with relevant documents and materials for review upon contract inception. The first three (3) working days will be for the document review and orientation with PSI Design Committee.

G. The primary focus of the data collection activities and related assessments will be the Eastern Caribbean countries of Grenada, St. Vincent and the Grenadines, St. Lucia, Dominica, St. Kitts and Nevis and Antigua and Barbuda. However, Barbados, Trinidad and Jamaica may be included in limited activities because of the importance of these countries in the economic welfare of eastern Caribbean countries.

## II. Privatization Strategy

A. Assess current and long-term probable privatization opportunities within the Eastern Caribbean, including:-

- a. Complete divestiture of government ownership and control;
- b. Liquidation of government enterprises or dissolution of government monopolies, thus creating markets for private enterprises;
- c. Partial divestiture with opportunities for broadly based majority ownership and control or joint-venture with private control;
- d. Franchising or contracting with private enterprises.

B. Identify privatization opportunities that should be able to profitably compete in a freely functioning market and should result in substantial benefits and opportunities for Eastern Caribbean investor.

C. Explore future possibilities for private enterprise assumption of traditional government provided goods and/or services and/or the creation of private enterprises using government services or goods as enterprise markets. identify benefits and costs associated with privatization.

D. Assess the effect of current policies laws and regulations on privatization opportunities and describe critical areas to potential privatization, including:-

- o Market based pricing;
- o Common tariff levels and CET;
- o Free-for-service enforcement;
- o Anti-competition policies;
- o Labor codes and practices;

- o Foreign exchange practices;
- o Taxation and subsidy policies.

E. Assess the potential for local private ownership of privatized enterprises, including employee and/or broad based ownership.

F. Formulate possible roles for RDO/C in assisting Eastern Caribbean privatization activities and present to RDO/C.

G. Consideration of roles for RDO/C should include, at least:-

- a. Promoting the concept of privatization, including possible training and/or education;
- b. Changing governmental policies, laws and regulations to encourage privatization;
- c. Privatization financing;
- d. Promoting the use of equity financial markets for broad based Eastern Caribbean ownership of privatized enterprises;
- e. Privatization planning and implementation assistance.

H. Following presentation and review, prepare draft PS Statement and to RDO/C for review.

I. Following presentation of draft PS Statement and consequent review, prepare final draft of a preferred RDO/C PS Statement.

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