

1. Introduction	1
2. Privatisation as a key element of British development activity	2
3. The role of the UK in the privatisation	3
4. British Technical capabilities	16
5. New policy proposals	19
Appendix 1: List of UK companies with privatisation expertise	23
Appendix 2: UK expertise in UK privatisation	29
<b>THE ENTERPRISE IMPERATIVE</b>	
Appendix 3: Examples of privatisation in EDCs	31
Appendix 4: An analysis of the different reasons cited in support of and opposition to privatisation	34

Peter Young

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## CONTENTS

	Page No.
1. Introduction	1
2. Privatization as a key element of British development activity	5
3. The role of the US in LDC privatization	8
4. Human resource capabilities	16
5. New policy measures	19
Appendix 1: List of UK companies with privatization expertise	23
Appendix 2: UK expertise in LDC privatization	29
Appendix 3: Examples of privatization in LDCs	31
Appendix 4: An analysis of the different reasons cited in support of and opposition to privatization	34

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"The more our experience of privatization is emulated abroad, the more the world economy will benefit from the greater enterprise and efficiency released."

Margaret Thatcher, July 1987.

According to the World Bank, there are 58 LDCs which have carried out privatization, are currently engaged in it, or have announced privatization programmes. These countries include: Argentina, Bangladesh, Brazil, Cameroon, Central African Republic, Chile, Colombia, Costa Rica, Cote d'Ivoire, Dominican Republic, El Salvador, Egypt, Fiji, Gabon, Ghana, Guinea, Grenada, Guyana, Guinea-Bissau, Honduras, Jamaica, Jordan, Kenya, Liberia, Mali, Malaysia, Mauritania, Mexico, Morocco, Mozambique, Nepal, Niger, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Peru, Philippines, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Somalia, Sri Lanka, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, Venezuela, Western Samoa, Zaire and Zambia. (See Appendix 3 for specific examples of privatization).

Clearly there is a heavy demand from developing countries for assistance in privatization. The British experience of privatization has been one of the inspirations of that increase in demand. It is not only middle income developing countries that are privatizing - countries like Malaysia, Brazil, or Chile - but some of the poorest countries as well. If one examines the world today, with the exception of a handful of countries like Cuba, Syria, and Ethiopia, all countries are looking in a market direction and introducing some reforms. In the majority of countries - even in the poorest of African countries - privatization is one of those reforms.



## 1. INTRODUCTION

Privatization is the most significant policy development of the 1980s. As a comprehensive approach to public sector reform, it was first developed in Britain under the administration of the Rt Hon Margaret Thatcher MP. It has since become her government's most effective and extensive policy initiative.

Since 1979 the British privatization programme has:

- \* transferred almost 1 million jobs from the public to the private sector;
- \* raised over £25 billion in revenue;
- \* created 8 million new shareholders and increased the percentage of Britons who own shares from 5% to over 20%;
- \* sold over 1 million public sector houses to their tenants.

The enormous scope and extraordinary success of the British privatization programme has inspired a large number of countries to initiate or consider privatization activities of their own. In particular, Less Developed Countries (LDCs) have expressed especial interest in adopting privatization as a means of solving a number of social and economic problems.

According to the World Bank, there are 58 LDCs which have either carried out privatization, are currently engaged in it, or have announced privatization programmes. These countries include: Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Central African Republic, Chile, Colombia, Costa Rica, Cote D'Ivoire, the Dominican Republic, El Salvador, Egypt, Fiji, Gabon, Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Honduras, Jamaica, Jordan, Kenya, Liberia, Malawi, Mali, Malaysia, Mauritania, Mexico, Morocco, Mozambique, Nepal, Niger, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Peru, Philippines, Rwanda, Sao Tome E Principe, Senegal, Sierra Leone, Somalia, Sri Lanka, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, Venezuela, Western Samoa, Zaire and Zambia. [See appendix 3 for specific examples of privatization).

Clearly there is a heavy demand from developing countries for assistance in privatization. The British experience of privatization has been one of the inspirations of that increase in demand. It is not only middle income developing countries that are privatizing - countries like Malaysia, Brazil, or Chile - but some of the poorest countries as well. If one examines the world today, with the exception of a handful of countries like Albania, Syria, and Ethiopia, all countries are looking in a market direction and introducing some reforms. In the majority of countries - even in the poorest of African countries - privatization is one of those reforms.



Public sector reform programmes in most of the African countries involve some form of privatization. The French-speaking countries are ahead in actually carrying out privatization - the Ivory Coast being the star example - but even in the English speaking countries privatization forms an important part of their plans.

Socialism, a malady that Britain herself played a prominent part in exporting, is effectively dead. Virtually no leaders rate socialism as a serious solution to economic problems. Most now recognise it as the cause of those problems. The following quote sums up the new attitude of many former socialists:

"We need to permit companies and organisations to sell freely; to buy and borrow goods from their reserves so as to create a powerful and vibrant goods market; to invest their enormous but idle resources; to unleash in practice, not just in words, economic initiative in the country. In place of fruitless efforts at central planning of our entire industrial production, we should introduce contracts between supplier and consumer."

What is most remarkable is that this passage is from an article by prominent Soviet economist Nikolai Shmelyov in the Soviet journal Novy Mir. The ideological defeat of socialism has been so profound that it has even extended to its own heartland.

The latest country to abandon socialism is Burma, whose own Asian brand of socialism had turned the country into an impoverished, primitive backwater. The new military government has removed all restrictions prohibiting the private sector from undertaking internal and external trade. Foreign investment has been allowed and an international chamber of commerce established. The main aim of the reforms is to improve living standards. A senior Burmese economist was reported in the press as saying that the socialist system had been "totally thrown out of the window."

While most countries wish to abandon socialism and adopt market-oriented economies, what is less clear is how to get from here to there. The dismantling of socialism, with its attendant bureaucracies, subsidies and vested interests, is a difficult and often politically perilous exercise. The techniques of weaning a country off subsidies and overcoming or co-opting vested interests are intricate and complex. They have been successfully developed in Britain through trial and error. The implementation of such techniques must be a key element of British aid. Examination of the reasons for privatization in LDCs reveals a complex mixture of motives, similar to those underlying the British privatization programme. [See appendix 4 for an analysis of commonly quoted objectives of LDC privatization as well as examination of the fears that will have to be overcome]. British experience can help reconcile sometimes contradictory objectives such as increasing competition and raising funds.



Practical experience of privatization in LDCs is turning conventional wisdom on its head. Part of that wisdom was that only a middle-income country with capital markets could engage in privatization. It was also part of the conventional wisdom that a corporation had to be profitable to be privatized. Experience has shown that none of these things are true. In countries with a fairly elementary stage of development there is an interest in privatization because it tends to put substance on political policies of economic democratization or popular capitalism. In terms of the capital market, it has been the experience that privatization activity leads to improvement of capital markets rather than that the existence of capital markets is a prerequisite to privatization.

As far as profitability is concerned it is indeed helpful if there is a corporation which is profitable and thus easier to sell in many respects. However, the question of sale price more depends on future profitability rather than past profitability. In many of these countries the going concern value of the corporation is substantially less than the book value of the corporation.

Privatization represents a unique tool for developing countries to transform their economies from inward-looking monopolistic state bureaucracies, where power and wealth are concentrated in the hands of a few bureaucrats and politicians, to modern, competitive market economies where wealth and power is diversified and talent rewarded.

Privatization can be seen as the final stage of a process of indiginisation of economic power. The majority of LDC economies were first subject to majority foreign private ownership. After independence, many of these private companies were nationalised. And now privatization is transferring these companies from state to indigenous private ownership, and giving LDC citizens the chance to participate in the economic future of their countries and share the wealth that will be created.

Those who have suggested that British-style wider share ownership privatization is impossible to carry out in developing countries have been contradicted by the experience. While an exact replica of the British privatization programme would be indeed difficult to reconstruct in a poor LDC, its basic mission of spreading ownership can be replicated.

The experience of Jamaica is one of the most optimistic. With a per capita GNP of only US \$880 in 1986 and next to no capital market it has been able to carry out several British-style public offerings and attract many thousands of citizens into buying shares. The Jamaican stock exchange opened for only 4 hours a week and turnover was only \$110 million a year, yet a privatization team headed by a British bank was still able in 1986 to sell the National Commercial Bank to over 30,000 Jamaicans for \$90 million. The following year the Caribbean



Cement Company was sold to over 40,000 Jamaicans. Other poor LDCs, such as the Ivory Coast, have also managed to sell enterprises with public offerings.

Another method of privatization which leads to wider capital ownership and is well-suited to use in LDCs is the employee buy-out. There have been a number of such buy-outs in Chile, where the government has recently given priority to wider capital ownership in its privatization plans. Another example is the sale of the Belize Banana Control Board farms to the Board's former employee farmers.

There is, however, no set formula. The situation in every country differs, and every privatization differs. Some of the conventional knowledge is going by the board as privatization starts in all sorts of countries which are well below the middle income category, and which have no capital market to speak of.

The rapidly evolving interest in privatization on the part of developing countries warrants a substantial and carefully devised British response. Britain has a special capability in this area and should make it available to the rest of the world.

## 2. PRIVATIZATION AS A KEY ELEMENT OF BRITISH DEVELOPMENT ACTIVITY

Given the volume of privatization experience in the UK it would seem sensible to analyse how the benefits of that experience could best be extended to the multitude of LDCs who now wish to adopt privatization as a domestic strategy of their own. Privatization should become a key element of British development activity.

Such a policy would be beneficial to the U.K. for several reasons:

(1). It would enable British companies to gain valuable contracts and make useful commercial links by assisting foreign governments and companies in the privatization process. [Working on privatization provides influence on policy and the opportunity to work directly with top government officials and gain important long-term contacts.]

(2). It would be an opportunity for Britain to demonstrate world leadership by taking a strategy that has been successfully developed domestically and helping to apply it in other countries.

(3). It would be of major assistance to the economic health of the developing countries themselves, thus easing their debt problems and invigorating the world economy.

Britain's growing economic strength and rediscovered self confidence make an important initiative like this not only possible but desirable. The Prime Minister is the longest-serving and most experienced Western leader. She is a popular and admired figure throughout the world. Citizens of diverse countries often express the wish that their own leaders had Mrs Thatcher's strength and conviction to carry out necessary market reforms.

Thus British leadership in this area is not only desirable but eagerly anticipated. It is also commensurate with Britain's new position as a strong and prosperous nation, rather than the sick man of Europe and the dependent patient of the IMF.

Once described as a third-rate banana republic without the bananas, Britain is the prime example of a country that has dug itself out of its self-created socialist quagmire. That experience, not only of privatization but of the whole gamut of measures to liberate enterprise and revitalise the private sector, is in high demand throughout the rest of the world.

Nevertheless, when privatization aid programmes are



Designed it should be remembered that LDCs are searching for assistance to meet their own privatization objectives, which vary from country to country. It would therefore be both counter-productive and futile for Britain to seek to impose some predetermined plan on LDCs. Nevertheless, the British experience of privatization does provide many useful general lessons, particularly in the development of privatization techniques and the design of privatization strategies to take account of politically powerful interest groups.

Assisting privatization in LDCs presents a great opportunity and challenge for Britain. Britain alone has the experience to encourage a broad vision of privatization in the developing world, one in which privatization is understood as a creative process, a process designed to shift whole areas of economic activity, with their attendant interest groups, from the politicised non-commercial state sector to the consumer-responsive, profit-making private sector. Privatization should not be just a means of raising some funds quickly by selling off a few state assets, or a means of granting favours to a handful of individuals or companies by allowing them to buy these assets at low prices. We know that Western companies can run efficient telephone or water companies at hugely reduced costs and vastly improved service. We know that they can take over refuse collection and save the government money. These are not the real challenges.

The real challenge is to use privatization to create local ability to run utilities on a commercial basis, to turn government employees into entrepreneurs, to spread capital ownership among the population at large, and to create a climate of profit-making and risk-taking that will permit sustained economic growth.

However, British assistance to date has been largely of an ad hoc nature: Countries have sent delegations to Britain, and the Treasury and the Central Office of Information have helped them by organizing meetings and visits to privatized companies. Various organizations such as the Adam Smith Institute have organized conferences - one in June 1988 saw delegates from thirty countries attending. The Overseas Development Administration (ODA) has lent one or two technical advisors and given some advice to countries in privatization, and British firms have been approached by individual countries and have given assistance. Quite a number of British firms are now doing privatization work overseas.

This work is not focused and there is no good organizational mechanism to market it, nor any central point to which countries who wish assistance can come. Nor is it really a substantial part of our overseas aid policy.

This contrasts with the situation in the United States, where a substantial privatization programme has been developed as part of US activities overseas, even though it varies from

country to country in its extent.

The United States, although it does not have such major private sector activity as some other countries, is very active in private sector assistance overseas, acting in response to a substantial demand and believing that privatization will be a greater force in the development of the Third World than previously supposed.

The Agency for International Development (AID) is responsible for the major US foreign economic aid program, generally known as development assistance, which are intended to help poorer countries that cannot raise their standard of living.

The Agency for International Development has supported privatization as a policy throughout the years of the Reagan administration. The State Department also has been an important force in the direction of this process. Private sector initiative in economic development programs is not a new concept but has been applied in the past. For example, the Agency for International Development, created in 1961, encouraged private enterprise and private participation. However, it is probably fair to say that a change in the private sector and participation in development has been given special emphasis by the Reagan administration.

As part of its Private Enterprise Initiative the Agency established in 1981 a Bureau for Private Enterprise (BPE) to make a specific effort to promote private enterprise in Latin America, Africa, and Asia. The BPE is an agency within the Agency for International Development that is responsible for generating economic growth through the private sector. The BPE has a budget of \$20 million.

According to the AID Administrator Peter McPherson:

"Private Enterprise Initiative is an increasingly effective strategy to help developing countries realize the benefits of economic growth by relying on free market forces and the private sector."

Foreign aid legislation has always required that U.S. assistance be implemented through the private sector to the greatest extent possible. In the past, however, AID has not always provided this assistance with the highest priority. Under the Reagan administration, however, AID has given the private sector a key role in its program to help developing countries achieve economic growth and development.



### 3. THE ROLE OF THE US IN LDC PRIVATIZATION

The United States, although it does not have much major privatization activity domestically, is very active in privatization activities overseas, acting in response to a substantial demand and believing that privatization has a far greater role in aiding development than had previously been supposed.

The Agency for International Development (AID) is responsible for the major US foreign economic aid programmes, generally known as development assistance, which are intended to help poorer countries increase their economic growth and raise their standard of living.

The Agency for International Development has supported privatization as a policy throughout the years of the Reagan administration. The stated focus of AID's work has been to persuade LDCs to move their economy in a market direction, and of course privatization is an important part of this process. Private sector initiatives in economic assistance programmes are not a new concept, but have been applied in the past. For example, section 601 of the Foreign Assistance Act, enacted in 1961, encourages "free enterprise and private participation". However, it is probably fair to say that reliance on the private sector and privatization in particular have been given especial emphasis by the Reagan administration.

As part of its Private Enterprise Initiative the Agency established in 1981 a Bureau for Private Enterprise (PRE) to make a specific effort to promote private enterprise in LDCs. AID itself describes the Bureau as its "experimental laboratory to generate LDC economic development and growth through the private sector." [1] PRE had a FY 1986 budget of \$40 million.

According to the then AID Administrator Peter McPherson:

"AID's Private Enterprise Initiative is an increasingly effective strategy to help developing countries realize the benefits of sustained economic growth by relying on free market forces and the private sector.

Foreign aid legislation has always required that U.S. assistance be implemented through the private sector to the greatest extent possible. In the past, however, AID has not always accorded this congressional mandate the highest priority. Under the Reagan administration AID has increased its programme links with the private sector and made a systematic commitment to private enterprise as a key vehicle



for helping Third World countries improve their economic performance."[2]

Nevertheless, the amount of AID funds that are directed to private enterprise development is still limited. Two thirds of the AID budget is largely off limits to private enterprise development because of a primarily government-to-government approach in emergency aid and Food for Peace, and the nature of the Economic Support Fund (ESF). ESF is used primarily for security purposes and balance-of-payments support of host governments, as in Egypt and El Salvador. Much ESF money is consumed by Israel and in base rights agreements with Portugal, Spain and Turkey. ESF appropriations are sometimes used for private sector projects. For example, in FY 1986 the Administration requested \$10 million (ESF) to support a project entitled "Bolivia Divestiture of Public Sector Enterprises." The administration initiated Africa economic reform proposal in 1984 also envisaged using ESF funds to promote private enterprise. Most of the remaining USAID funds are for activities such as population control, health and education, and are also highly government-oriented.

An AID policy paper entitled 'Private Enterprise Development', (revised edition issued March 1985), summarizes its private enterprise policy:

"AID encourages an expanded role for the private sector in delivery of services...In agriculture, AID supports a substantial transfer of responsibility to competitive markets and private enterprises.....In energy, AID encourages private sector development of fossil fuel resources.....AID supports programmes to involve the private sector in a wide variety of public service activities through such techniques as contracting for management, operation, and maintenance of facilities.....

AID assistance to or through a parastatal should be given in the context of exposing the parastatal to market forces and scheduled divestiture of the government interest. This objective is more likely to be achieved through an evolutionary process rather than as a result of an AID insistence on the immediate and complete divestiture by sale to the private sector."[3]

Privatization was, however, just a part of AID's work on private sector development, and was not accorded any particular prominence. AID advocated privatization in policy dialogue with LDCs, and achieved success in some countries such as Costa Rica and Bangladesh, where fertilizer distribution was privatized at AID's urging.

In 1986 there was a substantial change of emphasis in AID's work in this field, when it took up privatization as a major development approach. This change was heralded and encouraged by the International Conference on Privatization, held by the Agency



in Washington DC in February 1986. A wide range of privatization specialists addressed some 500 attendees, mainly from LDCs, in the how-to aspects of privatization. Speakers included Babacar Diaye, President of the African Development Bank, Pedro-Pablo Kuczynski, Co-Chairman, First Boston International, John Redwood, former head of the Prime Minister's Policy Unit, Mehmet Bilgic, Director of Privatization, Housing Development and Public Participation Administration, Government of Turkey, Dr Madsen Pirie, President, Adam Smith Institute, Elliot Berg, President, Elliot Berg Associates, and many other experts. Addressing the conference Secretary of State George Schultz gave strong backing to the concept, saying that privatization "has a lot to offer us in working on the debt problem", and adding that

"privatization is not just a device to cut back the size of government....It is a policy to improve the quality of services that people are now getting....The question is, how can you deliver services most effectively? And people are finding themselves a renewed answer."[4]

The enthusiasm for privatization of the LDC attendees was noted by the media and the conference was judged a success by AID officials. Following the conference, a revised policy on privatization was issued by AID.

This new policy, promulgated in a State Department telegram to AID missions on June 16th 1986, gives privatization a much higher importance in AID's work. It also recognizes some shortcomings of past policies, stating:

"Missions have, in the past, utilized technical or capital assistance to make state-owned-enterprises (SOEs) more efficient...It should be recognized, however, that enormous amounts of donor funds committed to help SOEs meet the goal of greater efficiency have been largely unsuccessful. There is no reason to believe that new AID resources will be better spent for that first goal unless the process is linked to both making the SOE more responsive to market forces and actual divestiture."[5]

The new policy required each AID mission to engage in discussions with their host country with the objective of achieving two privatization activities each year. Privatization was directed to become an integral part of each mission's programming, and missions were required to submit detailed privatization plans and strategies to AID Washington.

In sectors of the economy where governments are unwilling to privatize, AID missions must now encourage deregulation and removal of monopoly powers to enable direct private sector competition with state-owned bodies. In those sectors where the government neither privatizes nor allows competition, the mission is now required to cease all activity.



Initial costs associated with privatization are relatively small and mainly involve the funding of consultancy work to determine privatization opportunities and strategies. AID Washington is providing some of this assistance to missions. AID has established a semi-independent body, the Center for Privatization (CFP) to assist the privatization process. AID has a contract with the Center, an offspring of the Analysis Group Inc. and five other firms, (Arthur Young & Co., Equity Expansion International, Ferris & Co. Inc., International Phoenix Corporation, and Public Administration Service), to provide advice and assistance to missions in developing privatization strategies and projects.

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

1. To become a center of knowledge and information about privatization for the use of AID and its missions overseas.
2. To provide technical assistance to AID and AID missions in planning and implementing privatization programmes in those countries where there appear to be good prospects for success.

The Center for Privatization (CFP) has been active throughout the world in support of privatization. In its first two years of operation up to January 1988 it handled assignments in 30 countries on 55 projects, involving over 100 consultants. Its technical assistance assignments have included a variety of tasks, of which the following are typical:

- \* reconnaissance surveys for policy reviews and privatization planning
- \* privatization seminars, conferences and workshops
- \* country strategy development - selection of criteria, organisation of privatization units
- \* enterprise viability studies and valuations
- \* privatization impact evaluations - building support constituencies
- \* preparation of marketing plans, soliciting bidders, negotiating terms of sale
- \* media/public awareness programmes

USAID was active in supporting the privatization of the Zambia Produce Marketing Board, and CFP developed the privatization plan for the Nyasabai Sawmill, which was subsequently privatized. CFP has also produced a feasibility study for the privatization of the National Investment Company and the state ferry maintenance and repair operations in Guinea.



The Center's consultants include specialists from different fields such as agriculture, industry, financial services, accounting, transportation and utilities. They have experience in areas related to privatization including:

- Corporate restructuring,
- Employee Stock Ownership,
- Equity Placement,
- Financial Analysis and Valuation
- Labour Relations
- Legal and Regulatory Studies
- Macro/micro Economic Analyses
- Marketing and Market Research
- Project Design and Evaluation
- Strategic Planning
- Taxation.

In Belize CFP consultant Jalil Shoraka arranged commercial bank financing for banana growers and initiated arrangements to privatize the Banana Control Board. In the Dominican Republic a CFP consultant prepared a report on the privatization of rubbish collection in Santa Domingo and a report on the privatization of the state-owned electric power company. In Grenada CFP prepared reports on the privatization of the Grenada Bank of Commerce and the power utility Grenelec, and met with Ministers to discuss the proposals. In Guatemala CFP sponsored a reconnaissance of the privatization prospects of GUATEL, the state telecommunications company.

In Honduras a CFP team is working with the Honduran government to transfer the holdings of the National Investment Corporation (CONADI) to the private sector. USAID has provided substantial financial assistance for the process and some corporations have already been sold. In Panama CFP has assisted the Investment Council of Panama in developing a National Divestiture Strategy. In Ecuador CFP consultants prepared valuations of companies picked for sale by the government.

CFP consultants prepared a review of privatization experience in Bangladesh. In Jordan, CFP retained former Hong Kong Transport Commissioner Anthony Shephard to advise on the deregulation and privatization of mass transit in Amman. Studies were also prepared on the privatization of the Royal Jordanian Airline and the Telecommunications system. In the Philippines CFP assisted with the privatization of National Food Authority holdings. In Egypt CFP is helping the government to prepare a privatization strategy. In Somalia CFP has advised on the privatization of a fish processing plant.

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Conakry CFP conducted an in-depth study of the environment for privatization and developed illustrative criteria for state enterprises to be selected for privatization. CFP studied the prospects for privatization in Kenya in August 1988 and found that the domestic investment potential was much greater than thought by the Kenyan government. USAID, in conjunction with the World Bank, is actively pursuing the creation of a Capital Market Development Authority, the goal of which would be to develop and monitor financial markets.

CFP carried out a parastatal reconnaissance field study in Malawi. USAID has provided funds for the privatization of large portions of the main holding parastatal, the Agricultural Development & Marketing Corporation, (ADMARC). USAID is also providing financial assistance to study financial markets and the impact of the privatization of agricultural marketing. In Mali CFP assessed the stage reached by the government in the privatization process and the realistic potential for privatization of parastatals. A privatization committee comprising representatives of the Malian government and USAID has adopted a series of recommendations put forward by CFP.

In Swaziland CFP assessed the viability and prospects for privatization of the National Insurance Corporation. In Zaire USAID/CFP reviewed the government's privatization programme and made assessments of certain enterprises picked for privatization by the government. The investigating team identified non-mining activities of the giant copper and mining parastatal, GECAMINES, as targets for privatization.

According to the Centre, for privatization to succeed the following elements must be present: (1) a firm commitment must be made by the host government; (2) enterprises should be reasonably valued, allowing the new investor(s) to make a profit after the purchase; (3) privatization should "spread the wealth;" and (4) creative thinking must be employed to convince opponents of the benefits of privatization.[6] CFP Deputy Director Gordon O.F. Johnson says that AID's privatization initiative "is one of the most important new programmes in the history of the Agency."

The Center also holds privatization dialogues in Washington DC where consultants from the field, AID personnel, academics, and other privatization specialists gather to exchange views and experience on privatization subjects. Subjects at past dialogues have included valuation of public assets and how to deal with government bureaucracies, dealing with labor unions/employees, co-operation of donors in privatization, financing privatization under limited capital conditions and using privatization to expand capital ownership.

The Center is also responsible for organizing regional conferences on privatization. Several have been organised to date, including one in Fiji for the Pacific co-sponsored with the US Department of the Interior, and one in Tunisia for North Africa.



The Fiji conference, entitled the Pacific Conference on Privatization and Investment, was held February 2-6 1987 and featured speakers such as the then Prime Minister of Fiji, Ratu Sir Kamisee Mara, Ambassador Joe Rogers, formerly of the Asian Development Bank, Dato' Michael Chen, Chairman of the Kelang Port Authority in Malaysia, Dr Steve Savas of Columbia University, Neal Peden, USAID Assistant Administrator Bureau of Private Enterprise, former Argentine Minister of Privatization Manuel Tanoira, the author, representing the Adam Smith Institute, and various Center for Privatization consultants.[7]

Delegates attended from most Pacific countries, including the Cook Islands, Niue, Fiji, Kiribati, Western Samoa, the Solomon Islands, Tonga, Tuvalu, Papua New Guinea, American Samoa, the Commonwealth of the Northern Marianas, Palau, the Federated States of Micronesia, the Marshall Islands, and Guam.

The second regional conference, entitled the International Seminar on Privatization, was held April 22-25 1987 in Tunis. It was co-organized by the Tunisian Institute of Management with USAID. Although AID provided the bulk of the funding, the Tunisian Ministry of Finance provided some support. Speakers included Cengiz Israfil, privatization adviser to the Prime Minister of Turkey, Ismail Khelil, Tunisian Minister of Finance, Dr Madsen Pirie, President of the Adam Smith Institute, Anthony Shepherd, transit privatization specialist, and various Tunisian academics. Delegates numbered around 150 and were primarily from Tunisia, although delegations also attended from Egypt, Morocco, and Jordan. The most recent conference sponsored by the Center for Privatization is the "International Conference on Privatization: Mediterranean Experiences", held in Istanbul in December 1988.

Various other types of technical support for privatization are also available from AID. Small quantities of loan or grant funds can be provided by AID missions to assist a privatization attempt. AID instructs its missions to direct capital assistance toward assisting the private sector purchasers rather than the government seller. For example, grant assistance could be provided to a buyer to cushion a burdensome covenant imposed upon him by the seller for political purposes, such as a requirement to continue all current employees for a limited time.[8]

The volume of US assistance in privatization varies from country to country. Some missions are more enthusiastic about privatization than others. This enthusiasm is of course partially governed by the receptivity of the host government to the issue. The AID mission to Egypt, for example, has become more enthusiastic about privatization since the Egyptian government became interested in the idea. Costa Rica, for example, has very substantial assistance from USAID in privatization with the expenditure of many tens of millions of dollars to help the country to privatize. In the past two years the government of Costa Rica has privatized some thirty-eight corporations, a fairly considerable number. Now, at the second stage the



government of Costa Rica is interested in a wide public share offering, and wishes to secure the services of a British merchant bank to provide assistance in this respect.

In certain types of privatizations there is a very considerable experience in the States. For example, the US bank, First Boston, did an excellent job in the sale of the aluminium plant in Costa Rica, canvassing some one hundred and twenty-nine corporations in twenty-seven different countries as part of that sales process. There are also many consultants with extensive experience in advising on matters such as valuation.

However, when it comes to certain specialty areas such as wide public share offerings and employee buyouts, the experience in Britain is particularly useful. One important element of U.K. privatization which is of particular benefit in developing countries is the pragmatism with which it has been approached.

The Costa Rican case is a clear one where the United States did not have the particular type of expertise necessary to move the government on to the next stage.

Obviously, the majority of privatization expertise is not in America, since the only major body they have actually managed to privatize domestically is Conrail. The vast majority of privatization expertise is here in Britain, and that expertise is being built up month by month as the government's privatization programme continues its long march through the remainder of the public sector.

USAID itself has concluded that the primary centre for privatization expertise is the United Kingdom, and consequently it is seeking to have a closer collaboration with the U.K. aid programme in support of the general privatization objectives of developing countries. Such co-operation should occur on a country-by country basis. USAID is also not averse to hiring British firms to perform privatization work. For example, USAID funded Rothschilds to carry out the privatization of the National commercial Bank in Jamaica, funded Coopers & Lybrand to review candidates for privatization in Madagascar, and is paying for a consortium including Schrodgers to privatize agricultural marketing in Malawi. But obviously USAID would like to see a greater commitment to privatization from the official British aid programme itself.

The US is also playing a leading role in seeking to orient multilateral institutions such as the World Bank, the IMF, the Asian Development Bank, the Inter-American Development Bank and other development financial institutions towards a more market-oriented approach. Britain should co-operate fully with the US in encouraging the changes of approach that are taking place in these bodies, which are now quite active in promoting privatization and other market measures.



#### 4. UK HUMAN RESOURCE CAPABILITIES

Britain is the primary centre of privatization expertise. Obviously ten years ago the number of British privatization experts was much smaller. The expertise is still being built up and although hard pressed, it is still considerably greater than any other country, and probably greater than all other countries combined. It thus constitutes an important resource which could be tapped to a far greater extent by the rest of the world.

The opportunities for the export of British experience in privatization are great, but highly experienced individuals able to undertake overseas projects are difficult to find. Many of these lengthy projects are very time consuming and require much preparatory work. It is important to avoid the idea that there are a large number of specialized privatization practitioners available at the drop of a hat. To provide such services on a cost effective basis is bound to be difficult. Most of the people who could do this easily are all trying to do other things at the same time.

Because resources are limited and in most cases highly priced it will be particularly important to co-ordinate British expertise effectively, and to leverage it. The challenge is to orchestrate the few highly qualified practitioners of privatization into a national unit, support them and provide an infrastructure in which they can operate.

Very highly trained personnel in privatization in merchant banks need not do all the work. More than one company can be allocated to a project. Much work can be done by less widely trained people. Highly trained, highly priced personnel should be brought in at the end to carry out the actual transaction. For example, in Jamaica the Rothschilds personnel were not actually there for six months, but rather successfully carried out the privatization of the National Commercial Bank while only spending two or three weeks on site.

One resource that could be used in this work is the vast expertise that has been built up in the privatized companies themselves. Successful and prosperous companies such as BAA, Associated British Ports, British Airways and National Freight contain many individuals with intimate experience of the privatization process. These companies could either perform a consultancy role in LDCs themselves or release individuals on secondment to do so. In addition to this privatized company expertise there are a number of other people with involvement in the UK privatization programme who could be drawn upon such as civil servants, former civil servants, advisers of various sorts and consulting academics. An important role for a co-ordinating



body such as a "British Privatization Export Council" would be to identify and marshal this diverse expertise.

Another means of leveraging UK experience is to use and train whatever resources there are on the ground in the developing countries. Part of the objective ought to be to build up a body of experience in the LDCs who can continue the process. There are generally a few good people in any developing country who could be trained to carry out privatization work.

Because of the sheer scale of the British privatization programme a very large number of people have been involved and built up specialist knowledge and abilities. In any large British privatization a number of different types of firm have been employed. These have included:

- 1) Merchant banks;
- 2) Stockbrokers;
- 3) Accounting firms;
- 4) Legal firms;
- 5) Marketing and advertising firms;
- 6) Specialist consulting firms;

In addition, substantial expertise has been built up inside government itself among the civil servants and political advisers who have handled privatization issues. Some of those responsible for privatization inside government have subsequently joined private sector firms in order to market their skills commercially. This has resulted in a significant strengthening of private sector privatization expertise.

The main aspects of a privatization programme that could be developed and implemented by various private firms can be summarised as follows:

1. Development and ranking of overall objectives.
2. Conducting an inventory of existing public sector activities that are capable of being commercialised and privatized. This inventory would evaluate the present commercial status of the activities and indicate the scope for private sector involvement.
3. Evaluation of prospective investor demand for public sector assets and recommending how this might be stimulated.
4. Organisation of marketing and incentive campaigns aimed at encouraging investor participation by employees and the general public.
5. Reviewing the scope for contracting-out public services to the private sector whereby the services are in future provided under a contractual arrangement negotiated with the private sector.



6. Franchising infrastructure developments out to the private sector whereby private sector whereby private sector parties take over, on a concession basis, the designing, building, and operating of what would otherwise be a public sector project.

7. Identifying potential commercial purchasers of public sector assets and conducting negotiations with them to ensure that value for money is obtained by the public sector.

8. Drawing-up and co-ordinating national action plans aimed at ensuring that commercialisation and privatization are actually achieved.



## 5. NEW POLICY MEASURES

The British government should make a serious effort to promote privatization in developing countries. In some cases LDCs have already started down the privatization road, and require extra support and advice. In other cases countries are actively considering privatization and need encouragement. Some countries, meanwhile, require to be helped to persuade themselves of the necessity of privatizing in the first place.

Privatization should not be viewed in isolation. It should be seen as part of a wider process of economic regeneration. Whereas privatization in developed countries is very much about straightforward divestiture, in developing countries the issue is very much wider, stretching from changes in macroeconomic policy to deregulation and getting rid of bureaucratic controls. Here the whole range of experience of policy change in Thatcherite Britain will come in useful.

A variety of new British aid policies are needed. There are a great number of new initiatives which could form the basis of a comprehensive programme to boost privatization and economic growth in the third world. Britain could undertake all of them, and would achieve a major acceleration in third world development by doing so.

First it will be important to establish an institutional framework to support privatization initiatives. There is currently no special body in the Overseas Development Administration with any responsibility for privatization. There is therefore no group for the representatives of the World Bank, Asian Development Bank, USAID or other development agencies who have responsibility for privatization, to liaise with. Clearly this problem should be rectified very quickly.

A unit should be established in the ODA with specific responsibility for promoting privatization. Initially it might be staffed by only two or three persons, but could be expanded over time. This unit should primarily act as a contact point. It should co-ordinate the various policies instituted to promote privatization, liaise and co-operate with other development agencies working on the same issue, and guide private sector bodies and personnel retained to assist the programme.

The best approach would be to start with only a small in-house government team, rather than immediately seeking to hire a large staff. The small operation could evolve over the years as conditions make it necessary to do so.



The majority of privatization work should not be performed by in-house personnel but by the private sector, where the majority of the expertise lies. The ODA should contract with private sector personnel and companies to perform most LDC privatization work. For example, the ODA might contract with a specialist consulting firm to advise an LDC on the development of an overall privatization strategy, then contract with an accountancy firm to carry out valuations and other analyses of firms initially selected for privatization, and finally, secure the services of a merchant bank.

A private sector liaison body should be established to act as a focus for those firms who wish to perform such work. Such a "British Privatization Export Council" (BPEC) could perform a role somewhat similar to that of the Center for Privatization in the USA, which represents the group of private firms under contract with USAID to produce privatization material, hold seminars, and to carry out privatization work in LDCs.

Such a body could produce marketing tools including an index listing the exact extent of expertise in British privatization. It could be the first contact point for various bodies, such as the World Bank, who come to Britain and look for expertise. Currently there is no central point through which British expertise can be accessed and evaluated. A range of promotional and educational leaflets and booklets could be produced and widely distributed. This body would cooperate with the ODA, the Treasury and other sections of the government involved in this field to find individuals who might be seconded to LDCs to assist with privatization, and who might perform specific contracts.

Once this institutional framework has been established, individual measures can be undertaken. The provision of specialist teams to give advice on privatization to LDCs is essential. These teams could be drawn from merchant banks and other firms specialising in privatization work, and could include personnel with management experience seconded from newly privatized companies.

The provision of one or two people to give sound initial diagnostic and strategic advice is not expensive, but is very valuable for LDC governments. It is in this provision of initial technical advice that the British aid programme should first concentrate its efforts. Of course, such advice need not be confined to privatization. Britain has much expertise in the whole range of policies necessary to boost the private sector and invigorate the economy, from tax cuts, through deregulation to monetary control. Many LDCs could benefit from such general advice as well.

A series of conferences on privatization should be initiated in Asia, Africa, and Latin America, in which British and other specialists could outline their views and experience and attempt to assess third world problems and perspectives with



regard to privatization. It may also be necessary to help fund and organise seminars in individual countries. British embassies are ideally placed to assist such activities. This initial educational work is essential in preparing the ground for privatization, just as it was in Britain.

A data bank and research library on privatization experience both in Britain and other parts of the world should be set up. It should gather information not only on recent privatization successes but also on public services which have been privately provided for some time. Publication of this information in a series of reports would make the data available to interested governments and individuals. The production of a series of 'how to' privatization manuals would also be of great assistance. These tasks could be carried out by a private "British Privatization Export Council."

Government ministers should take a more active role in putting the case for privatization when visiting other countries. Trade and Industry ministers in particular, who travel more regularly than other ministers, could be more forceful in pointing out the benefits of privatization in terms of increased economic activity and trade.

Delegations of LDC officials should be funded to visit Britain for the purpose of gathering information on privatization. Their visits should include meetings with public officials, with private firms involved in privatization, and with privatized companies themselves.

LDC officials might be attached to UK government departments overseeing the privatization of parts of the public sector, so that they might gain direct experience.

Aside from the provision of technical advice in privatization, the British government should seek to direct its economic aid in a manner conducive to the encouragement of privatization.

For example, a major problem associated with the privatization of public sector entities in LDCs is the need to dispense with the overmanning levels which characterize state operations. The British government should help to make funds available to LDC governments for the provision of suitably generous voluntary redundancy payments in such circumstances.

The British government should seek, wherever possible, to make private sector involvement a condition in development projects. For example, aid to construct irrigation networks, roads, or electricity generation facilities could be given on the condition that these were privately built and operated. British companies might be encouraged to become involved in these projects as partners with local companies.



The whole area of infrastructure provision is a key one for privatization. Here in Britain we are beginning to move to privatization of infrastructure, with the Channel Tunnel and Dartford bridge projects underway, and new private toll roads under active discussion. The need for new infrastructure in LDCs is even greater, yet many past public sector projects have been white elephants, fulfilling political rather than economic demand. The role for private provision of infrastructure in LDCs could be almost unlimited, and British experience in this field is extensive. Britain should take the lead in explaining the merits of such an approach to LDC governments, providing general advice and encouraging British firms to seek contracts.

Lastly, economic development through privatization should be made a key feature of British work in the Commonwealth, with Commonwealth bodies being involved in this work. Regular conferences and seminars should be held under Commonwealth auspices to spread information about privatization and to encourage involvement and participation by all members.

In conclusion, Britain should concentrate on the provision of sound technical and strategic advice to LDCs in privatization. The aim should be to develop quickly a local/national capability in privatization. Once the programme is under way in each LDC it can be largely self-financing. Britain should be the inspiration and the guide.

County Railways

County Railways acted for the Secretary of State for Transport in the privatization of BAA.

Hill Samuel

Hill Samuel acted for the Secretary of State for Transport in the privatization of Sealink and of British Airways, for British Leyland in the privatization of Jaguar, and for the Rover Group in the privatization of various component parts of the Rover Group.

Kleinwort Benson

Kleinwort Benson have been involved in numerous British privatizations, including the sale of British Aerospace, Cable & Wireless, Associated British Ports, Enterprise Oil, British Telecom and British Gas.

The Kleinwort's privatization team included John Williams, formerly a civil servant in the Department of Trade & Industry involved in the privatization of British Telecom, and Pallas McCarthy, formerly of the Treasury.



## Appendix 1. List of UK companies with privatization experience

### 1. Merchant Banks

#### **Barclays de Zoete Wedd**

Barclays de Zoete Wedd (BZW) acted for the company in the privatization of National Freight and the National Bus Company. It has advised Northern Ireland Electricity and the Merseyside and North Wales Electricity Boards in preparation for privatization. BZW acted for the company in the privatization of British Steel, and is adviser to the Government on privatization of the electricity supply industry in Scotland. The BZW privatization team includes Lynda Rouse, former special adviser to the Chancellor of the Exchequer and the Secretary of State for Energy.

#### **Baring Brothers**

Baring Brothers acted for the Treasury in the privatization of Cable & Wireless and the Secretary of State for Trade and Industry in the privatization of Leyland Bus.

#### **County Natwest**

County Natwest acted for the Secretary of State for Transport in the privatization of BAA.

#### **Hill Samuel**

Hill Samuel acted for the Secretary of State for Transport in the privatization of Sealink and of British Airways, for British Leyland in the privatization of Jaguar, and for the Rover Group in the privatization of various component parts of the Rover Group.

#### **Kleinwort Benson**

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The Kleinworts privatization team includes John Williams, formerly a civil servant in the Department of Trade & Industry involved in the privatization of British Telecom, and Callum McCarthy, formerly of the Treasury.



### **Lazard Brothers**

Lazard Brothers acted for the company in the sale of Enterprise Oil and of British Airways, for the Secretary of State for Energy in the sale of the Wytch Farm oilfields, for the Treasury in the sale of Britoil and for British Shipbuilders in the sale of their warship yards

### **Morgan Grenfell**

Morgan Grenfell acted for the company in the sale of Amersham and for British Rail in the sale of Sealink. Morgan Grenfell was one of the two original advisers on the financing of Eurotunnel, the private cross-Channel tunnel group. It also provides advice on financial and strategic planning to the South East Electricity Board and the Yorkshire Water Authority.

### **N M Rothschild**

N M Rothschild have advised on the privatization of Amersham, Britoil, British Shipbuilders, Rolls Royce, Royal Ordnance Factories, British Gas and British Petroleum. They have acted as primary underwriters in most major U.K. privatizations, including the sale of Amersham, British Airports Authority, British Airways, British Gas, British Petroleum, British Telecom, Britoil and Rolls Royce. They are currently working for the Electricity Council on restructuring and regulation of the electricity industry in preparation for privatization, and have also been involved in the raising of private sector finance for large transport projects including the Docklands Light Railway and the Third Dartford River Crossing.

The Rothschild privatization team includes managing director Michael Richardson; Oliver Letwin, formerly with the Prime Minister's Policy Unit; Keith Palmer, a director formerly with the World Bank, the IMF, and the Papua New Guinea government, and Kiron Sarkar, a corporate finance specialist. John Whittingdale, former special adviser to the Secretary of State for Trade and Industry, was part of the team, but left to become political secretary to the Prime Minister.

### **Samuel Montagu**

Samuel Montagu acted for the Secretary of State for Trade and Industry in the sale of Unipart and of Rolls Royce.

### **Schroders**

Schroders acted for the Secretary of State for Transport in the privatization of National Freight and Associated British Ports (1st and 2nd issues), for the Secretary of State for Trade and Industry in the sale of Jaguar and British Shipbuilders Warship yards, for the Treasury in the sale of Cable & Wireless and for the company in the sale of BAA.



Schroders' privatization team includes Gerry Grimstone, former Assistant Secretary at the Treasury responsible for privatization policy. Nicholas Lethbridge, formerly with the World Bank, heads the public finance department and handles private finance of public projects.

## **SG Warburg**

SG Warburg acted for the Treasury in the privatization of British Petroleum and Cable & Wireless, for the Secretary of State for Energy in the privatization of Britoil, for British Gas in the sale of Wytch Farm and for the company in the sale of British Telecom.

## **2. Stockbrokers**

**Barclays de Zoete Wedd** acted for the offer in the sale of Enterprise Oil and British Telecom.

**Cazenove & Co** acted for the offer in the sale of British Petroleum, British Aerospace (1st issue), Cable & Wireless (1st issue), Amersham, Britoil (1st issue), Associated British Ports (1st issue), Enterprise Oil, Jaguar, British Telecom, British Aerospace (2nd issue), Britoil (2nd issue), Cable & Wireless (3rd issue), British Gas, British Airways and BAA.

**County Natwest** acted for the offer in the sale of BAA.

**W Greenwell**, (now Greenwell Montagu), acted for the offer in the sale of British Aerospace (1st issue), Britoil (1st issue) and Associated British Ports (1st and 2nd issues).

**Hoare Govett** acted for the offer in the sale of three tranches of British Petroleum shares, and in the sale of British Aerospace, Britoil (1st and second issues), British Telecom, British Aerospace, British Gas, Rolls Royce and BAA.

**James Capel** acted for the offer in the sale of Cable & Wireless (1st and 2nd issues), British Gas and Rolls Royce.

**Kitcat & Aitken** acted for the offer in the sale of Associated British Ports (2nd issue).

**Laing & Cruickshank**, (now Alexanders Laing and Cruickshank) acted for the offer in the sale of Jaguar.

**Mullens & Co**, (now Warburg Securities) acted for the offer in the sale of three tranches of British Petroleum shares and the sale of Cable & Wireless (2nd issue).

**Phillips & Drew** acted for the offer in the sale of British Airways.



Howe & Pitman, (now Warburg Securities) acted for the offer in the sale of three tranches of British Petroleum shares, Cable & Wireless (1st, 2nd & 3rd issues), Britoil and British Airways.

Scrimgeour, (now Scrimgeour Vickers) acted for the offer in the sale of four tranches of British Petroleum shares.

Wood Mackenzie acted for the offer in the sale of Britoil (1st and 2nd issues) British Gas and British Airways.

### 2. Accounting Firms:

Coopers & Lybrand (C&L) were reporting accountants in the privatizations of Amersham, Jaguar, British Telecom and Rolls Royce. They are advisers to the Government on regulatory accounting and tax matters in the privatization of the Scottish electricity industry, and have advised on other aspects of electricity privatization. They also advised government on the method of privatization of the Professional and Executive Recruitment Service. C&L have also advised BAA and British Rail on various aspects of privatization. In water privatization, C&L are acting as reporting accountants and financial advisers to the Thames, Northumbrian and Wessex Regional Water Authorities.

Coopers & Lybrand has a privatization group headed by David Stafford, Paul Batchelor, and Roger Davis. Sir Christopher Foster and the Rt Hon David Howell MP, former Secretary of State for Transport & Energy, are special advisers.

Deloitte Haskins & Sells were reporting accountants in the sale of Cable & Wireless (1st, 2nd and 3rd issues).

Ernst & Whinney have been involved in the privatization of British Airways, British Petroleum, the National Freight Corporation, British Telecom and the National Bus Company.

For example in the case of the National Freight employee buy-out Ernst & Whinney advised on the accounting implications of the buy-out and assisted in the preparation of accounting and other information necessary to support the buy-out. Ernst & Whinney advised management on the sources and levels of funding needed, provided taxation advice and considered the pensions implications of the buy-out.

Ernst & Whinney's privatization team includes Eric Anstee, who was seconded to the Treasury for two and a half years where he advised on the privatization of British Telecom, Jaguar, Enterprise Oil, British Gas and the Royal Ordnance factories; John Munro, a specialist in airline privatization, and John Hilday, a specialist in the valuation of unquoted shares and business undertakings.

KPMG Peat Marwick McLintock (as KPMG Thomson McLintock and Peat Marwick Mitchell) were reporting accountants in the sale of



Britoil (1st and 2nd issues), and (as Peat, Marwick, Mitchell) were reporting accountants in the sale of British Aerospace (1st and 2nd issues) and of Enterprise Oil.

Price Waterhouse were reporting accountants in the sale of Associated British Ports (1st & 2nd issues) and British Gas. Howard Hyman, who was seconded to the Treasury for two and a half years to work on privatization, is Director of Privatization Services at Price Waterhouse and heads their Department of Privatization Services.

Touche Ross were reporting accountants in the sale of British shipbuilders Warship yards and of BAA.

#### 4. Legal Firms

Four firms of solicitors have handled the bulk of privatization work, these being Freshfields, who were involved in the privatization of British Petroleum, National Freight, Britoil, Cable & Wireless, Enterprise Oil and Rolls Royce; Herbert Smith, who were involved in the privatization of Britoil, British Gas, Royal Ordnance, and BAA; Linklater & Paines who were involved in the privatization of British Petroleum, British Aerospace, Cable & Wireless, Amersham, Associated British Ports, British Telecom, British Airways, Rolls Royce and Rover Group; and Slaughter & May, who were involved in the privatization of British Aerospace, Cable & Wireless, Amersham, Associated British Ports, Enterprise Oil, Sealink, Jaguar, British Telecom, Britoil, British Gas, British Airways and the National Bus Company.

#### 5. Marketing and Advertising Firms

Several marketing and advertising firms have been involved in privatization. Dewe Rogerson is a financial and corporate communications company that has been active in marketing various privatization share offers. It was responsible for marketing the sale of British Telecom, Cable & Wireless (1st issue), Britoil (2nd issue), TSB, British Gas and British Petroleum (1987 tranche). In some cases, such as TSB and BP, Dewe Rogerson produced the advertising for the offer itself.

Young & Rubican produced the advertising for the sale of British Gas. J Walter Thompson produced the advertising for the sale of BAA, and Dorlands handled the British Telecom advertising campaign. Saatchi & Saatchi produced corporate identity advertising prior to the sale of British Airways & BP.



## **6. Specialist Consulting Firms**

### **New Bridge Street Consultants**

New Bridge Consultants (NBS) is a subsidiary of Clifford Chance, a major law firm. It specialises in advice on handling employee concerns in privatization. It has structured employee share purchase arrangements and employee stock ownership plans in several privatizations. NBS has also advised on several employee buy-outs. The Chief Executive is Laurie Brennan.

### **Moncrieff Strategy**

Moncrieff Strategy is a small consultancy that offers strategic planning advice in privatization. Its primary privatization specialist, Peter Young, (author of this report) was Head of Research at the Adam Smith Institute, the think-tank that performed much privatization policy formulation. The company has advised on privatization strategy in Costa Rica for USAID and Senegal for the World Bank.

## **7. Academic Expertise**

The British privatization experience has been of sufficient duration for an impressive body of privatization analysis to have been built up. The literature is extensive. Several books on privatization have appeared, as well as many articles in journals and newspapers.

Studies of the performance of privatized companies, case histories of individual privatizations, arguments for and against various types of privatization; surveys of public opinion about privatization, studies detailing the effect of privatization on share ownership, etc, all provide a very useful database.

Academics and policy specialists provide an additional human resource themselves. Think-tanks such as the Adam Smith Institute (ASI) have many associated policy specialists and organise seminars and conferences on privatization such as the ASI's London Conference on Privatization.



## Appendix 2: UK expertise in LDC privatization

A number of British firms are already involved in privatization in LDCs. Schroders' overseas privatization team is headed by Gerry Grimstone. It has been involved in the privatization of the mass transit system in Singapore, is performing privatization work for the World Bank in Malawi, is advising on railway privatization in Brazil, advised on the privatization of the Kelang port in Malaysia, and is currently preparing a master plan for Malaysia privatization as well as advising on the feasibility of the privatization of the Malaysian National Electricity Board.

Rothschilds have also been active in a number of LDCs. They handled the successful privatization of the National Commercial Bank in Jamaica; they are conducting a feasibility study into rail privatization in Malaysia; advised the Chile Electricity Generating Board on asset sales; and also carried out privatization work in Turkey and Papua New Guinea.

Morgan Grenfell have performed substantial work in Malaysia, advising on the privatization of the Malaysian Totalisator Board and the Government's medical storage, supply and manufacturing business. It is also preparing a feasibility study and valuation for the privatization of the Malaysia Department of Postal Services, and is financial adviser to a Malaysian group on privatizing the North South Toll Expressway and New Kelang Valley Expressway.

In Turkey Morgan Grenfell is adviser on privatizing the hotels and marinas owned or managed by T.C. Turizim Bankasi and in Chile the firm has carried out extensive advisory work for the Chilean state-owned electricity generating and distribution utilities, Endesa and Chilectra in connection with the raising of private capital to finance their investment programmes. Morgan Grenfell was appointed by the Government of Guinea, in conjunction with the World Bank, as part of a consortium to assist in the privatization and restructuring of 150 state enterprises in Guinea. The firm was also selected by USAID as part of a consortium to provide advice on privatization to numerous countries in Africa. Morgan Grenfell have also prepared a report on hotel privatization in the Philippines and are advising on a privatized petroleum products pipeline in Indonesia.

Kleinwort Benson have also performed work in Turkey and Malaysia, advising the Malaysian Government in connection with the privatization of its telecommunication system and the Port of Kelang. Barclays De Zoete Wedd is another company which has been involved in the Malaysian privatization programme. being adviser



in conjunction with Malaysian International Merchant Bankers Berhad to the Malaysian Government on the flotation of Malaysian Airlines. BZW has also worked in conjunction with the same Malaysian bank in preparing for the government of Nepal a feasibility study on the privatization of the Royal Nepal Airlines Corporation.

Coopers and Lybrand have been active in a number of overseas privatization projects. It assessed the scope for privatization of the Farmers Services Company in Ghana, undertook a review of the privatization prospects of agriculture parastatals in Madagascar, advised the government of Rwanda on privatization of an agricultural parastatal, and produced a programme for public enterprise reform, including privatization, in Zaire.

In Asia Coopers & Lybrand are advising the Government of Pakistan and the World Bank on the contractual framework for a private power station project. It has also been commissioned by the Asian Development Bank to prepare, together with a merchant bank, a plan for the privatization of Philippine Airlines, Inc., and was retained by the Royal Thai Government to prepare a strategy for the privatization of state-owned enterprises. Coopers and Lybrand also worked in a consortium to advise and assist the Thai Government in the privatization of two new deep sea ports at Songkhla and Phuket.

Last, but not least, Price Waterhouse has been retained by the Hungarian government to advise on privatization in that communist country. Whether Hungary can be regarded as an LDC is open to debate, but the awarding of this privatization contract is an important sign of the times. (machinery)

#### India

Info, (computer services)

Info Chile, (info)

Infoch, (info)

Info, (electricity)

Info, (electricity)

Info, (info)

Info, (explosives)

Chimetro, (electricity distribution)

ChilGen, (electricity generation)

ChilGen, (hydroelectric plant)

#### Costa Rica

Alumina, (aluminium)

Sugar, (sugar)



### Appendix 3: Examples of privatization in LDCs

The following list contains examples of privatizations already carried by developing countries. Privatization is defined as sale by means of public offering, buy-out or private sale, not lease or management contract and not liquidation. Sales where the government retained a majority interest, sales of minority interests, or sales which are underway or planned are not included:

#### Argentina

Austral, (domestic airline)  
Siat Gas Tube factory

#### Bangladesh

30 jute and textile mills

#### Brazil

Eletrosiderurgica Brasileira (SIBRA), (steel)  
Maquinas Piratininga Do Nordeste, (machinery)

#### Chile

Ecom, (computer services)  
Telex Chile, (telex)  
Soquimich, (Nitrate)  
Emec, (electricity)  
Emel, (electricity)  
CAP, (steel)  
Enaex, (explosives)  
Chilmetro, (electricity distribution)  
ChilGen, (electricity generation)  
Pilmaiquen, (hydroelectric plant)

#### Costa Rica

Alumnasa, (aluminium)  
Catsa, (sugar)



### Cote d'Ivoire

Forexi, (water exploration and drilling)  
SONACO, (fruit marketing)  
SOTROPOL, (industrial company)  
SOGIEXI, (holding company)

### Guinea

Boangui, (soft drinks)  
Sonacag Carreau, (building materials)  
Sobragui, (brewery)

### Honduras

Metales Y Aluminos SA, (kitchen utensils)  
Fundiciones Centroamericanos SA, (steel foundry)  
FIAFSA, (sawmill)

### Jamaica

National Commercial Bank  
Caribbean Cement Company

### Malaysia

Aerospace Industriel Malaysia  
Malaysian International Shipping Corporation  
Kelang Container Terminal

### Mexico

Nacional Hotelera, (hotel chain)  
Compania Minera de Cananea, (mining)

### Niger

SOTRAMIL (millet processing)  
SOPAC (paper)

### Pakistan

Republic motors



Panama

Aeroperlas airline  
Las Cabras sugar mill  
Contadora Resort SA

Philippines

banks  
hotels

Senegal

COSENAM (shipping)  
SNCDs (fish processing)

Sierra Leone

National Palm Oil Ltd

Togo

TOGOTEX, (textiles)  
SODETO, (detergent)  
IOTO, (vegetable processing)

Tunisia

Fluobar, (mining)  
hotels.



#### **Appendix 4: An analysis of the different reasons cited in support of and opposition to privatization.**

(It should be noted that many of the categories overlap. Carrying out privatization in order to widen capital ownership will invigorate capital markets, and vica versa):

##### **(1) -- desire to raise money by sale of state assets,**

**Brazil:** According to the head of state enterprises in the Brazilian planning ministry, the reason for the Brazilian privatization programme is "simple. The Government needs cash, so it sells off some assets." [9]

**Turkey:** According to the privatization adviser to the Prime Minister of Turkey the lowest ranked objective (fourth) of the Turkish privatization programme is to raise revenues for the Treasury. [10]

##### **(2) -- to reduce external debt and/or drain of subsidies to state firms,**

**Africa:** Desire to reduce the drain of subsidies is certainly the primary reason for privatization of parastatals in Africa. State-owned-enterprises (SOEs) in Africa often loose such a large amount of money that they account for a large part of the government's budget. However, the poor state of these enterprises makes the finding of buyers difficult.

**Guam:** Desire to reduce the budget deficit was cited as the primary reason for privatization.

**Peru:** According to a government spokesman Peruvian plans to sell a number of state-owned companies are motivated by a desire to reduce a projected \$740 million loss a year from those firms.

**Chile:** Chile is seeking to reduce its external debt by encouraging privatization through debt-equity swaps. A number of these transactions have already been carried out.

**American Samoa:** Reducing the costs of government is the primary reason for privatization in American Samoa. Privatization of the ship repair facility has obviated the need for the \$1 million yearly subsidy the shipyard was formerly receiving.

**Turkey:** The third objective of the Turkish privatization programme is to reduce the financial burden of state enterprises on the government.

**Malaysia:** The primary aim of the Malaysian privatization programme is to relieve "the financial and administrative burden



of the government in undertaking and maintaining a vast and constantly expanding network of services and investments in infrastructure."[11]

**(3) -- to increase the private sector role in economy,**

**The Philippines:** Mrs Aquino's first finance Minister Jaime Ongpin said that "the government should get out of business completely - privatize." A Philippine cabinet plan states that the private sector should "become the prime mover of growth."[12]

**Singapore:** Minister of Trade and Industry Tony Tan Keng Yam, speaking of the government's intention to reduce its role in business, said that "the private sector, rather than the government, should be the engine of development."[13]

**Kenya:** President Moi has said that "it is quite clear that the government is unnecessarily involved in commercial enterprises which could be better handled by the private sector."[14]

**Chile:** Chilean economic policy is based on a belief in free markets and the superiority of the private sector.

**Turkey:** According to the Turkish Prime Minister's privatization adviser "the most important objective of privatization is to transfer the decision-making process in almost half the economy from the public sector to the private sector to make the economy more responsive to market forces. This process is expected to increase the efficiency and the rate of growth of the economy."[15]

**Malaysia:** "Privatization, by stimulating private entrepreneurship and investment, is expected to increase the rate of growth of the economy."[16]

**4) -- to widen capital ownership,**

**Chile:** "Popular capitalism" - the widening of capital ownership through privatization - is a key aim of the Chilean privatization programme. Major Jose Martinez Munoz, one of the two people in charge of the privatization program managed by the state-run Corporation de Fomento de la Produccion, has said that:

"The most important aspect of privatization is to encourage the idea of individual ownership and to move the economy away from socialism. By selling off state-owned or controlled companies to a large number of shareholders, ownership cannot easily revert to the state, and, by being accountable to shareholders, they will be more efficiently run."[17]



Companies being privatized are obliged or encouraged to offer a proportion of the shares to the workforce, and companies are being sold on the stock market. The number of individual stockholders rose from 400,000 in 1984 to 480,000 in mid-1986, equivalent to 12% of the workforce.

**Jamaica:** Widening ownership through privatization was a stated aim of the Jamaican government that has now been partly fulfilled by the sale of the National Commercial Bank to 30,000 Jamaicans, or some 2 per cent of the population, and the sale of the Caribbean Cement Company to 40,000 Jamaicans. Prime Minister Seaga has outlined this policy and promised more privatization of that type:

"When I announced that NCB would be divested....I said that we wanted to have thousands of people owning the bank. We have delivered that promise to the Jamaican people, many thousands of whom are now part owners of one of Jamaica's largest and most powerful financial institutions.

I would again remind the Jamaican people that we have in this matter also acted in keeping with the philosophy and policy which the Jamaica Labor Party stated in its 1980 manifesto. This was to revitalize the stock exchange so as to broaden the ownership base of corporations, enabling more and more Jamaicans to own the productive sector and derive benefits from the economic recovery programme." [18]

**Bangladesh:** Mr. M. Syeduzzaman, financial advisor to the President, has said that the privatization policy is partly aimed at spreading shareholdings among smaller investors. [19]

**Malaysia:** "Privatization is expected to contribute towards meeting the objectives of the New Economic Policy (NEP) [to increase capital ownership of native Malays], especially as Bumiputra [native Malay] entrepreneurship and presence has improved greatly since the early days of the NEP and they are therefore capable of taking up their share of the privatized services." [20]

#### (5) -- to invigorate capital markets,

**Bangladesh:** President Ershad has talked of how privatization will invigorate capital markets in his country:

"We will start first with banks, then fertilizer factories, then paper mills, taking out the big industries first. That will generate funds and the stock market will be activated." [21]

The number of companies listed on the Dhaka stock exchange has increased from 22 in 1982 to 54 in 1984. In general, shares offered are oversubscribed from 130 per cent to 280 per cent.



**Chile:** Stimulation of capital markets through more diversified and wider ownership is another aim of the Chilean privatization programme.

**Pakistan:** According to D.M. Qureshi, managing director of Banker's Equity, a Pakistani bank that is underwriting a privatization offer, "disinvestment will increase the depth of the stock market through availability of good shares and will lend trading strength to the market in terms of an increase in turnover." [22]

**Singapore:** Singapore stockbrokers believe that the Singapore stock market needs to be broadened, and are calling for more privatization because it will bring new cash into stocks and shares.

Mr J.Y. Pillay, Chairman of Singapore Airlines, has said that the effect on the stock market was one of the main reasons for the sale of SIA shares:

"One of the objectives of the sale of government stock in SIA was to introduce a wider ownership into the shareholding and another objective was to boost the stock market because after all, SIA is one of the largest companies in Singapore, and its listing would add luster to the stock market." [23]

**Turkey:** The second ranking objective of the Turkish privatization programme is "to develop a viable capital market and to facilitate a wide distribution of share ownership. This would transfer passive savings (which are mainly in the form of gold and real estate investments) into active investments in the capital market." [24]

(6) -- to improve the efficiency of the economy generally, and/or of utilities and other services in particular,

**Africa:** Increasing economic efficiency is the primary reason for the liberalization in agriculture policy that has take place in some African countries. Price controls and inefficient state marketing boards have caused agricultural production to plummet. The abolition of price controls and transfer of marketing to private traders has revived agriculture in these countries.

**Nigeria:** The Nigerian SEC National Seminar on Privatization resolved that privatization can achieve "higher real economic growth with wider impact on living standards through greater efficiency." [25]

**Singapore:** Finance Minister Richard Hu said that Singapore is not implementing privatization as a means of raising funds: "Compared to some other countries, we do not need the money, so we do not need to sell companies simply to raise funds." [26] Rather the aim of Singapore privatization is to increase the level of entrepreneurial activity in the economy and enable Singapore to respond more quickly and more flexibly to competition from



overseas.

**Malaysia:** "Privatization is expected to promote competition, improve efficiency and increase the productivity of the services." [27]

(7) -- to attract foreign investment,

**Singapore:** The attraction of foreign investment in order to invigorate the Singapore economy is one of the aims of the Singapore privatization programme.

(8) -- to increase investment in utilities,

**Malaysia:** Increase in capital investment is one of the reasons cited for the planned privatization of the telecommunications system.

(9) -- to improve the efficiency of a service by opening it up to private sector competition,

**Sri Lanka:** This was the reason for the deregulation of bus services in Sri Lanka, which were previously of very low quality. The entry of a large number of private operators has significantly improved the service.

**Jordan:** Complete removal of the ineffective public bus monopoly is an important reason for the privatization of the Public Transport Corporation in Jordan.

(10) -- to gain managerial expertise from foreign involvement in a privatized company,

**Africa:** In some instances private companies have been brought in on management contracts to run loss-making SOEs.

**Malaysia:** The management of the privatized container terminal at Port Klang is being carried out by P&O Australia, even though it holds only 5% of the equity of the private company owning the terminal.

(11) -- to comply with the wishes of international financial institutions,

**General comment:** Many countries undoubtedly attract much attention either to their intentions to privatize, or their success in doing so, in order to gain the favour of international financial institutions. Some countries announce their intention to privatize various bodies without any serious commitment to see the process through. Others list companies for sale that lose so much money that no one is likely to want to buy them. Others boast of their great progress in privatizing when in fact on closer examination that progress is relatively minor.



Unfortunately, it is difficult to tell which countries are genuinely committed to privatization, but just making slow progress against heavy odds, and which countries have adopted the policy primarily for public relations purposes.

In a growing number of countries - including Senegal, Liberia, and Sierra Leone - the World Bank Group is promoting privatization as part of its structural adjustment programmes. Increasing the role of the private sector and specific privatization are also sometimes part of IMF conditionality agreements.

**Argentina:** The government hoped that evidence of privatization plans would lead to greater flexibility on the part of Argentina's creditors at a time when the country was seeking to extend its arrangement with the International Monetary Fund. Argentina has sought the co-operation of the World Bank in its privatization plans, and has gained a World Bank structural adjustment loan of \$450 million to help its programme of public sector reform, which includes some privatization.

**Mozambique:** Government moves to promote the private sector are partly intended to curry favour both with international financial institutions and with western governments, from whom Mozambique is seeking assistance in suppressing the Renamo rebellion.

(12) -- to increase national prestige by implementing a fashionable policy,

**General comment:** LDC governments are influenced by prevailing political and economic currents, but it is difficult to establish clear cases of such influence. Many LDCs are certainly publicizing their progress in privatizing, and using it as evidence of the economic sophistication of their countries. This assists them to attract foreign investment and loans.

(13) -- to gain electoral support by implementing a popular policy.

**Jamaica:** The popularity and success of the sale of the National Commercial Bank to 30,000 Jamaicans appears to be the main reason for the government announcement that more enterprises will soon be sold in a similar manner.

#### Concerns and objectives underlying opposition:

(1) -- that privatization will reduce employment,

**General comment:** This is probably the main reasons why politicians are fearful of engaging in privatization, and the main reason cited for opposition to privatization. Many SOEs were explicitly created for the purpose of providing employment.



**Argentina:** Concern over large job losses is the reason cited by the Peronist opposition and labour leaders for their opposition to privatization.

**Bangladesh:** Concern over job losses has caused strong opposition to the privatization programme from unions.

(2) -- that industries will have to shut down,

**General comment:** It is a fear in many countries, particularly in Africa, that privatization is akin to liquidation. In the case of some African SOEs, which have next to no economic justification, this fear is probably justified. Nevertheless, some sub-units of enterprises can usually be salvaged.

(3) -- that industries or sectors of the economy will be handed over to foreigners or unpopular ethnic groups,

**Chile:** There is criticism of foreign purchases of state companies, some of which have occurred through debt-equity swaps. A government advisory body, the Economic and Social Council, has said that the government should reconcile its "efforts to attract foreign investment with the goal of broadening the base of private property among Chileans." [28]

**Mexico:** There is widespread resistance to selling industries to foreigners, and it is assumed by some that privatization means sale to foreigners. Areas formerly run by foreigners - such as railways, power generation, and the oil industry - are now legally reserved for the state. Former Mexican President Miguel de la Madrid said that the government "will never, never, never relinquish those strategic enterprises which, if not under our control, would place us at the mercy of foreign minority interests." [29]

(4) -- that political control of the economy, and thus society, will be reduced, and that opportunities for patronage will decrease,

**Brazil:** Bureaucrats who control parent enterprises have been the main source of opposition to the sale of subsidiary companies, even those that lose a lot of money. They fear loss of status and control over jobs. They have adopted delaying tactics, such as overvaluing assets or offering minimal information to buyers. They have also attempted to stir up public discontent. For example, one manager of a gold mine was quoted in a local newspaper as follows:

"If the government has a large company such as Vale, which has money and has spent a lot on exploration, why should a project be turned over to a multinational or a private national exactly in the hour for reaping the fruits, in this case the gold." [30]



(5) -- that bureaucrats overseeing nationalized industries will have to be dismissed,

**Ecuador:** Opposition from vested interests in the bureaucracy has delayed the implementation of privatization. For example, employees of CFN, the state development bank, hold high-paying managerial positions in the companies that CFN owns, positions that they are reluctant to relinquish.

CFN has attempted to insist on selling companies at book value when this is well above market value. It has shown reluctance to sell profitable companies and has adopted other spoiling tactics, as described by a Quito stockbroker:

"CFN called for bids for its stock in four companies last year, and they allowed three weeks to respond, between the bullfight festival and Christmas, when all activity in Quito normally stops. It was ridiculous.

President Febres Cordero intervened and told the CFN directors to sell through the Quito and Guayaquil stock exchanges. So CFN issued what it called a 'sales prospectus' for each company, consisting of a one-page list of figures, unaudited, with no description of the companies. And it still hasn't put a price on any of the stock." [31]

**Sri Lanka:** Bureaucrats have been delaying the valuation of public enterprises, believing it to be the first step towards privatization and their dismissal.

(6) -- that national prestige is diminished if foreign countries and institutions are allowed to dictate economic policy,

**Nigeria:** The Nigerian Securities and Exchange Commission National Seminar on Privatization concluded "that where privatization was motivated by the pressure of external influences, the society may react violently to what it sees as neo-colonialism." [32]

(7) -- that the distribution of wealth will be further concentrated,

**Nigeria:** The Nigerian Securities and Exchange Commission National Seminar on Privatization resolved "that uncoordinated privatization may result in the concentration of wealth in the hands of a few, thereby intensifying class stratification," and "that privatization may lead to unequal distribution of wealth due to varying levels of awareness." [33]

(8) -- that privatization will involve the granting of corrupt favours,

**Chile:** There has been criticism that the Chilean partners in the joint venture with Bankers Trust which bought the Pilmaiquen hydroelectric complex included former officials who helped develop the government's privatization programme.



#### Notes

**Mexico:** The sale of one third of three nationalized banks to restricted groups of employees and clients has attracted the ire of some in Mexico. The price of the stocks shot up once they began trading. "This is a high-tech version of traditional PRI (Institutional Revolutionary Party) patronage," said one stockbroker.[34]

**The Philippines:** That companies would be sold off cheap to friends of the President concerned many about the privatization programme proposed by President Marcos. However, he left office before those fears could be realized.

(9) -- That key sectors of the economy will be controlled by private parties who will not operate them in the general interest.

**General comment:** In many countries there is a concern that private control of enterprises very important for development of individual LDCs means that these enterprises will be used for private interests not in the best interests of the people of the country as a whole. In the past such enterprises were often controlled by private foreign companies which wielded great power. Such fears are an important factor in preventing serious discussion of the privatization of Pemex, the Mexican oil concern, for example. The Chilean government, which has otherwise privatized extensively, has not proposed the privatization of Codelco, the huge and economically vital copper mining business. Nevertheless, it is entirely possible to privatize strategic industries such as British Telecom by means of selling them to large numbers of the indigenous population and retaining a golden share to guarantee national control.

Privatization may cause immediate dislocation in terms of job losses or changes in levels of service. This may be seen as being against the general interest. In the longer term, however, a more competitive company operating in the interests of its shareholders will contribute more to national well-being. On the other hand some argue that government responds to people's values and needs in a way that private interests do not. This does not mean, however, that government needs to produce a service itself. It can simply mandate a level of service from private suppliers.

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