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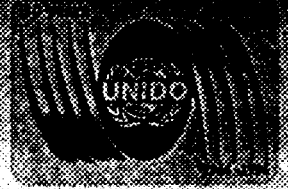
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**UNDP/UNIDO SEMINAR ON
PRIVATIZATION STRATEGIES
AND TECHNIQUES**

SANA'A, YEMEN

Delivered by the Adam Smith Institute



**ADAM SMITH
INSTITUTE**

FINAL REPORT

Introduction

The seminar on privatization was designed to deepen the knowledge of senior Yemeni decision-makers and other key officials of privatization strategies and techniques which could be deployed in Yemen. To date Yemen has undertaken only very limited privatization, mainly involving the restitution of previously nationalised property to the previous owners and a few non-competitive negotiated sales.

The programme to date has not been characterised by a high degree of transparency nor technical excellence. There is a Privatization Technical Office (PTO) within the Ministry of Planning and Development, which is staffed by some six persons, and supported by a UNIDO-financed Chief Technical Adviser, Tissa Jayasinghe, who has a distinguished record as the civil servant in charge of Sri Lanka's privatization programme.

However, this office does not have the authority to control the privatization programme, only to advise on the plans and activities of Ministries. In the future the PTO will have a heightened role under a new Privatization Law which soon be presented to the Parliament. The PTO will report to a Higher Level Committee, under the Chairmanship of the Prime Minister , and move to a location physically separate from the Ministry of Planning. The PTO will then set down guidelines for the conduct of privatizations and will have the power to enforce these.

It is envisaged that the Yemeni privatization programme will move on to tackle much larger enterprises, some of which could be sold by public offer, as well as utilities, which will require the development of strategies to increase competition as well as the introduction of regulatory frameworks. Work to develop capital markets and facilitate foreign investment will also be needed, accompanied by a much higher degree of professionalism in the PTO.

The seminar on privatization strategies and techniques was the first comprehensive privatization training/public awareness event to be held in Yemen. The Adam Smith Institute International Division was contracted by UNIDO through a competitive bidding process to carry out this project.

Attendance

The seminar was held in the Sheraton Hotel from August 25 to 27, 1997. About 35 Yemenis attended the seminar, carefully selected by Tissa Jayasinghe, the UNIDO-financed Chief Technical Adviser to the Privatization Technical Office of Yemen. The bulk of participants were senior officials from various Ministries, but there were also representatives of the private sector, from professional firms and

chambers of commerce. (For the full attendance list see appendix A).

The participants stayed throughout the seminar, which was held intensively from 8.30 a.m. to 1.30 p.m. on each of the three days. All seemed interested in the seminar content and appeared to be listening attentively.

Seminar contents and delivery

The seminar covered a wide field of subjects which had been chosen for the relevance to the privatization programme in Yemen. (See appendix B for seminar programme).

The Adam Smith Institute presenters (see appendix C) were:

Peter Young, International Director, Adam Smith Institute
John Francies, Senior Adviser, Adam Smith Institute
Clifford Dean, Senior Adviser, Adam Smith Institute

Written summaries of each presentation in Arabic and English were prepared and distributed in advance, as were copies of each slide presentation and several background briefing papers.

The seminar was run in such a way as to maximise audience participation. Questions were taken during the presentations, and at the end, when about one third of the session time was left open for discussion. The audience participation was good, with a considerable number of people asking intelligent questions throughout the seminar.

Publicity

The seminar achieved wider publicity in Yemen through the media. It featured twice on Yemeni television, and on one evening was item three on the main nightly television news. The seminar also received newspaper coverage, and featured on the radio. ASI speakers and the UNIDO project officer, Vera Gregor, gave radio interviews.

Summary of participant views

The final discussion session provided an opportunity for the participants to discuss how the seminar's lessons might be applied to Yemen. Some of the comments made were as follows:

From the Ministry of Finance: The objective of privatization from the point of view of the Ministry of Finance is not to raise revenue from the sales but rather to reduce subsidies which are a major drain on Government finances.

Ministry of Planning: It is important to clarify the role of the state - to create macroeconomic stability, to provide a framework of laws & regulations, rather than to produce goods & services.

Ministry of Industry: The new role of Government has already been clarified in the 5 year plan. Government will be downsized and there will be a bigger role for the private sector. The government will spend less on production and more on human services such as health & education. This means there will have to be a major privatization effort.

Ministry of Industry: The main objective of privatization in Yemen should be to improve enterprise efficiency and competitiveness, and thus overall economic growth.

Participant: The objectives should be to involve the private sector more in production, to create more jobs and to attract new investment and technology.

Ministry of Finance: Dealing with excess labour is the main obstacle to privatization in Yemen.

Participant: The tender method of privatization is the most suitable for Yemen. Most of the enterprises are small and run-down and require investment and new management.

Ministry of Industry: The tender method would be suitable in the majority of cases. This would most likely increase the productivity of enterprises and their management. A few enterprises are suitable for sale by public offer.

Participant: There is no one method that should be used in all cases. We should adopt a case by case approach based on the needs of each enterprise. The tender method is suitable for the majority, but there are some enterprises that could be sold by public offer, such as cement, drug, cigarette, banking and insurance companies.

Privatization Technical Office: To date privatization has been carried out through coordination between Ministries. After the new law is passed the PTO will lead the process, reporting to the Higher Committee and working with units in each of the Ministries.

Ministry of Planning: We must increase public awareness of the need for

privatization.

Minister of Planning: The Government is committed to privatization and has a sufficient majority in parliament to see the programme through. There are, however, a number of constraints which are faced by Yemen. A major constraint is the uncertainty of the legal framework. After unification 107 laws had to be changed quickly, and many of the changes involved compromises that were less than wholly ideal.

There is also a need to upgrade the domestic private sector. They have lived too easily off non-competitive government contracts. We need to bring in foreign investors, and Yemenis who are based overseas.

When Government wishes to retain a stake in a privatized company, such as a utility, it should be no more than 20% of the equity. It would be preferable if the private sector would take 100%.

Conclusion

The seminar was successful in imparting the key aspects of a well-organised privatization programme to the participants. As the summary of the final discussion session shows, there was general agreement among participants on the best strategy for privatization in Yemen, this being use of tenders as the primary method of privatization, with the objective of bringing in the best qualified investor to reinvigorate the enterprises concerned. There would be a secondary use of public offers for enterprises that were sufficiently large and profitable to be sold to large numbers of domestic investors.

Public offers would also be conducted for minority stakes in utility companies, with the majority stakes being sold to foreign strategic investors who would bring the investment and management expertise needed for rehabilitation and expansion. Public offers would be accompanied by large marketing campaigns, which, in addition to general public awareness efforts, would increase public understanding and support for the privatization programme.

Large numbers of the participants warmly congratulated the organisers on the high quality of the seminar and its usefulness. The general view was summarised by Dr. Salim Tamimi, Special Adviser to the Minister of Planning, who stated that: "The seminar was really excellent. It greatly facilitated the development of our thinking and was most useful to us in building the details of our programme."

Acknowledgements

The Adam Smith Institute would like to thank all those who worked to make the seminar a success, especially Tissa Jayasinghe and his team of organisers, and of course UNIDO and UNDP, whose support and financing made the seminar possible.

Appendix A: List of attendees

Ministry of Fish Wealth

- 1) Mr Abdul-Bari Fakri
- 2) Eng. Ahmed Mohammed Al Bossy

General Tourism Authority

- 3) Mr Abdo Mahdi Salah
- 4) Mr Saeed Abdulla Ahmed

UNDP

- 5) Mr. Habib Sheriff

Ministry of Industry

- 6) Dr Yaha Al Mutawakel
- 7) Mr Omar Al Kumaim
- 8) Mr Fahmi Wahas
- 9) Mr Badar Mubarak
- 10) Mr Awad Saeed Bin Ghose

Ministry of Finance

- 11) Dr Mohammed Saleh Kur'a
- 12) Mr Aziz Othman
- 13) Mr Abdullah Kābe

Ministry of Trade and Supply

- 14) Mr Abdul Karim Al Saeedi
- 15) Ms Nadia Abdul Karim Saleh

Central Bank

- 16) Dr Abdul Latif Kahali

Professionals from Leading Acct. Firms

- 17) Ms Hala'a Mohammed Mejjani
- 18) Mr P Sreeram
- 19) Mr Jalal Saeed

Ministry of Planning and Development

- 20) Dr Salim Al Tamimi

Ministry of Transport

- 21) Mr Abdul Karim Usairan

22) Mr Mohammed Al Sharafi

Ministry of Agriculture

23) Mr Abdul Malik Ahmed Al Arshi

24) Mr Issam Saleh Lukman

25) Dr Ahmed Rajab

Chambers of Commerce

26) Mr Abdulla Hamood Al Rubaidi

27) Mr Abdul Raham Shugre

28) Mr Mohammed Mutahar

Privatization Technical Office

29) Mr Najeeb Kudar

30) Mr Mohammed Gahwshi

31) Ms Suha Basharain

32) Mr Waheeb Al Twai

33) Mr Mohammed Abdul Wahab

Ministry of Telecom

35) Abdulla Nasser Salem Babraik

National Bank

36) Mr Jawad Abdullah Al Alas

Arab Centre for Strategic Studies

37) Dr Huda Ali Abdul Latif

Other participants

H.E Abdul Kader Bajamal
Minister of Planning & Development

Dr Jaffer Hamed
Dep. Minister of Planning & Development

Mr Onder Yucer
UNDP Resident Representative

Ms Vera Gregor
Resident Representative UNIDO

Mr Mutahar

UNDP Task Manager

Dr Osman S Ahmed
Resident Representative - World Bank

Mr Tissa Jayasinghe
Senior Privatization Advisor - UNIDO

Appendix B: The seminar programme

DAY 1 - Monday August 25

8.30 a.m. **Address of Welcome by Dr Salim Tamimi, Special Adviser to the Minister of Planning and Development.**

8.40 a.m. **Opening address by Resident Representative, United Nations Development Programme. Introduction to the Seminar by Ms. Vera Gregor, United Nations Industrial Development Organization, Vienna**

9.00 - 10.30 **The rationale for privatization**

- The failure of State owned enterprises: subsidies vs cost effectiveness, investment needs and Government resources' constraints, limits on technological and management skills development, political interference and corruption,
- The macroeconomic and microeconomic benefits of privatization: the effects on economic efficiency and growth, consumer empowerment, national competitiveness and infrastructure, wealth and capital distribution, State revenues and expenditure, foreign investment, development of capital markets
- The social impact of privatization: long term job creation vs. short sighted employment policies
- The political impact of privatization: redefinition of government functions, economic democratisation and political development
- Privatization as a component of an overall modernisation programme
- Brief history & recorded impact of privatization in the developed, developing & post-communist world

10.30 - 11.00 Tea break

11.00 - 12.30 **Forging a realistic and successful privatization strategy - preparing enterprises for privatization & carrying the process forward**

- Identifying legal, political and economic impediments to privatization
- Developing a coordinated programme
- Selecting the enterprise and establishing a properly sequenced strategy
- Financial and legal investigation of the enterprises
- Quality of enterprise financial and legal records
- Asset title, warranties, indemnities, golden shares & other legal issues
- Avoiding mistakes made elsewhere: case studies from other developing countries
- Developing standard procedures within a Privatization Unit
- Importance of transparency

12.30 - 1.30 Implementing alternate privatization techniques and the rationale for such techniques

- Trade sales (tenders) of assets/shares
- Employee share ownership - buyouts and minority ownership
- Public offers
- Joint ventures with/without equity participation
- Non divestiture options

DAY 2 - Tuesday August 26

8.45 - 10.00 Valuation issues

- Basic principles of valuation
- Alternative methods of valuation
- Valuation of shares v. assets
- When to apply different methods of valuation
- Is valuation needed at all in some cases?

10.00 - 10.30 Redundancy problems and strategies

- Redundancy payments
- Retraining
- Special economic incentives for problem areas

10.30 - 11.00 Tea break

11.00 - 12.30 Using capital markets in privatization: implementing public offers in countries with underdeveloped capital markets

- Importance of the development of capital markets
- The benefits of wider share ownership, political and economic
- Public offers in poorer developing countries - various case studies
- Discussion - Options for capital market development in Yemen: coordinating privatization and capital market development

12.30 - 13.30 Discussion - The Foreign Participation question: National ownership vs. access to foreign capital, technology and management skills

- 'Strategic' industries and foreign capital: quelling old fears
- The benefits of the open economy: expatriation vs. creation of wealth
- How to attract foreign direct investment
- Balancing the interests of the investor and the host country

- Protection of competition and investor' dominant position
- Building up political consensus

DAY 3 - Wednesday August 27

8.45 - 10.30 Organising the privatization of utilities - encouraging efficiency and competition in the economy

- Balancing conflicting objectives
- Pre-privatization restructuring to permit competition
- Establishing a regulatory framework: regulation of monopoly services, both price & service standards
- Establishing price controls at the time of privatization
- Lessons from the UK and world experience
- Developing a competition policy - competition and enterprise restructuring policy: the experience of former command economies
- Implications for restructuring of the utility sector in Yemen

10.30 - 11.00 Tea break

11.00 - 12.00 Innovative methods of privatization: models for developing economies

- New models of privatization I - the Czech, Polish and Russian voucher privatization schemes
- New models of privatization II - the Bolivian capitalization programme: combining privatization with pension fund development
- Other ways of using investment funds to mobilise capital

12.00 - 13.30 Problems arising in implementation of Yemeni privatization programme and discussion of possible solutions

- Final presentations and discussion
- Action points - what to do next

13.30 **Closing address by His Excellency Abdul Kader BA Jamal, Minister of Planning and Development**

Appendix C: Summary biographical details of presenters

Peter Young

International Director, Adam Smith Institute

Peter Young is international director of the Adam Smith Institute and in this position has accumulated substantial experience of managing complex economic reform and privatization projects throughout the world. He has advised over 30 countries worldwide on privatization and is currently directly involved in several major projects to support the privatization efforts of different countries, including Nepal, Guyana and Vietnam.

John Francies

Senior Financial Adviser, Adam Smith Institute

John Francies is a financial and accounting specialist. He has extensive experience in valuing and preparing information memoranda for state owned enterprises being privatized. Recently, he has served as resident privatization advisor to the Privatisation Unit of the Ministry of Finance in Guyana, assisting with establishing procedures and implementing the 1995 and 1996 privatisation programmes. Earlier he performed a similar role in Ghana, helping to start one of Africa's most successful privatization programmes. He is currently taking part in an Adam Smith Institute team advising the Government of Nepal on privatization.

Clifford Dean

Senior Management Consultant, Adam Smith Institute

Clifford Dean is a senior management consultant specialising in privatization and the development of financial services in developing countries and emerging markets. Since 1990, he has been extensively involved in the privatisation programmes of Eastern Europe and the former Soviet Union, as well as other countries. He is an acknowledged expert on the design and implementation of mass privatisation programmes and broad based share ownership schemes. Mr. Dean has recently assisted the Government of Bolivia to develop its innovative Capitalisation Programme, helped the Government of Uzbekistan in the design and implementation of its Privatization Investment Fund programme, has reviewed the Azeri government plans for voucher distribution, and has prepared a policy document on privatization for the Government of Mauritius, with particular emphasis on recommendations for improving financial sector institutions and assessing market capacity for absorbing share issues. Mr. Dean has also participated in various World Bank Technical Assistance missions to Georgia, Estonia, Kyrgyzstan and Albania, advising the governments on auctions, trading issues, and on the design and implementation of voucher and investment fund schemes.



SEMINAR
ON
STRATEGIES
TECHNIQUES AND
RATIONALE
FOR PRIVATIZATION IN YEMEN

SESSION SUMMARIES

Adam Smith Institute

THE RATIONALE FOR PRIVATIZATION AND A REVIEW OF ITS GLOBAL RESULTS

Privatization has been a growing trend throughout the world since Britain and Chile started implementing the policy at the end of the 1970s. Almost all countries in the world have adopted the policy, to varying extents, and for a variety of reasons, which usually include some mixture of the following:

- Failure of state enterprises to deliver promised results, because of lack of incentives, lack of capital, political interference, inefficiency
- Need to reduce government expenditure, by terminating unnecessary subsidies to state enterprises and allowing the private sector to take on the burden of necessary new investments;
- Desire to increase national economic efficiency & growth, through the better, more competitive services, and/or lower prices delivered by privatized enterprises
- Need to raise revenue from sale proceeds for the state treasury to retire loans etc.
- Need to encourage the indigenous population to invest in their own country and thus strengthen capital markets which will fuel sustainable economic growth and broaden the base of ownership of the economy
- Need to attract international management skills, technology and investment,

Privatization results in Government having to reorient its role, away from a producer of goods and services, towards a promoter of economic development and regulator of those private sector services which retain some form of monopoly power.

Has privatization been a success? The Adam Smith Institute recently carried out a review for the Development Assistance Committee of the impact to date of privatization in developing and postcommunist countries. The main lesson that can be drawn from this study is that privatization in the vast majority of cases is a very successful and beneficial reform for developing and postcommunist countries. The results of privatization in these countries have been in general very good, in terms of enterprise performance, fiscal impact, impact on consumers and employees, and wider economic impact on critical factors such as increased private investment.

However the study did draw some conclusions about how the quality of privatizations could be improved. For example, establishing a proper balance between objectives is critical to long-term success. The objective of raising revenue often conflicts with the efficiency, competition and consumer choice increasing objectives. Pressurised by fiscal concerns, too many Governments

succumb to the temptation of preserving some of an enterprise's monopoly power when transferring it to the private sector in order to extract a higher sale price.

Similarly, too many governments fail to distinguish properly between short and long-term objectives. The short-term objective may be to get a loss-making company off the Government's books and ensure that it starts to function more effectively. But this is sometimes done in such a way as to minimise long-term pressures for efficiency improvement.

FORGING A REALISTIC AND SUCCESSFUL PRIVATISATION STRATEGY

The components of a successful privatization strategy include, significant Government commitment, technical capability in the Privatisation Office and investors ready and able to invest. The commitment by Government to privatize must be explicit and ideally should have the frequent and verbal support of very senior Government Ministers backed up by a clear Privatisation Law providing the necessary executive powers.

The public acceptance of the programme will be affected by the institutional arrangements made to implement the programme which should be simple, transparent, fast and easy for investors to understand. These goals are aided by a centralised system. The implementation of the procedures requires a mix of expertise including, financial analysts, lawyers, administrators and marketing advisors. For larger enterprises there will be a need for industry experts and regulation advisors. Experience has shown that developing expertise in a central Privatisation Unit is more effective in developing countries than a regional process. A public education programme will be necessary.

The speed with which the programme can be implemented will depend primarily on Government commitment and also on the need for restructuring, the interest of investors in the enterprise, the likely opposition to the privatization and its effectiveness, the capability of the staff implementing the privatization and other factors. The approach being adopted in the Yemen of tackling the small and medium sized enterprises first is undoubtedly the best.

The standard procedures adopted for privatizations will require decisions at different levels of Government; Parliament should debate the programme, approve the objectives and broad features of the programme; Cabinet may approve the commencement of work on individual privatizations, the modality of the privatization and later the recommended investor. A Privatisation Board, with wide representation from those who are involved in and affected by the privatization (for example, the Parent Ministry, the Ministry of Finance, the Employers' Federation, Ministry of Justice, the Stock Exchange), will usually oversee implementation and either make decisions or make recommendations to Cabinet.

The various steps in the process, such as legal and financial due diligence, examination of the privatization options, review of the need to restructure, asset and share valuations, meetings with the press, unions, etc. will be carried out by Privatisation Office staff or by private sector consultants supervised by that Office.

Investor interest will grow as there is evidence of Government commitment to a competitive private sector and pressure to speed up the process will come from the Ministry of Finance once privatization proceeds start to form a significant source of Government revenue.

IMPLEMENTING ALTERNATIVE PRIVATIZATION TECHNIQUES

A major lesson from the early experiences with privatisation strategies adopted by different countries is that ownership matters. There is a large, not a small difference between selling 49% and not 51% of a state owned enterprise. A recent major study of privatisation contracts carried out by the World Bank concluded that performance contracts were less successful than management contracts which were in turn less successful than outright sales. The greater the private sector involvement, the better.

Several factors affect the selected techniques, including the size of the enterprise, its profitability, the state of the sector and competitors, the level of development of the capital markets and characteristics of likely investors. In addition there is a close connection between the techniques and the objectives of the privatisation programme.

Countries giving a high priority to the development of local entrepreneurs will opt to break larger units into smaller ones, while countries maximising sale proceeds will sell large units to the highest bidders. Encouraging share ownership by the general public is achieved by selling shares through public offers but new investment and strongly motivated owner-managers are best achieved through trade sales. These objectives can be combined in the privatization of one enterprise by selling strategic holdings to investors with the necessary financial and management expertise while selling a minority stake to the public by public offer. Alternatively, a company can be sold 100% to one bidder with a requirement that it offers a minority stake to the public within a set no. of years.

The common objective of encouraging employee share ownership and management buy-outs can be achieved in a number of ways and it is sometimes a requirement that investors must sell a certain percentage of their shares to employees within a certain time. Management buy-outs in less developed countries are hampered by the lack of capital of the managers and occasionally the lack of expertise of some state appointed managers makes this an undesirable option.

The problem of retention of shares by Government has been mentioned. Perhaps the best policy, if Government decides to retain shares, is to have a good reason for doing so. These may include, the desire to sell the shares to the public in the future when profitability has been improved, the opportunity to obtain a higher price by selling a percentage later when their value has increased, and the large size of an enterprise may make a staggered sale more absorbable by the market. The desire simply to remain involved should be avoided. Specific issues can be dealt with through such means as golden shares, contingent dividends etc. Many countries have had poor experiences of joint ventures with the private sector and many Governments have ceased investing in commercial activities.

Non-divestiture options, such as contracting out, management contracts and restructuring have quite clearly defined applications in privatisation strategies.

VALUATION ISSUES

While the valuation of state enterprises scheduled for privatisation is a very important aspect of the process it is important not to seek unnecessarily accurate values nor to have unrealistic notions of the value of enterprises. However, selling state treasures cheaply is a criticism often levelled at Governments and it is important that Government has a rough idea of the value before sale so that if a good but low bid is received, a defence against the criticism can be prepared.

Wherever possible values should be determined through open tenders. Often public offers are made at fixed prices based on the prior sale of a tranche of shares through tenders. In theory the open tender is the market price, but care must be taken to ensure all likely bidders are aware of the sale, sufficient time is given for them to bid and they have adequate information. Better prices can be expected after the programme has been running a few years and there is more interest from investors.

In calculating the value of assets or shares it is important to use as many different valuation methods as possible, including depreciated current replacement cost, capitalised earnings, asset value, discounted cash flows and any rules of thumb used in particular industries. There will be no one correct result. It is also common to use more than one valuer to value larger enterprises. In one country, where there has been no share valuations carried out in the previous twenty years, Government appointed asset valuers to ascertain the asset values, carried out a rough earnings based value and took a figure half way between the two as a guide of what bids might be reasonable. Bids below the roughly estimated minimum price were quite often accepted, particularly if the investor had expertise and was planning rehabilitation.

The valuation of loss making enterprises is always difficult and the value will not so much depend on Government's estimation of how profitable the private sector will be able to make the business, with the injection of new money and more motivated management, or the value placed on the assets by a valuer, but on how much the private sector consider the risk is worth. This will vary from investor to investor.

Almost more common than loss making state enterprises are those which have a high asset value but low profits. Many were located in development zones and have high costs, others are overstaffed, and others were never expected to make profits. If the shares are being sold to a number of small investors it is often difficult for Governments to accept that their only interest will be the earnings and dividends and that, in stock markets in more developed countries, the fact that the assets underlying shares have little influence on the share price.

Valuations are essential for a transparent process but should not be given exaggerated importance, given the fact that a market value will emerge as a result of the tender process.

THE PROBLEM OF REDUNDANCY

The fear of unemployment can create a political barrier to privatization and will do so if employment issues are not a central concern of Government. However, overstaffing in PEs has often compensated for a weak private sector and inadequate social safety nets and privatization-induced redundancy must be placed in the wider economic perspective.

High unemployment and a low labour absorptive capacity reflect poor industrial policies which exist independent of the privatization programme. Privatization is part of a wider corrective economic reform package which often has involved substantial Civil Service reductions. In approaching policies to mitigate privatization job losses, the impact of those policies on existing unemployment policies and Labour Laws should be considered.

Redundancies can arise through individual enterprise restructuring and through regional or sectoral restructuring. The latter might involve the closure of obsolete or uncompetitive mines or shipyards and where the change, irrespective of the privatization programme, might involve mass redundancies, a more proactive approach by Government is essential. This intervention in the region or sector might include:

- * Government investment;
- * investment grants to attract new industries;
- * assistance to firms to relocate;
- * support of regional development corporations; and
- * new training facilities
- * free enterprise zone status.

At an enterprise level it is firstly important to educate the affected parties: Unions, employees, Government Departments, the Media and general public on the necessity for redundancies. The main argument will be the need to improve efficiency which exists with or without a change of ownership. Resistance to the change can be reduced by proposing:

- * redundancies are the only alternative to liquidation;
- * surplus labour may be absorbed by new industries, attracted through the privatization programme;
- * employees retained will usually receive far better terms;
- * attractive layoff packages reduce resistance (paid ex proceeds)
- * using Employee Share Ownership Plans.

Measures to mitigate hardship for retrenched labour include:

- * redundancy/severance payments;
- * voluntary early retirement, short-time working;
- * retraining/vocational training;
- * entrepreneurship/SME promotion;
- * early pension schemes;

FOREIGN INVESTMENT INTO PRIVATIZATION

Over the last few years, most countries have made it a priority policy objective to attract more foreign investment into their economies. Opposition to foreign investment has reduced as countries struggle with a lack of domestic savings and capitals, low investment and capitalisation rates, weak infrastructure and poor technology.

Private capital flows from the developed to the developing world today vastly exceed those from official development aid. World Bank/IFC figures show that in 1996 official development finance flows to the developing world accounted for 40.8 billion and private financial flows accounted for 243.8 billion. Foreign direct investment (FDI) totalled 109.5 billion and portfolio investment totalled 45.7 billion. In fact in 1996 for the first time, the amount of private portfolio investment alone exceeded the total of official development finance.

The problem is that the vast majority of these funds flow to the richer developing countries, with very much smaller quantities going to the poorer developing countries. Governments of poorer countries are increasingly aware of the need and benefits of a more open economy but have had very different experiences in attracting foreign direct investment. Some countries have been able to secure ever growing FDI inflows while other countries, despite considerable efforts, have been unable to free their economies from international isolation and from the vicious cycle of lack of capital and economic stagnation.

The task ahead for attracting foreign inflows is now harder than ever as competition for FDI amongst emerging markets has intensified and the attraction of regions such as South East Asia, Western Europe and North America has either increased or remained relatively strong.

Privatization has become an important means for countries to attract foreign investment. In postcommunist countries privatization accounts for a large proportion of total foreign investment, for example 86 percent in Hungary and 64 percent in Poland. In countries such as Peru, Venezuela, Argentina and Jamaica it has accounted for between 30 and 40 percent of total foreign investment. Some countries, such as Nigeria and Brazil, have attracted little foreign investment into privatization, often because of restrictions placed on such investment. Other countries have merely placed less emphasis on sales to foreigners.

Privatization has also had an important 'signalling effect,' demonstrating governmental commitment to freer markets, and encouraging greater greenfield investment and other forms of investment not directly related to privatization. Such a signalling effect can also help to reverse capital flight.

A World Bank study by Frank Sader states that privatizations are a particularly strong influence over decisions to invest and calculates that each dollar of privatization revenue generates an extra 38¢ in new investment. The study also states that financial and infrastructure privatizations have the most positive

effect on other FDI.

In some countries sometimes fears arise about foreign investment, with some seeing it as a threat. There are often particular concerns about foreigners owning key parts of the economic infrastructure, such as telecommunications and electricity industries. However it is noteworthy that some of the most nationalistic countries in the world, such as Argentina for example, have managed to overcome their concerns and privatized electricity and telecommunications companies outright to foreigners. In the end people preferred foreign-owned systems that worked, rather than state-owned ones which didn't.

The supposed 'threat' of foreign ownership is more in the mind than in reality. After all, foreigners aren't going to dig up water pipes and electricity wires and take them back to their own country.

The benefits of foreign investment clearly outweigh any perceived disadvantages, and include capital inflows, new technologies and modern management skills. Portfolio investment is important as well as direct investment, but this requires properly functioning capital markets.

ORGANISING THE PRIVATIZATION OF UTILITIES - ENCOURAGING COMPETITION AND EFFICIENCY IN THE ECONOMY

Most Government-owned utilities - such as telecommunications, electricity, gas and water enterprises - act as monopolies. Therefore when privatizing these companies it is critical to take specific steps to create pressures for efficiency and to protect the consumer from potential abuse by both increasing competition in these sectors to the maximum extent and introducing a regulatory framework to prevent the abuse of residual monopoly power.

Usually consumers have not been adequately protected while the entity was a government department or public sector statutory body. For example, in Britain the nationalised industries had a duty only to break-even, not to make profits. However, this did not prevent them from investing their 'surpluses' in unnecessary capital expenditure, expanding already bloated workforces or undertaking other activities which led to unnecessarily higher prices for their captive customers. In some countries, most notably (but not only) some developing countries, state monopolies charge very high prices but deliver exceptionally poor quality services. Consumers have nowhere else to go.

Reasons for the existing monopoly differ. In some cases it is perceived that the service has a natural monopoly. For example it is relatively clear that the supply of piped water to domestic premises is largely a natural monopoly. However, in the case of electricity, long perceived by many to be a natural monopoly, it is now very clear that certainly in generation there is no natural monopoly at all but rather extensive potential for competition. In telecommunications, new technology means that full competition can occur in all segments of the market.

The first question that must be addressed in each utility sector chosen for future privatization is the extent to which it is possible to introduce greater competition - the most effective protection for the consumer if it can have full effect. Many of the services that were deemed to have natural monopoly features will be found not to be natural monopolies at all. On removal of the statutory, legal monopoly competition may flourish.

However, in other cases, it will be very important to restructure the industry to allow or encourage competition to occur. For example, although the market for supply of new electricity generating capacity had been liberalised in Britain in the mid-1980s, the supply of new power did not have a serious effect on the monopoly position of the Central Electricity Generating Board. When the future of the electricity industry was considered in the mid-1980s, it was clear that it was necessary to restructure the industry by breaking it up if competition was to be effective. Therefore the industry was broken up into competing generators and separate regional distribution companies.

It is at the point of corporatisation that any restructuring should occur - with a view to increasing competition, improving efficiency, or whatever - not at the point of privatization.

Insofar as there is continuing monopoly power on the part of the corporatised entity it must be dealt with by regulation. Such regulation should be explicit and transparent.

Government entities often hold regulatory & licensing powers, which it is inappropriate for them to retain once corporatised or privatized. For example, British Telecom had inherited from the Post Office (of which it was once part) the duty to issue licences to many private and public entities which were connected to or used its systems. In the new scheme that was introduced when it was fully corporatised then privatized, British Telecom itself had to be granted a license. It was clearly inappropriate for it to be responsible for granting licenses to others, some of whom would be its competitors. Thus these powers were transferred to the newly created Office of Telecommunications (OfTel).

Although regulatory functions can be retained or acquired by Government Ministries directly, it is by far the best solution to create independent regulatory organisations. This removes the conflict of interest that still exists between the Government as owner of some of the operators in the market and regulator of all the operators, and also insulates the regulatory body from political interference.

USING CAPITAL MARKETS IN PRIVATIZATION: IMPLEMENTING PUBLIC OFFERS IN COUNTRIES WITH UNDEVELOPED CAPITAL MARKETS

The main role of a securities market is to provide a mechanism for governments and businesses to raise new funds, to permit savers a wider variety of choice for investment and to allow transfer of ownership; all within a regularised framework.

Raising Funds

An important option in a government's privatization strategy is to be able to offer the shares or a portion of the shares of the companies being privatized to the general public, either directly or via institutional investors, which they can do on the "primary" market. This move towards wider share ownership can have a number of benefits:

- * providing an access to domestic capital, to channel it to productive use;
- * stimulating the development of local securities market facilities and intermediaries;
- * sending a strong signal of support and stability to potential foreign investors

Other more political benefits include:

- * getting public involvement and support for the economic transformation process;
- * giving the people a stake in the country's assets, providing some form of equality of opportunity;
- * curbing the influence of powerful groups

The privatized companies can also use the market to raise capital, for example, for restructuring, and both governments and both companies can borrow money by issuing bonds.

Investor Needs

However attractive a security, an investor may well not want to hold on to it for ever or until maturity. It is therefore vital that a securities market provides the mechanism for the transference of investments that is both efficient and legally recognised. In order to stimulate investment and maximise the benefits of a privatization programme a sound "secondary" market will require:

- * secure and regulated market, with demonstrable proof that the regulations will be strictly enforced;
- * efficient and risk-free trading and settlement mechanisms;
- * transparency of trading, to ensure all investors are treated equally and cartels of investors cannot distort the market to their own advantage.

Future Developments

As a basis for further discussion a generic model of secondary market process will

be presented showing the main participants, functions and information flows.

For countries in which capital markets are still at an early stage of development it is important to build up confidence in the market at an early stage. Priorities should be;

- * establishing a basic legal and regulatory framework for transactions, encouraging professional standards and protecting against management and fraud;
- * developing a fair, efficient and secure secondary market architecture with institutions and operations covering; registration, trading, clearing and settlement.

References will be made to experiences of privatization programmes in countries with underdeveloped capital markets and the lessons that can be drawn. The session will end with a discussion on the need and options for capital market developments in the Yemen.

INNOVATIVE METHODS OF PRIVATIZATION: MODELS FOR DEVELOPING ECONOMIES

Many emerging nations with economies suffering from decline, whose predominately state owned enterprises are inefficient, uncompetitive and a financial drain on the Treasury, believe the best hope for the future lies in transferring these enterprises to the private sector, which it is hoped is better equipped to redress these deficiencies.

However, for the majority of the former communist countries of Central and Eastern Europe conventional case-by-case methods of privatization such as public offerings and trade sales, have proved inadequate and they have opted for programmes of large scale or mass privatization (MPP). This is a process by which a substantial proportion of an economy's public assets are quickly transferred to a large diverse group of private buyers. Mass privatization usually includes the distribution of shares of state enterprises to the public either free or for a minimal charge, generally through a voucher allocation scheme and with the creation of private investment funds. The overall objectives of such programmes are:

- * Political: attempting to involve and commit the population at large to the economic transformation process;
- * Social; seeking some form of distributive equity through the distribution of shares to the general public;
- * Economic: quickly privatizing a large number of firms to deepen market forces and competition within the economy

Although mass privatization schemes originated with large industrialised nations such as Russia and the former Czechoslovakia, the approach and techniques employed have been adopted or actively considered by a number of smaller nations, not just in Eastern Europe but also Africa and South America. In spite of size and other differences these countries share a number of common problems which limit opportunities to use conventional methods of privatization. These problems include:

- * few companies that are profitable
- * lack of capital markets
- * lack of interest or confidence by foreign investors
- * difficulties in reconciling market valuations with political expectations
- * opposition from powerful vested interests

In this session we look at ways in which mass privatization methods, can and are used to help overcome these deficiencies. Particular attention is paid to the wide variety of ways in which vouchers and/or investment funds schemes have been designed, in particular how they have been tailored to meet specific objectives of a privatization programme. Examples include:

- * targeting certain population groups;
- * widening share ownership;

- * encouraging domestic investors;
- * providing strategic investors;
- * speeding up the privatization process.

No two situations or solutions are the same but with over 7 years experience of using these techniques there are a number of country experiences we can draw, on including the lessons learnt from both successes and failures.

The session will conclude with a discussion on the possible relevance and appropriateness of these experiences and some of the techniques used to the situation in the Yemen.



THE RATIONALE FOR PRIVATIZATION AND A REVIEW OF ITS GLOBAL IMPACT

Peter Young

Adam Smith Institute

Developing country privatization

Key objectives:

- * Increase in national economic efficiency & growth, through better, more competitive services, and/or lower prices
- * Reduction of government current expenditure
- * Reduction of major government capital expenditure
- * Economic democratisation/wider share ownership/capital markets
- * Raising of sale proceeds, especially to reduce government debt
- * Attraction of international management skills, technology and investment.

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UK Privatisation 1977-1985

| Date | Company | Type of Sale | % of Shares Sold |
|-----------|----------------------------|--------------|------------------|
| Jun 1977 | British Petroleum Co Ltd | Private | 17 |
| Nov 1979 | British Petroleum Co Ltd | Private | 5 |
| Dec 1979 | ICL | Private | 24.4 |
| Jun 1980 | Fairey | Private | 100 |
| July 1980 | Ferranti | Private | 50 |
| Feb 1981 | British Aerospace PLC | First issue | 50 |
| Oct 1981 | Cable & Wireless plc | First issue | 49 |
| Feb 1982 | Amersham International plc | First issue | 100 |
| Feb 1982 | National Freight Company | Private | 100 |
| May 1982 | Redpath Dorman Long | Private | 100 |
| Nov 1982 | Britoil plc | First issue | 51 |
| Feb 1983 | Associated British Ports | First issue | 49 |
| Mar 1983 | British Transport Hotels | Private | 100 |
| Mar 1983 | International Aeradio | Private | 100 |
| Mar 1983 | Victaulic | Private | 100 |
| Sep 1983 | British Petroleum Co Plc | | 7 |
| Dec 1983 | Cable & Wireless | Second issue | 22 |
| Mar 1984 | Scott Lithgow | Private | 100 |
| Apr 1984 | Associated British Ports | Second issue | 48.5 |
| May 1984 | British Gas- Wytch Farm | Private | 50 |
| Jun 1984 | Enterprise Oil plc | First issue | 100 |
| July 1984 | Jaguar plc | First issue | 99 |
| July 1984 | Sealink UK Ltd | Private | 100 |
| Aug 1984 | Inmos | Private | 76 |
| Nov 1984 | British Telecommunications | First issue | 50.7 |
| May 1985 | British Aerospace PLC | Second issue | 59 |
| Jun 1985 | Yarrow Shipbuilders Ltd | Private | 100 |
| Aug 1985 | Britoil plc | Second issue | 51 |
| Nov 1985 | Vosper Thomeycroft Ltd | Private | 100 |
| Dec 1985 | Cable & Wireless | Third issue | 3 |

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UK Privatisation 1986-1988

| Date | Company | Type of Sale | % of Shares Sold |
|-----------|---------------------------|--------------|------------------|
| Jan 1986 | Swan Hunter Shipbuilders | Private | 100 |
| Mar 1986 | Hall Russell Ltd | Private | 100 |
| Mar 1986 | Vickers Shipbuilding | Private | 100 |
| Sep 1986 | BA Helicopters | Private | 100 |
| Dec 1986 | British Gas plc | First issue | 97 |
| 1986-1988 | National Bus Company | Private | 100 |
| Jan 1987 | Unipart | Private | 100 |
| Jan 1987 | Leyland Bus | Private | 100 |
| Feb 1987 | British Airways Plc | First issue | 100 |
| Apr 1987 | Royal Ordnance | Private | 100 |
| Apr 1987 | Leyland Trucks | Private | 60 |
| May 1987 | Rolls-Royce plc | First issue | 100 |
| May 1987 | DAB | Private | 100 |
| Jun 1987 | Istel | Private | 75 |
| Sept 1987 | BAA plc | First issue | 100 |
| Sept 1987 | National Seed Devt. Org. | Private | 100 |
| Oct 1987 | British Petroleum Company | | 36.8 |
| Oct 1987 | Doncaster Wagon Works | Private | 100 |
| Aug 1988 | Rover Group Plc | Private | 100 |
| Aug 1988 | Horwich Foundry | Private | 100 |
| Aug 1988 | Govan Shipyard | Private | 100 |
| Oct 1988 | Yorkshire Rider | Private | 100 |
| Dec 1988 | British Steel plc | First issue | 100 |
| Dec 1988 | Travellers' fare | Private | 100 |
| Dec 1988 | Clark Kinkaid Ltd | Private | 100 |

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Consumer benefits from privatization

- * a fall of 30% in real terms in prices charged by British Gas to domestic and small business consumers since privatization;
- * a fall of 30 percent in British Gas's contract prices to industrial customers since privatization;
- * a fall of 50 per cent in real terms in British Telecom's main prices since privatization;
- * British Gas has reduced by 50% the number of disconnections since privatization;
- * now 95 % of British Telecom's customer installations are completed within the time agreed by the customer;
- * by 1993 95 % of payphones were working compared to 77 % sixteen years previously and, since privatization, British Telecom provide nearly 45 % more of them;
- * Since privatization of the electricity industry in 1990 domestic prices have fallen by 20 per cent in real terms. Businesses prices have fallen by between 20 and 27 percent.

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Improved corporate performance since privatization

EXAMPLES

- * British Airways, a heavy loss-maker in state ownership but now the most profitable airline in Europe and one of the most profitable in the world has increased productivity by more than 40 % per employee since privatization.
- * The National Freight Consortium (NFC), loss-making and with declining market share when in state ownership, has been transformed by a management/employee buyout in 1982 into a successful international company now quoted on the stock exchange. An increase in employee share-owners from 38 % of the workforce in 1982 to 90 % in 1992 has been accompanied by a compound annual increase in profits of 29 %.
- * British Telecom has increased the number of its telephone lines by more than 30 per cent, while the overall rate of failed calls has fallen from 1 in 30, to 1 in 200.

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Failed privatization in Zaire

- In Zaire between 1982 and 1986 some 30, mainly very small state firms were privatized in Zaire, primarily in response to pragmatic concerns but also because of a desire to mollify aid donors.
- A considerable number of the firms were "bought" by high-ranking regime officials, or their relatives or agents.
- The total appraised value of these firms was 121 million zaires, but only 80 million of this sum had been paid by the end of 1985, mostly by foreign purchasers.
- Many of the the newly "privatized" firms remained in financial trouble and continued to receive financial support from the Government.

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Failed privatization in Mali

- Fourteen public enterprises were privatized and several others liquidated under Mali's 1988 Public Enterprise Structural Adjustment Programme, but few of them have subsequently improved their performance.
- The only companies that began to make profits in private ownership were a small-scale fruit-canning company and a printing plant.
- All the other companies continued to lose money, largely as a result of the same fundamental problems related to management, markets, finances and technical inadequacies that made them unprofitable in the public sector.
- The new private owners had not invested money in their plants and had only paid a small amount of the initial purchase price. They had limited financing capability and have had difficulties in obtaining bank credit.
- The privatization process itself had been carried out in a rushed manner, without adequate technical assistance. Where technical assistance was used it was not timely, with diagnostic and feasibility studies not being prepared in time for the sale.

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Argentinian Privatization Programme: Review of Five Cases

- The telephone company Empresa Nacional de Telecomunicaciones de Argentina (ENTel); the electricity utility, Servicios Electricos del Gran Buenos Aires (SEGBA); the gas utility, Gas del Estado (GdE); the water and sewerage company, Obras Sanitarias de la Nacion (OSN); and the energy enterprise, Yacimientos Petroliferos Fiscales (YPF).
- The combined losses of four of the enterprises in their last year of state ownership (excepting YPF, which made a profit) was over US\$2.0 billion.
- Under private ownership in 1994 the profits of those enterprises were more than US\$2.0 billion, an overall increase of US\$4.0 billion.
- Consumers benefited very considerably, in three respects, quantity of service available, quality of service and price of service.

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Argentinian cases: Consumer benefits

Quantity of service:

- Privatized telephone companies increased 63 percent more telephone lines over the period 1990-94 and 143 percent more public telephones.
- Privatized electricity firms created out of SGBA increased the total energy distributed by 31 percent over 1991-94.
- The privatized gas companies increased the amount of gas distributed by 10 percent in the first six months of operation and helped avoid a gas shortage.
- From 1993 to 1994 Agua Argentinas increased its water supply by 22 percent and in 1994 it added 600,000 new connections.
- YPF expanded crude oil production by 25 percent between 1992 and 1994.

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Argentinian privatization: Quality of service & price of service:

- From 1990 to 1994 the privatized telephone companies improved international call completion rates from 39 percent to 55 percent, and domestic long distance call completion rates from 30 percent to 95 percent. Repair waiting time declined from 11 days to 2.5 days.
- Within six months privatized Aguas Argentinas reduced the number of outstanding repair jobs of leaks and breakdowns from 1,600 to 700 for water and from 3,000 to 1,900 for sewerage drains.
- The response time for complaints was reduced from 80 to 48 hours for water and from 140 hours to 80 hours for sewerage.
- Electricity prices decreased between by 10 percent between September 1992 and February 1995 for all customer categories, except the low consumption residential group.
- At the time of water privatization, prices of water decreased by 27 percent as a result of the contract with Aguas Argentinas.
- For gas consumers, there has been a small average increase in prices.

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Tensions between privatization policy and competition policy

- * Governments raise more money by selling monopolies
- * Investment banks receive higher success fees by selling monopolies
- * Businessmen like monopolies
- * It is more difficult and time-consuming to restructure a monopoly prior to privatization

However,

- * It is much more difficult to regulate a monopoly
- * It is much more difficult to unscramble a monopoly after privatization than before
- * Consumers will suffer, as will future politicians

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COMMON INSTITUTIONAL ARRANGEMENTS

PRIVATISATION MINISTRY

MINISTRY OF FINANCE

PRIVATISATION BOARD

SECTOR MINISTRIES

PARENT COMPANIES

OTHERS

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THE MOST COMMON INSTITUTIONAL STRUCTURE

CABINET

PRIVATISATION BOARD

PRIVATISATION TECHNICAL UNIT

SUB COMMITTEES

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THE PRIVATISATION BOARD

ROLE: PLAN - IMPLEMENT - MONITOR PRIVATISATION PROGRAMME:

BOARD MEMBERS:

- MINISTRY OF FINANCE
- PARENT MINISTRY
- UNIONS/EMPLOYEES
- EMPLOYERS FEDERATION
- OPPOSITION MP
- STOCK EXCHANGE
- GOVERNMENT LAWYER
- HEAD OF TECHNICAL UNIT
- OTHERS (ECONOMISTS - ARMY)

BOARD MEETINGS

- HOW OFTEN - WHO CALLS - CHAIRMAN - RELATIONSHIP WITH CABINET

RELATIONSHIP WITH TECHNICAL UNIT

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THE PRIVATISATION TECHNICAL SUPPORT UNIT

- LAWYERS
- ACCOUNTANTS
- PUBLIC RELATIONS - MARKETING - ADVERTISING
- ADMINISTRATORS
- EMPLOYEE / PERSONNEL
- SECTOR / INDUSTRY EXPERTS

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OBJECTIVES

- **PROGRAMME OBJECTIVES**
 - INCREASING EFFICIENCY
 - RAISING REVENUE - REDUCE GOVERNMENT BURDEN
 - WIDER SHARE OWNERSHIP
 - IMPROVING EMPLOYMENT
 - OTHERS - IMPROVE PORTFOLIO OF STATE PENSION FUND

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- **ENTERPRISE SPECIFIC OBJECTIVES**
 - REHABILITATE
 - MAXIMISE REVENUE
 - EMPLOYEE PARTICIPATION
 - MANAGEMENT
- **IMPLICIT OBJECTIVES**
 - TRANSPARENT
 - GETTING THE BEST PRICE
 - COMPLYING WITH THE LAW
 - SPEED
- **EQUAL ACCESS TO ALL**

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UNDERLYING AIMS OF PROCEDURES

- SIMPLE - CENTRALISED / REGIONAL
- FLEXIBLE
- SPEEDY
- TRANSPARENT
 - COMPETITIVE BIDDING
 - EQUAL ACCESS TO INFORMATION
 - CLEAR EVALUATION CRITERIA
 - DISCLOSURE OF PURCHASE PRICE
 - ADEQUATE MONITORING

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CO-ORDINATING THE PROGRAMME

A TYPICAL STATE OWNED SECTOR

- "STRATEGIC" / LARGE ENTERPRISES
 - UTILITIES
 - BANKS
- NON-BANK FINANCIAL INSTITUTIONS
- INDIRECTLY OWNED ENTERPRISES
 - SUBVENTED (SPORTS COUNCIL)
 - JOINT VENTURES
 - QUOTED COMPANIES
- WHOLLY OWNED ENTERPRISES
 - STATE FARMS

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A TYPICAL PRIVATISATION TIMETABLE

| | Month |
|-------------------------------------|-------|
| NOTIFICATION TO EMPLOYEES | 0 |
| SELECTION OF CONSULTANTS | 1 |
| INFORMATION MEMORANDUM | 2 |
| DRAFT VALUATION | 2 |
| PREPARE PRIVATISATION OPTIONS PAPER | 3 |
| SUBMIT OPTIONS TO BOARD | 3 |
| APPROVAL - ADVERTISE | 4 |
| DEADLINE FOR SUBMISSION OF BIDS | 6 |
| SUBMIT EVALUATION TO BOARD | 7 |
| NOTIFY AWARD TO SUCCESSFUL BIDDER | 9 |
| CONTRACT AND PAYMENT | 10 |

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EXAMINING THE ENTERPRISE

- DESCRIPTION OF THE ENTERPRISE - INFORMATION MEMORANDUM
- REVIEW OF SECTOR AND ROLE FOR GOVERNMENT
- RESTRUCTURING OPTIONS
- SHARE OR ASSET VALUATIONS
- PRIVATISATION OPTIONS
- DRAFT PRIVATISATION TIMETABLE

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TENDERS FOR SHARES OR ASSETS

- REGISTRATION
- FEE
- TENDER PACKAGE
 - INVITATION TO BID
 - DETAILS OF PROCEDURES TO BE FOLLOWED
 - DOCUMENTS TO BE SUBMITTED BY BIDDERS
 - HOW BID WILL BE EVALUATED
 - FORM OF CONTRACT
- CONFIDENTIALITY UNDERTAKING

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IMPLEMENTING PRIVATISATION STRATEGIES
A Typical Enterprise Advertisement

ABC INSURANCE COMPANY

The Privatisation Unit, Ministry of Finance, on behalf of the Government, invites tenders from interested investors for the 60% of the issued share capital of the ABC Insurance Company (ABC) held by Government.

OPERATIONS

ABC is active in all the major sections of the insurance market, including, Motor, Fire, Marine, Life and General insurance. ABC has offices in the capital and six regional capitals.

WORKFORCE

The company employs about 130 staff, many of whom have worked with the company since it started operations in 1987. The senior management team is highly qualified and has many years experience, both within and outside the country.

ASSETS AND PROFITS

The principle asset is the Head Office building and all assets have been independently valued by G. Gonzales & Co at US\$23 million. ABC has made profits in every year for the last five years.

PROCEDURES FOR INVESTORS

Interested investors should register with the Privatisation Unit and can obtain the following information, on payment of Units 5,000 or US\$ 75, if resident outside the country:

- guidelines for submitting tenders;
- an information memorandum and valuation;
- other information, as available.

Tenders must be received by the Privatisation Unit before 2.00 p.m. Wednesday 22 August, 199., and there will be a public opening of the bids immediately following the deadline. The Government is not bound to accept the highest or any bid.

Additional information can be obtained from: The Executive Director and Head, Privatisation Unit, 125 XYZ Street, etc.

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CONTENTS OF BUSINESS PLANS SUBMITTED WITH BID

- BUSINESS
- OWNERSHIP
- MANAGEMENT
- MARKET
- REHABILITATION PLANS
- FINANCING PLAN
- PROJECTED BALANCE SHEET AND PROFIT AND LOSS ACCOUNTS

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EVALUATION CRITERIA

| | | |
|---|--|------|
| 1 | PRICE AND STRUCTURE OF BID PRICE TERMS OF PAYMENT STRUCTURE - EMPLOYEE SHARES ETC | 40 |
| 2 | REHABILITATION PLANS OPERATIONAL POLICIES PROPOSED INVESTMENTS | 10 |
| 3 | CREDIBILITY OF INVESTOR GENERAL CAPABILITY FINANCIAL CAPABILITY MANAGEMENT CAPABILITY | 35 |
| 4 | EMPLOYMENT ISSUES PLANS TRAINING | 10 |
| 5 | ECONOMIC IMPACT INCREASE IN TREASURY REVENUE DECREASE IN SUBSIDIES | 5 |
| | | 100% |

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USING 60% PRICE AND 40% BIDDER

| | Bid | ex10 | 60% | Bidder/Plan | ex10 | 40% | Total |
|---|-----|------|-----|-------------|------|-----|-------|
| A | 120 | 10 | 6 | 8 | 3.2 | 9.2 | |
| B | 100 | 8.3 | 4.9 | 4 | 1.6 | 6.5 | |

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SELECTING ENTERPRISES FOR PRIVATISATION

- LARGE - UTILITIES
- SMALL
- PROFITABLE
- LOSS MAKERS
- OBJECTIVES

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| TYPE | STATUS | SIZE | RESTRUCTURE | OUTCOME | DECISION | METHOD | POST SALE RESTRUCTURING |
|---------------|------------|----------------|-------------|-----------------------|-----------|----------------------|-------------------------|
| STRATEGIC | VIABLE | ALL | POSITIVE | | PRIVATISE | SELL TO PUBLIC | VOLUNTARY |
| | NON-VIABLE | ALL | DEFENSIVE | 1 GOOD PROFIT | PRIVATISE | SELL TO PUBLIC | VOLUNTARY |
| | | | | 2 MERE SURVIVAL | PRIVATISE | TENDER (CONDITIONAL) | ESSENTIAL |
| | | | | 3 SHORT TERM SURVIVAL | PRIVATISE | TENDER ASSETS | NO ACTION |
| | | | | 4 FAILED TURNAROUND | LIQUIDATE | AUCTION | |
| NON-STRATEGIC | VIABLE | SMALL / MEDIUM | POSITIVE | | PRIVATISE | TENDER / MBO | VOLUNTARY |
| | | LARGE | POSITIVE | | PRIVATISE | SELL TO PUBLIC | VOLUNTARY |
| | NON-VIABLE | ALL | NO ACTION | | PRIVATISE | LIQUIDATE | |

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OBJECTIVES OF PRIVATISATION

- CHANGE ROLE OF GOVERNMENT IN ECONOMY
- IMPROVED ECONOMIC EFFICIENCY
- REDUCE GOVERNMENT SUBSIDIES
- RAISE FUNDS FOR GOVERNMENT
- DEVELOP THE CAPITAL MARKETS
- ATTRACT FOREIGN INVESTMENT
- OTHERS - IMPROVE PORTFOLIO OF STATE PENSION FUND
- MEET CONDITIONS OF WORLD BANK

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METHODS OF PRIVATISATIONS

- SALE OF ASSETS/BUSINESS - AUCTION
- SALE OF ASSETS/BUSINESS - TENDER
- SALE OF SHARES - PUBLIC OFFER AT FIXED PRICE
- TENDER
- NEGOTIATION
- MASS PRIVATISATIONS
- MANAGEMENT / EMPLOYEE BUY-OUT
- EMPLOYEE SHARE OWNERSHIP SCHEMES
- LEASING
- MANAGEMENT CONTRACTS
- PERFORMANCE CONTRACTS
- REGULATORY CONTRACTS

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• AUCTIONS

IDENTITY OF ASSETS
TITLE (CHARGES)
PAYMENT OF CREDIT
FAILURE TO PAY
RESERVE PRICES

• AUCTION RULES

ADVERTISING
LOCATION OF AUCTION
TAXES ON PROCEEDS
PROCEDURES AT AUCTIONS

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MANAGEMENT BUY-OUTS

- WITH EMPLOYEES / ESOP / ETC.
- UNCOMMON IN DEVELOPING COUNTRIES
MANAGEMENT APPOINTED POLITICALLY
POORLY PAID MANAGEMENT
HIGH INTEREST RATES
- FINANCED THROUGH LOAN SECURED ON ASSETS
HIGH GEARING
- ISSUE OF EQUAL ACCESS TO INFORMATION
- MANAGEMENT TO BID COMPETITIVELY

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EMPLOYEE SHARE OWNERSHIP SCHEMES

• OBJECTIVES

ALLOWS WORKERS TO SHARE PROFITS
MOTIVATES (DISCOURAGES WILFUL DAMAGE)
IMPROVES MANAGEMENT / EMPLOYEE COMMUNICATIONS
BROADENS SHARE OWNERSHIP BASE

• TYPES OF SCHEME

PERFORMANCE RELATED PAY
PROFIT SHARING SCHEME
ESOP

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EMPLOYEE SHARE OWNERSHIP PLANS

A SIMPLE ESOP - " 1% OF THE DIVIDEND WILL BE SHARED EQUALLY BETWEEN ALL EMPLOYEES OF THE COMPANY AT 31 DECEMBER. THE TRUSTEES OF THE SCHEME WILL BE AN EMPLOYEE AND THE COMPANY ACCOUNTANT."

MAJOR ISSUES

- 1 WHAT PERCENTAGE OF THE SHARES FOR EMPLOYEES
- 2 WHICH EMPLOYEES QUALIFY
- 3 HOW SHOULD SHARES BE HELD, INDIVIDUALLY, ON TRUST OR JOINTLY
- 4 HOW SHOULD BENEFITS BE SHARED
- 5 WHAT PRICE SHOULD BE PAID
- 6 WHAT SHOULD BE THE REPAYMENT TERMS
- 7 HOW SHOULD THE ESOP BE ADMINISTERED

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MANAGEMENT CONTRACTS

- INFORMATION AVAILABLE
- REWARDS AND PENALTIES
- COMMITMENT BY GOVERNMENT AND INVESTOR
- NOT SO COMMON BECAUSE HIGH COST TO GOVERNMENT
- SUCCESSFUL WHEN
 - CONTRACT COMPETED FOR
 - REWARDS LINKED TO PERFORMANCE AND NO FIXED FEE
 - TECHNOLOGY NOT CHANGING FAST (HOTELS, SUGAR)
 - CONTRACTOR HAS INTERNATIONAL REPUTATION TO DEFEND

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TENDERS FOR SHARES OR ASSETS

- REGISTRATION
- FEE
- TENDER PACKAGE
 - INVITATION TO BID
 - DETAILS OF PROCEDURES TO BE FOLLOWED
 - DOCUMENTS TO BE SUBMITTED BY BIDDERS
 - HOW BID WILL BE EVALUATED
 - FORM OF CONTRACT
- CONFIDENTIALITY UNDERTAKING

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IMPLEMENTING PRIVATISATION STRATEGIES *A Typical Enterprise Advertisement*

ABC INSURANCE COMPANY

The Privatisation Unit, Ministry of Finance, on behalf of the Government, invites tenders from interested investors for the 60% of the issued share capital of the ABC Insurance Company (ABC held by Government).

OPERATIONS

ABC is active in all the major sections of the insurance market, including Motor, Fire, Marine, Life and General insurance. ABC has offices in the capital and six regional capitals.

WORKFORCE

The company employs about 130 staff, many of whom have worked with the company since it started operations in 1987. The senior management team is highly qualified and has many years experience, both within and outside the country.

ASSETS AND PROFITS

The principle asset is the Head Office building and all assets have been independently valued by G. Gonzales & Co at US\$23 million. ABC has made profits in every year for the last five years.

PROCEDURES FOR INVESTORS

Interested investors should register with the Privatisation Unit and can obtain the following information, on payment of Units 5,000 or US\$75, if resident outside the country:

- guidelines for submitting tenders;
- an information memorandum and valuation;
- other information, as available.

Tenders must be received by the Privatisation Unit before 2.00 p.m. Wednesday 22 August, 199., and there will be a public opening of the bids immediately following the deadline. The Government is not bound to accept the highest or any bid.

Additional information can be obtained from: The Executive Director and Head, Privatisation Unit, 125 XYZ Street, etc

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CONTENTS OF BUSINESS PLANS SUBMITTED WITH BID

- BUSINESS
- OWNERSHIP
- MANAGEMENT
- MARKET
- REHABILITATION PLANS
- FINANCING PLAN
- PROJECTED BALANCE SHEET AND PROFIT AND LOSS ACCOUNTS

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EVALUATION CRITERIA

| | | |
|---|--|------|
| 1 | PRICE AND STRUCTURE OF BID PRICE TERMS OF PAYMENT STRUCTURE - EMPLOYEE SHARES ETC | 40 |
| 2 | REHABILITATION PLANS OPERATIONAL POLICIES PROPOSED INVESTMENTS | 10 |
| 3 | CREDIBILITY OF INVESTOR GENERAL CAPABILITY FINANCIAL CAPABILITY MANAGEMENT CAPABILITY | 35 |
| 4 | EMPLOYMENT ISSUES PLANS TRAINING | 10 |
| 5 | ECONOMIC IMPACT INCREASE IN TREASURY REVENUE DECREASE IN SUBSIDIES | 5 |
| | | 100% |

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USING 60% PRICE AND 40% BIDDER

| | Bid ex10 | 60% | Bidder/Plan ex10 | 40% | Total |
|---|----------|-----|------------------|-----|-------|
| A | 120 10 | 6 | 8 | 3.2 | 92 |
| B | 100 8.3 | 4.9 | 4 | 1.6 | 65 |

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PUBLIC OFFERS

- WHY SELL TO THE PUBLIC
SHARE WEALTH AND SPREAD RISK WIDER
DEVELOP STOCK MARKET
FOR RAISING LONG TERM CASH FOR COMPANIES
DOMESTICALLY MORE ACCEPTABLE
- WHICH COMPANIES CAN BE SOLD TO THE PUBLIC
STOCK EXCHANGE RULES
LENGTH OF EXISTENCE
REASONABLE SIZE / GOING CONCERN
PROFITABLE (CERTIFIED BY AUDITORS)
GOOD MANAGEMENT

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PUBLIC OFFERS

- PROBLEMS SELLING STATE ENTITIES TO THE PUBLIC
LACK OF PROFITS
POOR MANAGEMENT (CONSTRAINED)
NEED FOR A STRATEGIC SHAREHOLDER - EXPERTISE
STATE OF ACCOUNTING
PRICING PROBLEMS
HIGH COST

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PLAN FOR A PUBLIC OFFER - KEY STEPS

| | |
|-------|--|
| TIME | (SALE BEFORE 30 JUNE - ACCOUNTS MADE UP TO 31 DEC) |
| JAN | SET UP COMMITTEE - COMPANY AND UNIT |
| JAN | VALUE ASSETS THEN SHARES |
| FEB | FINALISE ACCOUNTS FOR YEAR END |
| FEB | AGREE RESTRUCTURING |
| MAR | FINALISE AUDIT (AUDITOR GENERAL AND FIRM) |
| APRIL | PREPARE PROSPECTUS |
| APR | COMMENCE ADVERTISING |
| APR | PREPARE AND APPROVE PROFIT FORECAST |
| MAY | PRINT PROSPECTUS |
| MAY | PRINT SHARE CERTIFICATES |
| MAY | GOVERNMENT APPROVAL OF PRICE OF SHARES |
| JUNE | PUBLIC OFFER |

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PUBLIC OFFER SHARE VALUATIONS

- A COMMON PROBLEM:

| | |
|------------------------|--------|
| FIXED ASSETS PER SHARE | \$34.5 |
| NET ASSETS PER SHARE | \$40.1 |
- PRICE OF SHARES TO PUBLIC \$10 PER SHARE

| | |
|----------------|------|
| DIVIDEND YIELD | 3.8% |
| EARNINGS YIELD | 9.2% |

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PUBLIC OFFERS - CONTENTS OF A PROSPECTUS

| | |
|----|--|
| | APPLICATION FORM |
| | CONDITIONS OF THE OFFER |
| 1 | DIRECTORS AND ADVISORS |
| 2 | SUMMARY OF THE OFFER FOR SALE |
| 3 | THE OFFER |
| 4 | HISTORY AND BUSINESS |
| 5 | DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES |
| 6 | TRADING RECORD AND DIVIDEND POLICY |
| 7 | BALANCE SHEET AT 31 DECEMBER 199.. |
| 8 | FIXED ASSETS |
| 9 | PROFIT FORECAST AND RESTRUCTURING |
| 10 | STATUTORY AND GENERAL INFORMATION |
| 11 | PROCEDURES FOR APPLICATION AND ALLOTMENT |

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THE SHARES

MEDIA RELATIONS
PRESS RELEASES
PRESS BRIEFINGS
PUBLIC SEMINARS
TV COVERAGE / INTERVIEWS

EMPLOYEE COMMUNICATIONS
Meet unions - letters - videos - benefits

ADVERTISING
Research
where are buyers and who are they
Prospectus
Posters - shops - banks
Direct mail
Seminars
Presidential launch of offer

INFORMATION MATERIALS
1 x 60 sec TV ad
1 x 30 sec TV ad every week - create image of scarcity
1 x full page newspaper ad at launch
2 x 0.5 page ads every 3 weeks
1 x 60 sec Radio ad
1 x 10 minute documentary for local TV stations
Brochures for handout in stores and banks
12 large banners at each store

logo "SHARE IN THE PRIDE".

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FIXED ASSET VALUATIONS

LIQUIDATION VALUE / GOING CONCERN VALUE

| | D million Market Price | Result of Auction |
|----------------------|---------------------------|-------------------|
| Buildings | 200 | 150 |
| Plant | 25 | 5 |
| Stocks | 10 | 1 |
| Debtors | 100 | 10 |
| | ----- | ----- |
| | 335 | 166 |
| Creditors | (100) | (150) |
| | ----- | ----- |
| Liquidation Value | 235 | 16 |
| | ===== | |
| Costs of Liquidation | | (16) |
| | | ----- |
| Proceeds | | 0 |
| | | ===== |

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DEPRECIATION - NET BOOK VALUE

| | Reducing Balance | Straight Line |
|------------|------------------|---------------|
| Cost | 100,000 | 100,000 |
| Year 1 | (25,000) | (10,000) |
| | ----- | ----- |
| Book Value | 75,000 | 90,000 |
| Year 2 | (18,750) | (10,000) |
| | ----- | ----- |
| Book Value | 56,250 | 80,000 |

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BUSINESS ASSETS

- LAND
- BUILDINGS
- PLANT
- FURNITURE
- VEHICLES
- INTANGIBLE ASSETS
- INVESTMENTS IN OTHER COMPANIES

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SUMMARY OF FIXED ASSET VALUATIONS

| D million | Value in Use | Liquidation Value |
|-------------------------|--------------|-------------------|
| BUILDINGS | | |
| - FACTORY AND OFFICE | 850 | 700 |
| - RESIDENCES | 12 | 12 |
| - VACANT WAREHOUSE | 0 | 15 |
| PLANT | | |
| - NON- MOVEABLE IN USE | 760 | 0 |
| - MOVEABLE IN USE | 300 | 100 |
| - MOVEABLE - NOT IN USE | 0 | 280 |
| - SCRAP | 0 | 8 |
| | ----- | ----- |
| | 1,922 | 1,115 |
| | ===== | ===== |

LIST OF PLANT VALUED

| Qty | Details | Replacement Cost | Year Acquired | Remaining Life | Value In Use | Liquidation Value |
|-----|---------|------------------|---------------|----------------|--------------|-------------------|
| 1 | Tractor | D1,000,000 | 1992 | 5 years | 500,000 | 400,000 |
| | etc. | | | | | |
| | Total | | | | | |

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LIMITING CONDITIONS OF VALUATION

- CARRIED OUT FOR ONE PURPOSE ONLY
- NO CHANGES IN MARKET CONDITIONS
- VALUES EFFECTIVE AT DATE OF VALUATION
- ALL FACTS CORRECT TO BEST OF KNOW LEDGE
- NO INVESTIGATIONS CARRIED OUT INTO TITLE TO ASSETS
- NO ENVIRONMENTAL LIABILITIES INVESTIGATED
- ALL ASSETS INCLUDED TO BEST OF KNOW LEDGE

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CONCEPT OF VALUE - TO WHO ?

- A 37 % director + remuneration
- B 33 % director + remuneration
- C 30 % shareholder only - wants to sell
100%

SALE TO A OR B

SALE PRO-RATA TO A OR B

SALE TO A NEW SHAREHOLDER - FOR INCOME

SALE TO NEW SHAREHOLDER - FOR BUSINESS INVESTMENT

SALE OF 100% OF THE SHARES

PRICE DEPENDS ON PURCHASER - TO WHOM FOR WHAT PURPOSE

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STANDARD ACCOUNTING PRACTICES

- TO ENABLE THE RESULTS OF ENTERPRISES TO BE COMPARED
- TO ENABLE SHARES TO BE VALUED ON A CONSISTENT BASIS
- ACCOUNTS SHOULD STATE BASIS OF ACCOUNTING
- MAIN AREAS OF DIFFERENCE
 - FIXED ASSET DEPRECIATION - WHAT RATES - OVER WHAT PERIOD
 - EXPENDITURE WITH BENEFITS IN FUTURE YEARS - MINE EXPLORATION
 - INVESTMENTS IN OTHER COMPANIES
 - INTANGIBLE ASSETS
 - PROVISION FOR SLOW MOVING AND OBSOLETE STOCKS
 - PROVISION FOR DOUBTFUL DEBTORS

LIABILITIES DUE IN FOREIGN CURRENCIES

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VALUATION METHODS FOR UNQUOTED ENTERPRISES

- CAPITALISATION OF MAINTAINABLE EARNINGS
- NET ASSETS
- CAPITALISATION OF DIVIDENDS
- QUOTED COMPANY ANALOGY
 - IS ANALOGY MEANINGFUL
 - DIFFERENT INVESTOR ASPIRATIONS
 - MARKET SENTIMENT
 - CONTROL PREMIUM
 - DISCOUNT FOR MARKETABILITY
- PRECEDENT TRANSACTIONS
 - TO FIND ANY
 - AGE
 - INFORMATION
 - RELEVANCE
- DISCOUNTED CASH FLOW

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NET ASSET VALUE

SHARE VALUE IS VALUE OF SHARES AS GOING CONCERN

NET ASSET VALUE ASSUMES MARKET VALUE OF SHARES AS GOING CONCERN

BUT TO REALISE VALUE INVOLVES COSTS

| D\$ M. | BALANCE SHEET VALUE | REALISABLE VALUE | COMMENT |
|----------------------------|---------------------|------------------|-------------|
| FIXED ASSETS : | | | |
| LAND AND BUILDINGS | | | REVALUATION |
| PLANT | | | LESS 20% |
| OFFICE FURNITURE | | | LESS 50% |
| CURRENT ASSETS | | | |
| DEBTORS | | | LESS 20% |
| STOCKS | | | LESS 40% |
| CASH | | | |
| CURRENT LIABILITIES | | | |
| CREDITORS | | | ADD 15% |
| TAXATION | | | |
| LOANS | | | |
| NET ASSETS | | | |
| LESS REDUNDANCIES | | | |
| REVISED NET ASSETS | | | |

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CAPITALISATION OF MAINTAINABLE PROFITS

- VALUE OF BUSINESS X EXPECTED RATE OF RETURN = PROFITS
- DEPOSIT IN BANK EARNS 10% RETURN = INCOME OF D10 PER YEAR
- CALCULATE MAINTAINABLE PROFITS - WHICH YEAR/S
 - IDENTIFY EXCEPTIONAL ITEMS
 - GROWTH - TRENDS IN PROFITS
 - WEIGHTING
 - RATE OF RETURN

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MAINTAINABLE EARNINGS

| | |
|-------------------------|------------|
| SALES | 1,200 |
| COST OF SALES | (800) |
| GROSS PROFIT | 400 |
| EXPENSES | (200) |
| PROFIT ON SALE OF ASSET | <u>600</u> |
| PROFIT BEFORE TAX | 800 |
| TAX @ 40% | (320) |
| PROFIT AFTER TAX | 480 |
| DIVIDENDS | (200) |
| TO RESERVES | 280 |
| | ===== |

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EXCEPTIONAL - LARGE BAD DEBT - FIRE DAMAGE - ONCE OFF SALE OF SCRAP
- PENALTY FOR TAX EVASION -

TRENDS

| | D M. |
|-------------|---------------------------|
| 1991 | 350 |
| 1992 | 850 inflation |
| 1993 | 3,500 devaluation |
| 1994 | (4,000) trade liberalised |
| Projections | |
| 1995 | 2,000 |
| 1996 | 3,000 |
| 1997 | 4,000 |

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MAINTAINABLE PROFITS - WEIGHTING

| | | D.M. WEIGHTING | | |
|----------------------|------|-------------------|-----|--------|
| NET PROFIT AFTER TAX | 1994 | 2,090 | 1 | 2,090 |
| | 1995 | 3,960 | 2 | 7,920 |
| | 1996 | 1,290 | 3 | 3,870 |
| PROJECTED | 1997 | 1,500 | 3 | 4,500 |
| | | | --- | ----- |
| | | | 9 | 18,380 |
| | | | --- | ===== |

AVERAGE $18,380/9 = 2,042$ SAY D 2,000 M. p.a.

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EXPECTED RATE OF RETURN

- INTEREST ON GOVERNMENT SECURITIES - RISK FREE
- INTEREST ON BANK DEPOSITS - SMALL RISK
- ADD RISK PREMIUM - DEPENDS ON
 - ENTERPRISE
 - SECTOR
 - ECONOMY
 - COUNTRY
- GHANA TREASURY BILLS 20% + 5% RISK - EXPECTED RATE OF RETURN 25%
- VIETNAM BANK DEPOSITS 8% + 3% RISK - EXPECTED RATE OF RETURN 11%

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MAINTAINABLE PROFIT FROM PREVIOUS EXAMPLE D2,000 M. P.A.

| | % MULTIPLE VALUATION (P/E) | | |
|-----------------------------|-------------------------------|------|--------|
| REQUIRED RETURN BY INVESTOR | 30% | 3.33 | 6,666 |
| | 25% | 4.0 | 8,000 |
| | 20% | 5.0 | 10,000 |
| | 15% | 6.66 | 13,333 |
| | % | 10 | 20,000 |

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DISCOUNTED CASH FLOW

- PROJECTED FIGURES
- RESIDUAL VALUE
- CASH NOT PROFIT
 - working capital
 - fixed capital
 - taxation
 - long term contracts
- DISCOUNT FACTOR

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DCF EXAMPLE - A POLISH CARPET FACTORY

Adjusted Projected Cash Flows
US\$

| | |
|----------|---------|
| 1993 | 16.9 |
| 1994 | 26.2 |
| 1995 | 32.2 |
| 1996 | 41.3 |
| 1997 | 49.7 |
| 1998 | 56.1 |
| 1999 | 62.5 |
| 2000 | 69.1 |
| 2001 | 75.4 |
| 2002 | 82.3 |
| Residual | 1,121.0 |
| Total | 1,632.8 |

Discount Rate 9%

Discount Value US\$ 730 m.

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DISCOUNTED CASH FLOW METHODS

based on theory that the value of an asset is the present value of future cash flows.
(divs/profits/proceeds of sale)

used in the appraisal of capital investments

IF YOU HAD THE PRESENT VALUE YOU COULD TRANSFORM IT INTO THE
CASH FLOWS BY INVESTING AT THE DISCOUNT RATE.

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THE PROBLEM OF REDUNDANCY

- BASIC APPROACH IN THE PRIVATISATION PROGRAMME
- STRONG POLITICAL COMMITMENT TO CONSIDER EMPLOYMENT ISSUES
- NOTIFY WORKER REPRESENTATIVES
NUMBERS LIKELY TO BE AFFECTED
PERIOD OVER WHICH JOBS MAY BE LOST
GIVE REASONS FOR JOB LOSSES
AMPLE NOTICE TO FIND A NEW JOB
- INVOLVE WORKER REPRESENTATIVES AT ALL STAGES OF PROCESS
- MAKE JOB CREATION AN EXPLICIT AIM OF REDUNDANCY PACKAGES
- AIM IS TO REDUCE UNCERTAINTY OF
LOSING JOB
NOT RECEIVING GOLDEN HANDSHAKE
NOT GETTING ON WITH NEW EMPLOYERS/ OWNERS

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THE PROBLEM OF REDUNDANCY

- TYPES OF UNEMPLOYMENT

ECONOMIC CYCLES

INDUSTRIAL SECTOR RESTRUCTURING - MASS
REDUNDANCIES

SEASONAL

ENTERPRISE RESTRUCTURING

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THE PROBLEM OF REDUNDANCY

LABOUR PROTECTION AND EMPLOYMENT PACKAGE

- ENHANCED EARLY VOLUNTARY RETIREMENT
ENCOURAGE
CREDIT FOR NON-USED YEARS OF SERVICE
INCENTIVE PACKAGE
- INVOLUNTARY REDUNDANCY PROVISIONS:
FIRST COMPONENT IS TO PAY STATUTORY DUES
SECOND TO SUPPLY INCOME SUPPORT BEFORE NEW JOB FOUND, SAY FOR 2
YEARS
THIRD TO PROVIDE SERVICES FOR RE-INTEGRATION - "TRAIN" TO CHANGE
NEGATIVE ATTITUDES AND RESULTS OF YEARS OF POOR MANAGEMENT
PROVIDE WORKER COUNSELLING SERVICES
- NEW ENTERPRISE SUPPORT:
PREPARE WORKERS RETAINED FOR CHANGES IN WORKING ENVIRONMENT
INCENTIVE BASED PAY PACKAGES
ACCESS NEW TECHNOLOGIES
ON-THE-JOB TRAINING
- PUBLIC ENTERPRISE PRODUCTIVITY SERVICES
TRY TO IMPROVE THE ATTITUDES IN THE REMAINING STATE ENTERPRISES

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THE PROBLEM OF REDUNDANCY

- THE NEED FOR REDUNDANCIES

IMPROVE EFFICIENCY

- REDUCE OPPOSITION BY:

STATE ALTERNATIVE IS LIQUIDATION

NOTE IMPROVED TERMS COMMON FOR THOSE RETAINED

ENSURE LAY-OFF PACKAGES ARE ATTRACTIVE

ENCOURAGE EMPLOYEE SHARE OWNERSHIP

PRIVATISATION ATTRACTS NEW INVESTMENT AND NEW
INVESTORS

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THE PROBLEM OF REDUNDANCY

- ACTIVE GOVERNMENT INTERVENTION
- NEW GOVERNMENT INVESTMENT
- INVESTMENT GRANTS TO ATTRACT NEW INDUSTRIES
- ASSISTANCE FOR FIRMS TO RELOCATE
- REGIONAL DEVELOPMENT CORPORATIONS
- NEW TRAINING FACILITIES

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THE PROBLEM OF REDUNDANCY

- RETRAINING
- FOR - UNSKILLED - SEMI/SKILLED - VOCATIONAL WORKERS
- COSTS OF TRAINING / SUBSISTENCE ALLOWANCES
PAID BY COMPANY OR GOVERNMENT
SALARY TOP-UP
- TIME OFF - "WAITING LOOP"
GUARANTEED JOB AFTER TRAINING
ASSISTANCE TO FIND WORK
CONCEPT OF THE "LABOUR POOL"

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THE PROBLEM OF REDUNDANCY

RECONVERSION IN FRANCE

ASSISTANCE TO:

- INFORMATION ON JOBS AVAILABLE
- ASSISTANCE TO BECOME SELF EMPLOYED
- A PLACEMENT SERVICE
- SETTLING-IN ALLOWANCE
- CO-ORDINATE INSTITUTIONAL ACTIVITIES
 - LOCAL LABOUR OFFICE
 - OTHER LOCAL COMPANIES
 - REGIONAL DEVELOPMENT CENTRES
 - LOCAL AUTHORITIES
 - TRAINING AGENCIES
- PSYCHOLOGICAL ADJUSTMENT TO NEW WORK
- FINANCIAL ASSISTANCE

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USING CAPITAL MARKETS IN PRIVATISATION

**IMPLEMENTING PUBLIC OFFERS WITH
UNDERDEVELOPED CAPITAL MARKETS**

Role of a Securities Market

- **provide a mechanism for governments and enterprises to raise new funds**
- **provide savers with a wider choice of investment**
- **allow the transfer of ownership**

All within a regularised framework

Raising Funds

Government

- privatisation - public offers
 - widen share ownership
- government bonds

Enterprises

- rights issues
- corporate bonds

Wider Share Ownership - 1

Political/Social Benefits:

- public involvement and support
- stake in country's assets
- equality of opportunity?
- benefit from success of programme
- curb powerful interest groups

Wider Share Ownership - 2

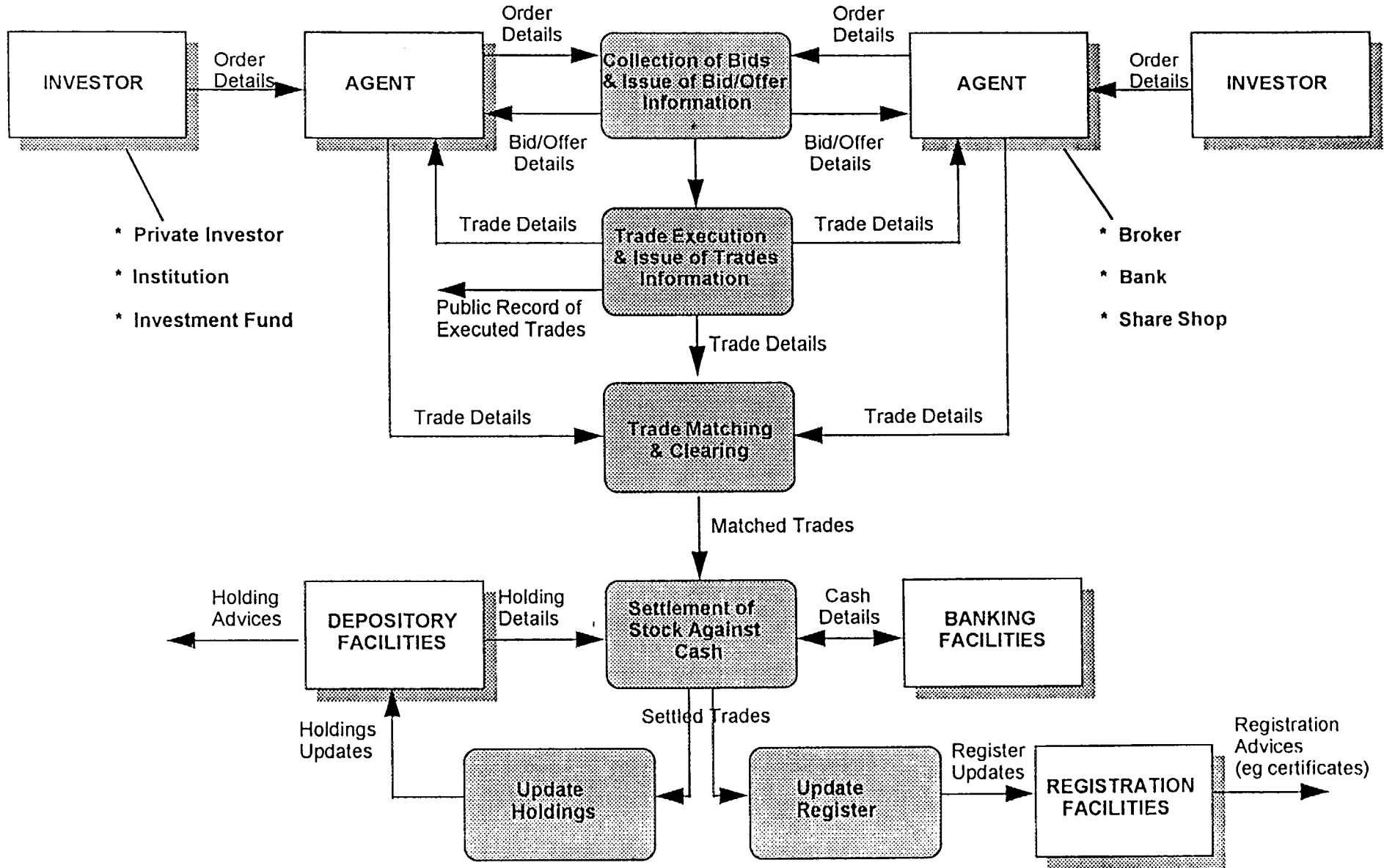
Economic Benefits:

- **access to domestic capital, channel to productive use**
- **stimulate capital market development**
 - institutions
 - financial intermediaries
 - efficiency
- **facilitate raising further capital**
- **strong signals of support and stability to foreign investors**

Investors Needs

- **secure and regulated market**
- **efficient trading and settlement mechanisms**
- **full information disclosure**
- **transparent trading**

Generic Model of Secondary Market Processes



Lessons from Transitional Economies

Goals:

- establish the basic legal and regulatory framework for transactions
- protect against fraud and mismanagement
- encourage development of professional standards and levels of efficiency

Methods:

- institution building by government and private sector
- allow flexible response to changing circumstances

Development Priorities

- **comprehensive regulatory structure**
 - policy framework
 - institutional support
 - laws
 - regulations and enforcement
- **market architecture**
 - trading
 - clearance
 - settlement
 - registration



FOREIGN INVESTMENT INTO PRIVATIZATION

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The private sector - its where the money is:

- Most countries have made it a priority policy objective to attract more foreign investment into their economies
- In 1996 official development finance flows to the developing world accounted for 40.8 billion
- Private financial flows accounted for 243.8 billion.
- Foreign direct investment (FDI) totalled 109.5 billion
- Portfolio investment totalled 45.7 billion.
- Privatization is an important means for countries to attract foreign investment
- In countries such as Peru, Venezuela, Argentina and Jamaica privatization has accounted for between 30 and 40 percent of total foreign investment.
- Privatization has an important signalling effect for foreign investors
- The World Bank says that privatizations are a particularly strong influence over decisions to invest and calculates that each dollar of privatization revenue generates an extra 38¢ in new investment.
- financial and infrastructure privatizations have the most positive effect on other FDI.

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Dealing with fear of foreign investment

- Fear of foreigner investment does not have a very rational base
- Nationalistic countries have been able to overcome it
- Benefits of foreign investment outweigh any perceived disadvantages
- Benefits include capital inflows, new technologies and modern management skills
- Portfolio investment is important as well as direct investment, but this requires properly functioning capital markets.
- Protection of competition, proper regulation of utilities, commercial and securities laws will protect against abuse of power by foreign investors or domestic companies

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How to attract foreign investors

Competition for foreign investment is strong

- What attracts foreign investors?
- Stability & clarity in laws & regulations
- Functioning government institutions/absence of corruption & regulatory intrusion
- Macroeconomic stability
- Low tax rates
- Skilled labour, low priced labour, not over-regulated
- Customers for their products & services
- Ability to exit

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**ORGANISING THE
PRIVATIZATION OF
UTILITIES**

**ENCOURAGING COMPETITION
AND EFFICIENCY IN THE
ECONOMY**

Peter Young

Adam Smith Institute

WHAT IS A MONOPOLY?

| | Natural Monopoly | Partial Monopoly | No Monopoly |
|--------------------------|---------------------|---------------------|----------------|
| Water supply | • | | |
| Telecommunications | | | • |
| Electricity generation | | | • |
| Electricity distribution | | • | |
| Ports | | | • |
| Railways | | • | |
| Postal services | | | • |
| gas distribution | | • | |
| gas supply | | | • |

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The range of methods that can be used to increase competition:

- * industry restructuring and restrictions on vertical integration and horizontal concentration of the market
- * measures to increase the speed and extent of market entry
- * competition for markets, for example by franchising supply in geographic areas
- * comparative competition, between similar companies with regional monopolies
- * competition at the edges of geographic franchised markets
- * application of general competition law
- * measures to prevent sector incumbents from abusing their market dominance

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The 3 main components of utility regulation:

1 Technical regulation.

- technical standards and other procedures to allow 'networks' to operate effectively
- quality & safety regulation
- environmental regulation

2 Economic regulation

- control and mitigation of monopoly power arising from network control or unusually high barriers to market entry - e.g. through price control, compulsory interconnection, additional consumer rights etc.
- Prequalification to ensure market entrants have sufficient competence and financial resources so as to *limit* risk of failure (usually applied through licensing)

3 Security regulation

- Control rights for government or other privileges in the event of military threats, civil unrest, natural disaster, etc.

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A utility regulatory body should have clear duties

- These should be established in law
- They will guide it in its decision-making and help it make decisions faster
- Primary duties should normally include:
 - To protect the interests of consumers
 - To ensure that regulated companies are able to finance their activities
 - To promote the development of competition in the sector

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American versus British utility regulation

- US system is old British system of the last century
- US system based on tribunal type Public Utilities Commission, which holds rate hearings at which utilities seek to justify rate increases
- US system based on utilities earning a fair 'rate of return' on investment
- UK system based on price control on RPI - X formula for a set 4 to 5 year period (RPI = retail price index or rate of inflation. X is an efficiency factor)
- UK system called incentive regulation because utilities have incentive to cut costs by more than the efficiency factor, because shareholders can keep the extra profits
- At the end of the price control period, the regulator tightens the price cap, based on the actual efficiency improvements made
- The UK regulator seeks to increase competition in order to reduce the need for regulation
- The UK regulator is an individual, not a commission or committee

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Options in the institutional structure for utility regulation

- A separate regulatory body for each utility sector, e.g. Office of Telecommunications Regulation, Office of Electricity Regulation, Office of Gas Regulation, Office of Rail Regulation, etc.
- Regulatory bodies which cover several related sectors e.g. Office of Energy Regulation, (including electricity, gas and oil); Office of Transport Regulation, (including Railways, Airports, Ports); Office of Communications Regulation, (including telecoms & posts); etc.
- One central, multi-sector utility regulation body, not combined with a Competition Agency
- One central, multi-sector utility regulation body, combined with a Competition Agency

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Arguments for a central, multi-sector utility regulation body

- There are not sufficient resources, in finance and human resource terms, to staff several sector-specific regulatory bodies
- The multi-sector body will have greater independence from both the regulated utilities and the sector Ministries
- A multi-sector body, after it is established, will be able to take on responsibilities for new sectors faster than if individual bodies are set up for each sector

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To combine or not combine with a Competition Agency?

Advantages:

- Costs will be lower if shared
- Skilled people will be easier to acquire
- Much of the analytical work is very similar
- Pro-competition instincts of a Competition Agency are exactly what is required in utility regulation

Disadvantage:

- Competition Agency cannot then be used as an appeal body for the decisions of the utility regulatory body

Alternative appeal system:

- Establish a separate, part-time appeals panel, supported by consultants when necessary

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Should the regulator be an individual or a committee?

- Independence of political control is vital
- The regulator must have the confidence of consumers and investors
- Can an individual be found who can retain that confidence
- If a commission spreads the risk of individual failure can sufficient qualified people be found for a commission?
- Regulation is a complex task & a full-time job. A part-time commission will require full-time professionals to staff the utility regulatory body
- In a multi-sector regulatory body, full-time directors can head each sector division, but could take decisions on a collegiate basis

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SIX PRINCIPLES BEHIND PRIVATIZATION OF ELECTRICITY IN BRITAIN

- Decisions about the supply of electricity should be driven by the needs of the customer
- Competition is the best guarantee of the customers' interests
- Regulation should be designed to promote competition, oversee prices and protect the customers' interests in areas where natural monopoly will remain
- Security and safety of supply must be maintained
- Customers should be given new rights, not just safeguards
- All who work in the industry should be offered a direct stake in their future, new career opportunities and the freedom to manage their affairs without interference from government.

ADAM SMITH INSTITUTE

ELECTRICITY SUPPLY INDUSTRY RESTRUCTURING AND PRIVATIZATION

TIMETABLE

| | |
|---------------|---|
| June 1987 | Studies of structural options begin |
| February 1988 | Publication of White Paper with Government intentions |
| November 1988 | Bill introduced to Parliament |
| July 1989 | Bill receives Royal Assent |
| March 1990 | Vesting of new companies |
| March 1990 | Customers taking over 1MW have choice of supplier |
| Nov/Dec 1990 | Sale of Regional distribution companies |
| Feb/Mar 1991 | Sale of National Power & Powergen |
| March 1994 | Customers taking over 100KW have choice of supplier |
| March 1998 | All customers have choice of supplier |

ADAM SMITH INSTITUTE

MONOPOLY AND COMPETITION IN THE NEW BRITISH ELECTRICITY INDUSTRY

MONOPOLY

- High voltage transmission (the grid; 275 kv and 400 kv)
- Low voltage distribution (132kv and below)

COMPETITION

- Generation
- Supply (purchase and sale of electricity)

ADAM SMITH INSTITUTE

THE DIRECTOR GENERAL OF ELECTRICITY SUPPLY

- Appointed by Government for fixed term
- In charge of own department, separate and independent of the Department of Trade & Industry
- Applies RPI-X price control for fixed periods to monopoly services
- Monitors compliance with licence conditions
- Can propose licence changes (If licensees disagree, dispute referred to Monopolies Commission)
- Can refer a matter to Monopolies Commission under competition law

ADAM SMITH INSTITUTE

TELECOMMUNICATIONS SECTOR REGULATION

The Director General of Telecommunications regulates the sector, using the following main techniques:

- Price control on existing monopoly
- Licensing of service providers
- Business separation of existing monopoly
- Business restrictions on existing monopoly
- Interconnection agreements
- Service quality controls

The Director-General has his own 'non-departmental' organisation: the Office of Telecommunications, (OfTel), with about 140 staff.

ADAM SMITH INSTITUTE

Usual problems with pre-reform utility regulation

- Restrictive laws prevent competition
- Ministries have limited resources and technical skills vis-a-vis the utilities
- Employment 'revolving door' between Ministries and utilities
- Consequently, utilities largely regulate themselves
- Consumers therefore often regarded as a distraction in the smooth operating of engineering driven systems

ADAM SMITH INSTITUTE

INNOVATIVE METHODS OF PRIVATISATION

MODELS FOR DEVELOPING ECONOMIES

Why Mass Privatisation

- **Few companies profitable**
- **Trade sales complex and time consuming**
- **Valuation differences**
- **Lack of confidence by foreign investors**
- **Low level of domestic savings**
- **No capital markets**
- **Opposition from vested interests**
- **Little commercial expertise in the Government**

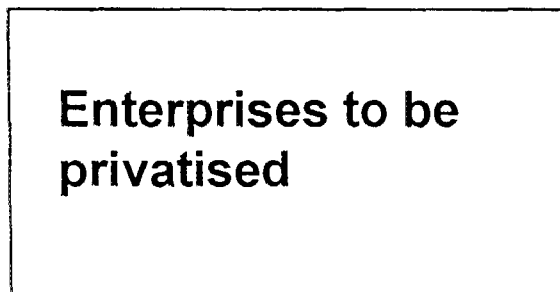
Problems of Delay

- **Competitive position getting worse**
- **Continual fiscal drain on Treasury**
- **Asset stripping and over invoicing**

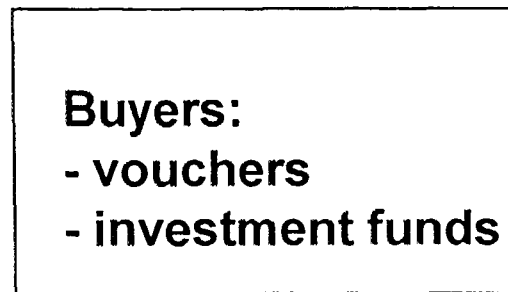
What is Mass Privatisation?

- Different from case-by-case approach
- Processes a large number of companies quickly
- Can utilize vouchers or other non-cash instruments
- Distributes state equity to citizens
- Can be combined with other privatisation methods

Supply side



Demand side



INVESTMENT FUNDS

Key Role in Market Economies

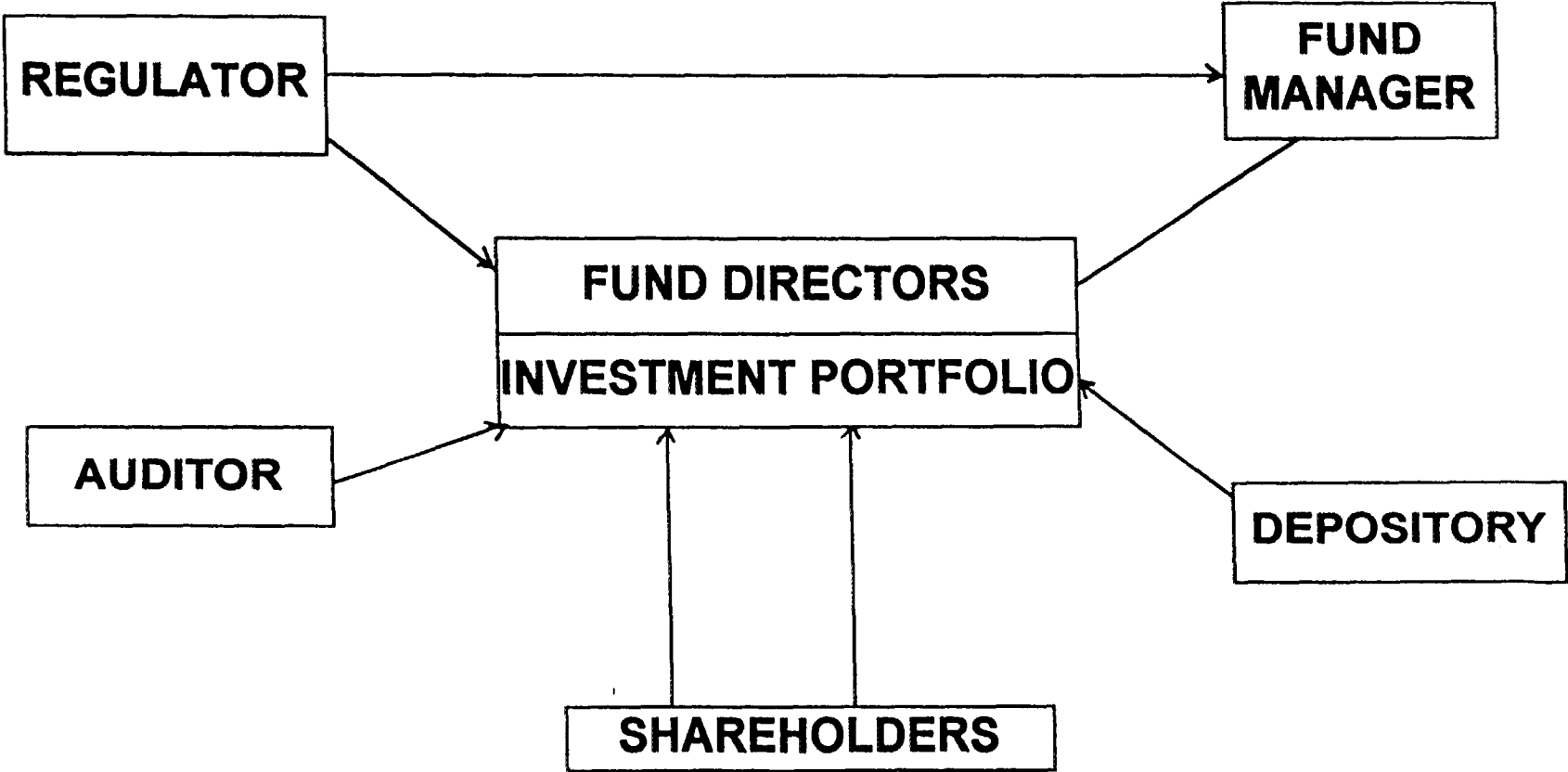
Benefits to Investor

- **spread risk**
- **professional expertise**
- **simplify investment**

Benefits to Government

- **kick start privatisation**
- **support privatisation strategy**
- **stimulate capital markets**

HOW A FUND WORKS



FUND DIRECTORS

- **Look after interests of shareholders**
- **Control contractual relationships**
 - **fund manager**
 - **auditor**
 - **depository**
 - **sales and distribution**
- **Ensure compliance with the law**

FUND MANAGERS

- **Meet investment objectives**
- **Good return for investors**
- **Contracted if separate from fund**

DEPOSITORY

- **Investor protection**
- **Keeps investors assets separate**
- **Handles dividends**
- **Settles transactions**
- **Keeps accounts**

REGULATOR

- **Enforcement of law**
- **Licence funds**
- **Powers to inspect and take action**
- **Receive regular reports from funds**

***SHAREHOLDERS ARE THE OWNERS OF THE
FUND AND THE SYSTEM IS DESIGNED TO
PROTECT THEM***

CZECH REPUBLIC

- **Choice of shares in companies or funds**
- **434 funds emerged spontaneously**
- **72% of vouchers in funds**
- **10 funds with 50% of vouchers**
- **Nationals only on board**
- **Groups with majority holdings**
- **Impact on corporate governance?**
- **Retrospective legislation**

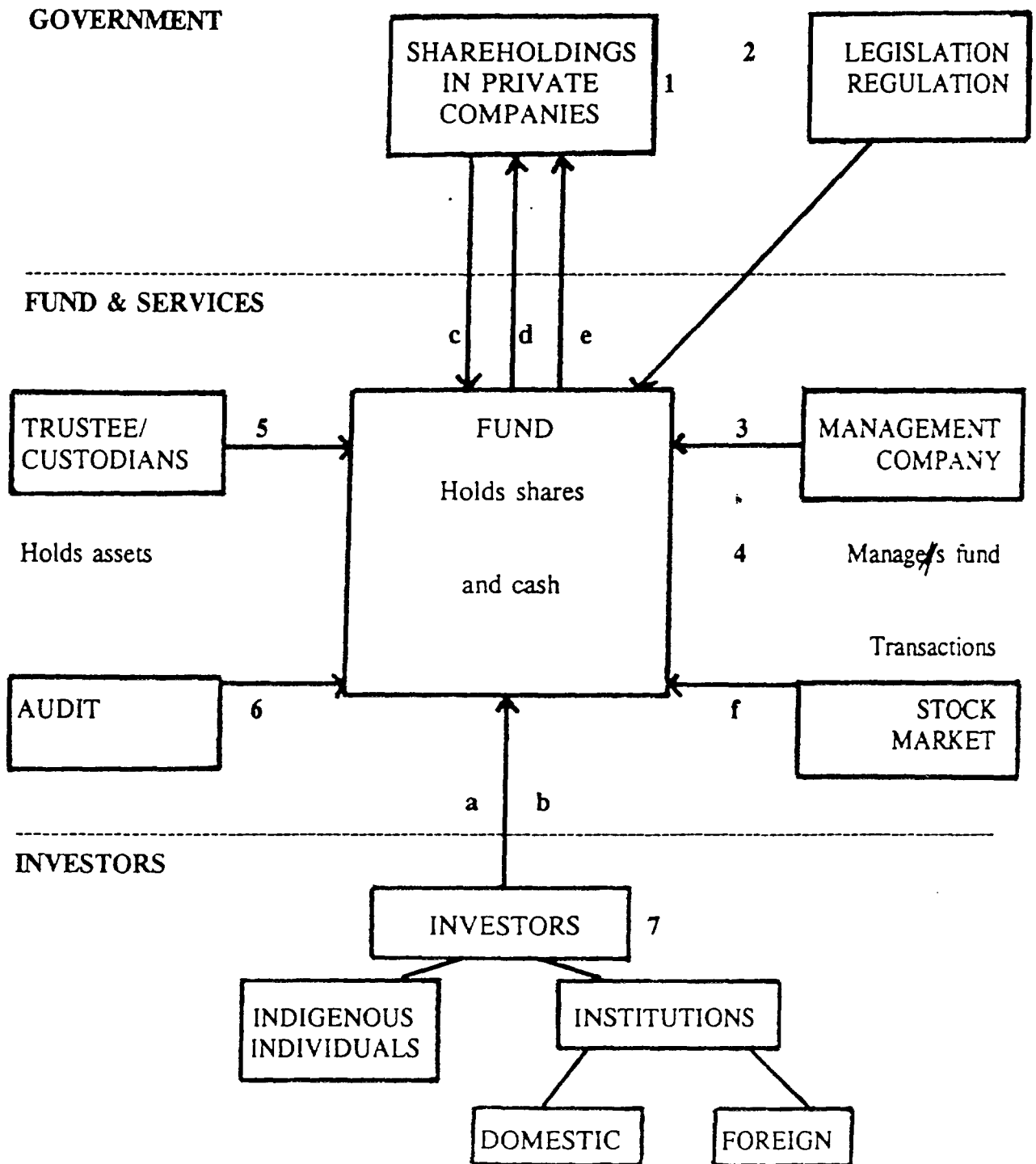
RUSSIA

- **Choice of shares in funds, companies or sell**
- **Many companies controlled by employees**
- **654 spontaneous funds-many local**
- **Russians and foreigners on boards**
- **Funds licensed but poorly regulated**
- **Many scandals**
- **40 million vouchers invested in funds**
- **Less impact on corporate governance**
- **Major impact on promoting privatisation**

POLAND

- **Choice: shares in funds or sell**
- **Government sponsored funds**
- **Highly structured and regulated**
- **15 funds**
- **512 enterprises**
- **Polish supervisory boards**
- **Professional fund managers**
- **Governance and restructuring role**
- **Political uncertainty and delay**

DIAGRAMMATIC REPRESENTATION OF INDIGENISATION FUND



Lessons Learnt

- **high level political support**
- **authority to implement**
- **involvement of the workforce**
- **parallel reform of financial sector**
- **public information campaign**
- **pragmatic approach**

PRIVATIZATION IN BRITAIN AND AROUND THE WORLD

**Background briefing paper
for Yemen Privatization Seminar**

**By Peter Young,
International Director,
Adam Smith Institute**

1997

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1.0 INTRODUCTION

Privatization is sweeping the world. The number of countries which are not privatizing can literally be listed on the fingers of one hand - Burma, Libya, Cuba, North Korea, and very few others.

Of course since 1989 the global trend towards free markets & private property has greatly increased in speed because of the abandonment of communism in the eastern bloc and the adoption by those countries of huge privatization programmes which are moving forward at considerable speed.

Intellectually and practically the free market has won. No sensible economic commentator today advocates socialism and the nationalisation of productive businesses. Instead, the discussion revolves around how to make markets more efficient and how to ensure that more people can benefit from their wealth-creating potential.

Despite this triumph of the free market, however, much privatization remains to be carried out and many difficult issues remain to be tackled in those countries which are pursuing privatization programmes. There is a great deal of international experience of privatization that can be drawn upon by such countries. This paper seeks to highlight some of that experience.

The paper is organised in several different sections. First, privatization is seen in the context of a full public sector reform programme. Different types of reform - such as agencification, commercialisation, deregulation, citizen's charter initiatives - are discussed.

Second, we look at some examples from the UK and the overall results of privatization in the UK.

Thirdly, we look at the progress of privatization in the rest of the world.

Fourthly, the policy and objectives of privatization programmes in developing countries are examined.

2.0 PRIVATIZATION IN THE CONTEXT OF PUBLIC SECTOR REFORM

Privatization is a vital element of any public sector reform programme. However, a reform programme should have the aim of encompassing the entire government sector, and not just those entities which can be privatized. It is therefore necessary to examine and improve the entire range of Government services.

Defining the role of Government

Before decisions can be taken on the appropriate activities of various Government agencies, the role of Government itself must be clearly defined and understood.

We in the Adam Smith Institute believe that Government has five main roles:

- * to provide internal and external security for the population;
- * to provide a framework of laws and regulations to enable justice for citizens and to facilitate commerce;
- * to ensure the provision of the economic infrastructure, such as roads and electric power, to facilitate the economic development of the country;
- * to ensure the provision of an adequate social infrastructure, such as schools and hospitals;
- * to provide the right conditions, through macroeconomic, trade and other policies, for the private sector to prosper and employment to grow.

It is worthwhile noting that to ensure the provision of a service, Government does not need to produce the service itself, but only to ensure that it is provided, (by the private sector, if that is more efficient, less costly and provides greater consumer choice).

Applying clear principles

Once the role of Government has been understood, action can be taken to examine whether individual functions of Government are fulfilling that role effectively and efficiently.

Certain principles should guide this examination. These should include the following:

- * that Government services are provided for the benefit of the citizen, their consumer. Thus they should be examined from the point of view of the consumer. This will mean asking the consumers of the services for their views on the services.
- * that the cost of government services imposes a burden on the productive private sector and the individual taxpayer. Therefore each service should be examined to see if it is necessary and if it is being provided at lowest cost.
- * that Government regulations not only incur an administrative cost for the national budget but also place a burden on those whom they attempt to regulate, therefore they should be submitted to a cost-benefit check.

The review role

Therefore each area of Government should be examined with the above principles in mind, and should be classified in groups for further action. The classifications should reflect the options that are available, which include:

- * Convert to agency form. (Suitable for Government departments or organisations with their own revenue & expenditure. Giving them their own budget and accounts and a degree of commercial freedom makes them easier to monitor & control, and prepares them for full privatization, if possible & desirable).
- * Contract out. The whole or part of the service could be contracted out to the lowest cost private sector provider. (Suitable for functions commonly provided by the private sector, such as cleaning of buildings, catering, vehicle maintenance, architectural services, data processing, etc.)
- * Retain as Government department, but improve efficiency. Some functions are necessary and should be retained as full Government departments. But these should be given cash limits and performance targets and required to meet certain standards of efficiency. Employment reductions may be necessary.
- * Close down. Suitable for functions with no particularly useful purpose.
- * Deregulation. (Suitable for functions which have a monopoly but are providing a poor service).
- * Commercialisation. Conversion to joint stock legal form (but still with 100% government ownership). Often used as an intermediate stage to prepare an organisation for privatization.
- * Full privatization. (Suitable for commercial organisations with their own balance sheets, revenues & expenditure).

Some options can be combined. For example, the staff of a department that is providing a service which will be contracted out can be encouraged to form their own company and bid for the contract to provide the service, or they can be given the contract for an initial two year period.

Overall policies towards Government services

Certain overall policies should be formulated and imposed on all government departments and services. The most notable of these is some form of citizen's charter, which lays down performance guidelines and seeks to ensure that users of remaining government services are treated like valued customers in an efficient, competitive marketplace.

The Citizens Charter was introduced by the British Government on the recommendation of the Adam Smith Institute. It is composed of many individual charters for separate Government departments and services, each of which give the consumer of those services certain rights and regulate the performance of the services. For example, the Citizens Charter for a certain service might:

- * Require employees to meet certain service standards, such as answering the phone within 5 rings, wearing name tags so they can be identified, etc.;
- * Provide cash compensation to consumers if a government service for which they pay is consistently late, (e.g. trains);

- * Enable consumers to call in private contractors to perform a service (e.g. repair of state housing), if the government service doesn't do it within a set time;
- * Allow consumers to shop around between services rather than be provided with one monopoly service (e.g. provide vouchers to students with which they can buy education at universities and colleges, rather than providing them with a place at one university).

3.0 THE BRITISH EXPERIENCE

3.1 Introduction

Britain has more experience of implementing privatization policies than any other country. The economic reforms which have been carried out in Britain since 1979 have been amongst the most far reaching in the world - although the subsequent systemic changes in Eastern Europe have been more comprehensive - and Britain's success has inspired many nations throughout the world to adopt similar policies.

Privatization has played a key part in this reform process. As of 1997, over 50 major UK companies had been privatized as well as a large number of smaller ones. Receipts so far amount to some £67 billion. Almost 70 per cent of the 1979 state sector and over 1 million jobs have been transferred to the private sector. Capital ownership is becoming much more widely spread. The percentage of share owners has risen from 5% of the adult population in 1979 to over 25% in 1997.

Moreover, in excess of 1.2 million public sector housing units have been sold to their tenants, raising a further £12 billion and increasing the percentage of homeowners in Britain from 52% of the population in 1979 to 67% in 1990.

In addition, many public services have been contracted out to the private sector, with many municipal services such as garbage collection and street cleaning, as well as even ancillary services in the armed forces, now being performed by private companies. Furthermore, we are now turning to the private sector to build and finance an expanding part of our infrastructure, such as bridges, tunnels, roads, airports and rail links. In these circumstances the experience of privatization in Britain can provide valuable lessons for other countries.

The following tables give summary information about the companies that were privatized in Britain over the last 20 years.

Table 1: UK Privatisation 1977-1985

| Date | Company | Type of Sale | % of Shares Sold |
|-----------|----------------------------|--------------|------------------|
| Jun 1977 | British Petroleum Co Ltd | Private | 17 |
| Nov 1979 | British Petroleum Co Ltd | Private | 5 |
| Dec 1979 | ICL | Private | 24.4 |
| Jun 1980 | Fairey | Private | 100 |
| July 1980 | Ferranti | Private | 50 |
| Feb 1981 | British Aerospace PLC | First issue | 50 |
| Oct 1981 | Cable & Wireless plc | First issue | 49 |
| Feb 1982 | Amersham International plc | First issue | 100 |
| Feb 1982 | National Freight Company | Private | 100 |
| May 1982 | Redpath Dorman Long | Private | 100 |
| Nov 1982 | Britoil plc | First issue | 51 |
| Feb 1983 | Associated British Ports | First issue | 49 |
| Mar 1983 | British Transport Hotels | Private | 100 |
| Mar 1983 | International Aeradio | Private | 100 |

| | | | |
|-----------|----------------------------|--------------|------|
| Mar 1983 | Victaulic | Private | 100 |
| Sep 1983 | British Petroleum Co Plc | | 7 |
| Dec 1983 | Cable & Wireless | Second issue | 22 |
| Mar 1984 | Scott Lithgow | Private | 100 |
| Apr 1984 | Associated British Ports | Second issue | 48.5 |
| May 1984 | British Gas- Wytch Farm | Private | 50 |
| Jun 1984 | Enterprise Oil plc | First issue | 100 |
| July 1984 | Jaguar plc | First issue | 99 |
| July 1984 | Sealink UK Ltd | Private | 100 |
| Aug 1984 | Inmos | Private | 76 |
| Nov 1984 | British Telecommunications | First issue | 50.7 |
| May 1985 | British Aerospace PLC | Second issue | 59 |
| Jun 1985 | Yarrow Shipbuilders Ltd | Private | 100 |
| Aug 1985 | Britoil plc | Second issue | 51 |
| Nov 1985 | Vosper Thorneycroft Ltd | Private | 100 |
| Dec 1985 | Cable & Wireless | Third issue | 3 |

Table 2: UK Privatisation 1986-1988

| Date | Company | Type of Sale | % of Shares Sold |
|-----------|--|--------------|------------------|
| Jan 1986 | Swan Hunter Shipbuilders Ltd | Private | 100 |
| Mar 1986 | Hall Russell Ltd | Private | 100 |
| Mar 1986 | Vickers Shipbuilding | Private | 100 |
| Sep 1986 | BA Helicopters | Private | 100 |
| Dec 1986 | British Gas plc | First issue | 97 |
| 1986-1988 | National Bus Company | Private | 100 |
| Jan 1987 | Unipart | Private | 100 |
| Jan 1987 | Leyland Bus | Private | 100 |
| Feb 1987 | British Airways Plc | First issue | 100 |
| Apr 1987 | Royal Ordnance | Private | 100 |
| Apr 1987 | Leyland Trucks | Private | 60 |
| May 1987 | Rolls-Royce plc | First issue | 100 |
| May 1987 | DAB | Private | 100 |
| Jun 1987 | Istel | Private | 75 |
| Sept 1987 | BAA plc | First issue | 100 |
| Sept 1987 | National Seed Development Organisation | Private | 100 |
| Oct 1987 | British Petroleum Company | | 36.8 |
| Oct 1987 | Doncaster Wagon Works | Private | 100 |
| Aug 1988 | Rover Group Plc | Private | 100 |
| Aug 1988 | Horwich Foundry | Private | 100 |
| Aug 1988 | Govan Shipyard | Private | 100 |
| Oct 1988 | Yorkshire Rider | Private | 100 |
| Dec 1988 | British Steel plc | First issue | 100 |
| Dec 1988 | Travellers' fare | Private | 100 |
| Dec 1988 | Clark Kinkaid Ltd | Private | 100 |

Table 3: UK Privatisation 1989 - 1991

| Date | Company | Type of Sale | % of Shares Sold |
|-------------|---------------------------------|---------------------|-------------------------|
| Jan 1989 | Appledore Shipbuilders Ltd | Private | 100 |
| Mar 1989 | General Practice Finance Corp | Private | 100 |
| Apr 1989 | British Rail Engineering Ltd | Private | 100 |
| May 1989 | Busways | Private | 100 |
| Jun 1989 | Short Brothers PLC | Private | 100 |
| Nov 1989 | Anglian Water | Public Offer | 100 |
| Nov 1989 | Northumbrian Water PLC | Public Offer | 100 |
| Nov 1989 | North West Water | Public Offer | 100 |
| Nov 1989 | Severn Trent PLC | Public Offer | 100 |
| Nov 1989 | Southern Water PLC | Public Offer | 100 |
| Nov 1989 | South West Water PLC | Public Offer | 100 |
| Nov 1989 | Thames Water PLC | Public Offer | 100 |
| Nov 1989 | Welsh Water PLC | Public Offer | 100 |
| Nov 1989 | Wessex Water PLC | Public Offer | 100 |
| Nov 1989 | Yorkshire Water PLC | Public Offer | 100 |
| Nov 1990 | Eastern Electricity PLC | Public Offer | 100 |
| Nov 1990 | East Midlands Electricity PLC | Public Offer | 100 |
| Nov 1990 | London Electricity PLC | Public Offer | 100 |
| Nov 1990 | Manweb PLC | Public Offer | 100 |
| Nov 1990 | Midlands Electricity PLC | Public Offer | 100 |
| Nov 1990 | Northern Electric PLC | Public Offer | 100 |
| Nov 1990 | NORWEB PLC | Public Offer | 100 |
| Nov 1990 | SEEBOARD PLC | Public Offer | 100 |
| Nov 1990 | Southern Electric PLC | Public Offer | 100 |
| Nov 1990 | South Wales Electricity PLC | Public Offer | 100 |
| Nov 1990 | South Western Electricity PLC | Public Offer | 100 |
| Nov 1990 | Yorkshire Electricity Group PLC | Public Offer | 100 |
| Mar 1991 | National Power | Public Offer | 100 |
| Mar 1991 | Powergen | Public Offer | 100 |
| Mar 1991 | National Grid | Private | 100 |

Table 4: UK Privatisation 1992 -

| Company | Type of Sale | % of Shares Sold |
|----------------------------|---------------------|-------------------------|
| Ballylumford Power Station | Private | 100 |
| Kilroot | Private | 100 |
| Belfast West | Private | 100 |

| | | |
|--------------------------|---------|-----|
| Coolkeeragh | Private | 100 |
| Tees & Hartlepool Port | Private | 100 |
| Clyde Port | Private | 100 |
| Medway Port | Private | 100 |
| Tilbury Port | Private | 100 |
| Forth | Private | 100 |
| British Technology Group | Private | 100 |
| Railtrack | Public | 100 |
| British Energy | Public | 100 |

The following section provides information about four key privatization British areas.

- Sale of commercial companies
- Contracting out of services
- Privatization of utilities
- Private finance of new infrastructure.

3.2 SALE OF COMMERCIAL COMPANIES

Privatization in Britain started with the sale of profitable commercial companies, and later proceeded to the privatization of utilities and of new infrastructure. Here, we take two relevant examples of straightforward sales: banking, which required no restructuring; and the bus industry, which required extensive restructuring and deregulation.

(a) Sale of banks

In Britain we started with the sale of profitable companies operating in competitive markets. Privatization of banks is not very much more difficult than privatization of any other sort of commercial company, providing that of course some sort of banking regulation is in place.

There is now quite an extensive track record of bank privatization around the world. Britain has only limited experience in this area, because most banks in Britain were not owned by the state. One case was the sale of the Trustee Savings Bank (TSB) Group in 1986. The TSB Group included a major personal banking business, with a network of some 1,600 branches throughout the UK, a developing commercial banking business, an insurance business, a credit card business and other subsidiaries. The banking part of the group accounted for the majority of its business. In May 1986, before privatization, the banking division had 18,599 full-time employees and 4,073 part-time. Deposits totalled £9,868 million.

In September 1986 the TSB Group was sold by public offer of its shares. Special discounts on the purchase price of the shares were available for employees and customers of the bank had priority over other purchasers. (I myself had an account at the bank at that time so I bought \$1,000 of shares, which I still hold). The public offer was oversubscribed and shares were sold to over 1 million people. (Half the share price was payable immediately and half in a year's time). Since privatization, the TSB bank has expanded its operations and improved its image. The group bought a leading investment bank, Hill Samuel, and now has total assets in excess of £25 billion.

Britain's only other experience of Bank privatization was the sale of Girobank. This bank's origins were as a cash transmission service but it had grown into a financial institution with a wide range of services. It had over 2 million personal accounts, serviced mainly by Post or telephone and through Post Offices, and handled over £35 billion per annum of cash deposits from the retail sector.

Primarily because it was thought there was a need to increase competition in the banking sector, Girobank was sold by auction. The winning bidder was Alliance and Leicester, a building society - (that is a company mainly concerned with lending money for people to buy houses).

There has been a significant amount of bank privatization in other countries. For example, in the Netherlands the state-owned postal savings bank called Postbank was merged with the private Nederlandsche Middenstandsbank (NMB) to form NMB Postbank.

The 49% state share in the new bank was then sold to members of the public by a successful public offering of shares. As one newspaper commented, the share sale completed the transformation of Postbank - the world's largest postal savings bank - "from a sleepy adjunct to the Dutch post office to an international banking force."

One of the most interesting bank privatization cases is that of the National Commercial Bank in Jamaica, a very poor country with a population of only 2 million. There was a stock exchange there, but it was a tiny one which only opened for 4 hours a week. After a large publicity campaign shares in the bank were put on sale to members of the public.

Amazingly, the offer was 2.7 times oversubscribed and 30,000 people bought shares. On the stock exchange there was an opening premium of \$1.50 over the offer price and for the first time hundreds of people rushed into the stock exchange to watch the trading. This experience in Jamaica shows that banks can be privatized in the most difficult of conditions.

Many countries are involved in privatizing their financial sectors. The Adam Smith Institute itself was been involved in the successful privatization of a state insurance company and a bank in the Gambia, a tiny country in West Africa. The bank was sold to a regional private sector bank and shares in the insurance company were sold to around 150 people, which is a large number in a country of only 600,000 people, of whom no more than 30,000 are in the real economy.

(b) Bus services

Bus services in the United Kingdom were very largely state-owned and monopolised until the mid-eighties. The National Bus Company, a state-owned company, provided inter-city bus services as well as services in most cities and regions. In addition, most municipalities ran their own bus companies. Competition was illegal, with predictable results in terms of the quality and cost of the services, many of which were heavily subsidised by central and local governments.

In 1980 the first step towards the creation of a market in bus services was taken, when long distance inter-city bus services were deregulated. An explosion of new services resulted, almost all at a higher quality and lower price than the state services. However, the deregulation of local bus services was politically more difficult, as many argued that private operators would not provide services on socially necessary but otherwise unprofitable routes.

The privatization solution that was designed was in many ways one of the most interesting and ingenious of all the UK privatizations, in that it allowed maximum competition but satisfied most of the objections to privatization from various interest groups.

Firstly, the National Bus Company was split up into its component parts - National Express (the inter-city service) and 60 regional bus companies. National Express was sold off first, then the 60 regional units. The management and employees of the 60 regional companies were encouraged to form groups and raise financing to bid for their own company and were given a ten percent advantage over other bidders in the auction. (Namely, if their bid was no more than 10 percent below the highest bid, they would win.) In the event, the majority of the regional companies were sold to employee groups.

At the same time and with the exception of London, bus services throughout Britain were deregulated. Anyone could run a bus service provided they complied with the safety regulations. In the case of those routes which were thought to be unprofitable, but socially necessary, the route was put out to tender to whoever would operate it with the least subsidy. In fact, many routes which the previous state companies had claimed to be unprofitable were in fact found to be entirely profitable, and the amount of subsidy required on the remaining routes was very much smaller than had been necessary under the previous state-owned system.

Although in rural areas the level of services remained about the same, the result of deregulation in many cities throughout Britain was a very sharp increase in competition and thus in the extent and level quantity of service. Instead of trying to avoid passengers, bus drivers went out of their way to maximise the number of passengers they picked up.

3.3 CONTRACTING OUT OF LOCAL SERVICES

Privatization of local government services was a relatively new concept in Britain at the start of the Thatcher administration. Councils had contracted with private companies for the provision of various services for many years, but such practice was not viewed as a positive policy which should be extended to other areas. Nor did it usually involve major services such as refuse collection or street cleaning.

However, the movement to contract out services to the private sector grew strongly from 1980 onwards. Encouraged by a stream of publications from the Adam Smith Institute explaining and advocating this particular form of privatization, a few enterprising local governments contracted out some services, such as garbage collection and street cleaning. The results were so positive, both in terms of cost and quality of service, that the government started a major drive to encourage all municipalities and counties to take similar action. Encouragement, however, was not enough. Most municipalities, frightened of the hostile reaction of self-interested pressure groups such as public sector unions, took no action to introduce competition.

Mandatory Competitive Bidding

On February 14, 1985, the Government issued a "green paper", or notice of intent to legislate, entitled: "Competition in the Provision of Local Authority Services." The paper outlined proposals to require local authorities and some other public bodies to seek private sector bids, in competition with in-house staff, for a number of services. In addition it contained proposals:

- a. to require local authorities to establish and report publicly on the cost of in-house provision of other services and on the cost of provision of such services from the private sector;
- b. to prevent the imposition by authorities of contract conditions which are not related to the contractor's performance of the work in question;
- c. to enable the Secretary of State to take action against authorities which unreasonably set aside or frustrate the objective or results of fair competition."

The Green Paper suggested that certain areas of activity were the most suitable for compulsory tendering:

- Refuse collection
- Street cleaning
- Cleaning of public buildings
- Vehicle maintenance
- Ground maintenance
- Catering services, (including school meals)

Due to a variety of political factors, such as an intervening general election, more than two years passed before legislation mandatory competitive bidding was introduced to parliament. On 26 June, 1987, the Green Paper proposals were finally included in a Local Government Bill. The six services listed above were to be subject to competitive bidding.

The Bill made provision for new powers for the Secretary of State for the Environment to add further local government services to the list for compulsory tendering. The newly-appointed Local Government Minister, Michael Howard MP, suggested a range of services which local authorities might consider for putting out to bid -- before the use of this power was considered by parliament. These included such "professional services" as architectural

advice and computing or printing.

Certain terms and conditions in local authority contracts were deemed uncommercial and outlawed by the Bill. It stated that contractual obligations regarding private contractors' employment policies, political affiliations and involvement in other sections of government would be outside the remit of local authorities. The only legitimate contractual requirements were to be those relating to the provision of services and existing government legislation. There were therefore several safeguards against "anti-competitive" councils with a view to ensuring that in-house provision, that performed by the public agency, was not favoured:

- * the work must be advertised in at least one local newspaper and one trade journal, offering details of the specifications and requesting applications to tender,
- * at least three companies must be invited to tender, or all who applied if fewer than three,
- * the in-house organisation must prepare a proper written bid to do the work,
- * in reaching a decision on awards, authorities must not "act in a manner having the effect or intended or likely effect of restricting, distorting or preventing competition."

The Secretary of State was also to be empowered to specify minimum and maximum lengths of contracts for each service. Contractors were to be legally obliged to carry out the specified work contained in the contract. Contracts were to be made available to the public. The Bill also required in-house contractors to keep annual accounts to be submitted to the Secretary of State for the purpose of specifying financial rates of return which must be met. In-house groups would have to publicly quote prices before an award could be made to the in-house group.

The Bill made provision for intervention by the Secretary of State against local authorities where evidence of anti-competitive practices and financial failure could be found. New powers to demand reports from local authorities on tendering practices and to temporarily prohibit in-house provision were included as sanctions against anti-competitive practices. On 24 March, 1988, the Local Government Bill became an Act of Parliament and received the Royal Assent.

Effects of the legislation

Since the passage of the bill, which was fiercely opposed by the Labour Party and the unions, the use of competitive bidding to select contractors has become much more generally accepted. The new policy enabled the local authorities to become much more effective in achieving economies because of the stronger position in which legislation had put them. They needed no longer to be afraid of the self-interested pressure groups. Their freedom to choose amongst alternative suppliers was enhanced and their control over the regulation of supply was increased. The introduction of proper contracts allowed the local authorities to stipulate the various details of the nature and level of the service being offered to the public.

Even Labour Party controlled councils took up competitive bidding. Council Leader David Nuttall of Labour-controlled North East Derbyshire Council justified privatization on grounds of the prospect of improved service-delivery for refuse collection:

"We will go out to tender in 1989 if we don't get an improvement. I am not satisfied with the service we are getting."

A spokesman for the Labour-controlled Brent Council complained about over manning in their own refuse collection agency:

"There has apparently been no commitment from staff to the new manning levels agreed in October. We were hoping to gear up to meet the challenge of competitive tendering which becomes obligatory at the end of next year. Now we have no alternative but to consider privatization."

Labour disputes and the disruption to services after a lengthy strike by refuse collectors in Liverpool were given as the reason for privatizing the service by that Labour council in 1991. A French firm won the contract.

Phasing-in the policy

Local councils were not required to put all services out to bid in the first year. The policy was phased over a number of years and the effect of mandatory competitive bidding has gradually been increasing.

The phasing policy has worked well, and should be considered by other governments examining similar policies. The Government learned from its experience with mandatory contracting out of ancillary services in state-run hospitals. There it had simply required that hospitals contract out the services within three years. But the hospitals did nothing for two and a half years then in the last six months rushed through a bidding process. The private contractors couldn't cope with the flood of bid preparation work and the result was less than satisfactory.

In contrast, a much more thoughtful plan was introduced in the case of local government services. Local governments were divided into six groups alphabetically, ensuring a good geographical mix in each group. Each group was required to put out to bid one of the six services each six months, and the service concerned was specified. So for each service, a sixth of the work was bid out across the country every six months. This has worked smoothly so far and now recreation services have been added to the list of services that must be put out to bid.

Results of privatization

By 1990, after the first two rounds of competitive bidding, research showed that local governments in the UK were saving £42,541,053 a year by contracting out services to the private sector, a sharp increase of £11,215,670 or 36% on the previous year. The number of new contracts awarded that year was 109, bringing the total number of local governments contracting out at least one service to 253.

The extent of contracting out varies across the country. London has achieved the greatest savings. 22 of the 33 London Boroughs use private contractors for their services.

In 1990 Westminster City Council contracted out its on-street parking to three private companies at a annual saving of £1.2 million. The Royal Borough of Kensington & Chelsea contracted out grounds maintenance to Serco at an annual saving of £165,000.

There was also a large increase in savings in the Eastern area of England. Essex County Council awarded its first two school cleaning contracts to Electrolux and OCS at an annual saving of £725,000.

Tendring District Council saved £497,000 a year by privatizing refuse collection and street cleaning. Three Rivers District Council contracted out refuse collection to save £237,000 a year, while Broxbourne Borough Council saved £340,000 a year on its new private street cleaning contracts.

The picture was not so bright in some other areas, particularly those with local governments heavily under Labour Party control such as the North East. Even there the Labour-controlled Wansbeck District Council contracted out its refuse collection at an annual saving of £169,000. Although many Labour councils did resist strongly the award of contracts to private companies, mandatory competitive bidding did at least have the effect of forcing them to examine more closely their existing services. This often leads to privatization later on.

For example, in Labour-controlled Southwark Council in London, a report showed that the garbagemen collected just 25% of that collected by neighbouring Wandsworth's private workers. An efficiency bonus scheme was subverted as soon as it was introduced, so that bonuses of £34 a week were paid out for no increase in efficiency. Garbage trucks which had failed to collect the 14 tons per shift would drive back and forth across the scales at the disposal site until the figure was reached. On some routes as little as two tons per shift was collected, where fifteen to twenty tons would be a realistic expectation. Staff would often finish work soon after 9 am and go off to do private work.

Today, some years into the process of compulsory bidding, the private sector has picked up a substantial number of contracts, with the exact percentage varying service by service, (about 40% in building cleaning and around 25% in the case of garbage collection). Wandsworth Council in London states it has made net savings of 27%.

Worker Buy-outs

One interesting aspect of the change in local authority policy and attitudes has been the increasing number of management and employee buy-outs in local government. The first of these was pioneered by the London Borough of Merton in 1979. It sold its architects department to a group composed of the former management. The 1988 Local Government Act concentrated the minds of many local government officers: to bid on their own behalf rather than that of the council. As David Saunders, Editor of the journal, *Public Service Review*, stated: "A management buy-out frees local managers from the two greatest constraints on a public sector organisation: capital controls and the restriction on trading with private customers."

Where this approach accompanied privatization in local government it often featured employee share ownership plans (ESOPs) in order to raise capital for the venture. Worker buy-outs of the local authority departments were therefore also involved in this particular privatization technique, although they were generally led by management.

By the close of 1988 the largest ever management buy-out of a municipal service was undertaken by the Westminster City Council. The council awarded a £68 million five year contract for refuse collection and street cleansing to MRS Environmental Services. The scheme was opposed by the National Union of Public Employees (NUPE). The management was able to appeal to the union members over the heads of the officials, however, by offering higher wages, share options and the transfer of the pension rights negotiated under local authority management.

Some of the public sector trade unions, notably the GMB union in Milton Keynes, struck deals with the newly bought-out private companies: The former Chief Executive who left the authority to form a new firm signed a single union recognition deal with GMB, although NUPE criticised the union for "flirting with privatization."

The techniques used in local government management buy-outs are noteworthy for their use of incentives and employment policies which largely ensured they took place with the support and active participation of the former local authority workforce. In Westminster, 700 of the 812 staff were taken on by the newly bought-out privatized service.

In Eastbourne the council transferred its street cleaning service, which operated through a quasi-commercial municipal board, to a management buy-out with equity participation for members of the board. These cases enabled the supporters of the new policy to assert that the local authorities need not incur the hostility of their own employees, who had previously been the sole suppliers of local services.

3.4 PRIVATIZATION OF UTILITIES

3.4.1 Water supply and treatment

Water supply, treatment and disposal for many years in Britain was the responsibility of state-owned water boards. The industry was characterised by underinvestment and a lack of attention to environmental standards, as the water boards had the responsibility for both delivering the services and monitoring themselves to ensure standards were met.

The Government's solution was to privatize the industry by splitting it into regional water companies, which were then sold by public share offering. The regulatory functions were retained by Government in newly established regulatory bodies. The consumer was protected by a price cap on charges for water services. Water companies are not allowed to increase their charges to consumers by more than the rate of inflation minus a certain percentage.

The results have been a substantial increase in capital expenditure to bring the systems up to modern standards, much clearer focus on environmental problems and action to redress those problems, and a much more commercial attitude on the part of the new private water companies. They are rationalising their assets and making full use of them for profitable activities, for example by developing recreational activities on reservoirs and rivers under their control.

3.4.2 Privatization of the electricity industry

Electricity is often thought of, wrongly, as an industry suited to state monopoly where competition is not possible. This is not at all true. Today, with heavy demands for new capital to expand electricity systems throughout the world, many governments are getting out of the electricity business and realising at the same time that competition for lowest cost supply is not difficult to arrange.

Fundamentally, what was done in Britain was to separate the three components of the electricity industry - generation, transmission and distribution - and to introduce strong competition within generation. The former Central Electricity Generating Board (CEGB) was split into several generating companies (with National Power and Powergen in the UK being the largest), and a transmission company (the National Grid Company), as well as twelve independent Regional Electricity Companies responsible for distribution.

The regional electricity companies were sold in December 1990 in a multiple flotation, followed by National Power and Powergen in spring 1991. The National Grid Company, which was owned by the twelve regional electricity companies and then subsequently divested by public offer, is responsible for managing the market for the bulk trading of electricity (the pool), which was established on March 31 1990. The nuclear power stations have been grouped into two companies, Nuclear Electric and Scottish Nuclear, which initially were not privatized. In 1996 the more modern nuclear power stations from both companies were grouped together in a new company, British Energy, and privatized by public offer.

The introduction of competition has led to a reexamination of generating technology. Almost all recent projects have involved combined cycle gas turbines. Many new power station projects are launched by new independent power companies, usually consortia involving one of the regional electricity companies. Thus the amount of competition in generation is gradually increasing. There is competition in supply to the larger users and in 1998 this will be extended to all users. Britain now has the electricity industry which offers extensive scope for competition.

3.4.3 The privatization of the gas industry

Gas in Britain was a state monopoly controlled by British Gas, the largest integrated gas supply business in the western world, which was responsible for transmission, storage and supply. British Gas was privatized in 1986 by means of a public offering of shares. The offer of 1,653 million shares to the UK public and eligible employees resulted in 4.6 million applications for 6,600 million shares and was thus 4 times subscribed. Gross proceeds raised by the Government were £5,434 million.

The 1986 Gas Act provided for an independent regulator of the gas industry, the Office of Gas Supply, with the task of increasing competition and preventing British Gas from abusing its monopoly position. Although British Gas was privatized with its monopoly largely intact, there has been a gradual process since privatization of opening up the gas market to greater competition. In 1988 the Monopolies and Mergers Commission forced British Gas to publish its price schedules and set a maximum of 90% of available gas to be sold to British Gas. In 1991, in face of pressure from competition authorities, British Gas undertook to separate its transportation & storage arm from its gas supply arm. In 1991/2 British Gas's domestic legal monopoly was reduced from 25,000 therms to 2,500 therms per annum. In 1994 the Government decided to abolish that legal monopoly entirely by 1996.

3.4.4 Airports

Airports in Britain are viewed today as private sector businesses rather than as state-owned utilities. The Government correctly recognised that airport services are in high demand, can be very profitable, and require access to the capital markets to fund expansion. The result is that the majority of airports in Britain are now private.

The first major step was taken in 1987, when those airports owned by the national government were privatized by means of a public stock offering. The Government raised £1.2 billion pounds from the sale of 500 million shares in BAA plc, the company which superseded the old British Airports Authority. BAA plc owns the three London airports of Heathrow (the busiest international airport in the World), Gatwick, and Stanstead, as well as the four Scottish airports of Glasgow, Prestwick, Edinburgh and Aberdeen.

As private enterprises, these airports are not allowed to charge what they like. BAA plc cannot increase the fees for its aeronautical services, such as landing fees, by more than the rate of inflation less a certain amount, initially fixed at one percent. This is an incentive for BAA to increase efficiency and pass some of the savings on to customers. Other services, however, such as retail sales and parking, are not regulated. These have been developed aggressively by BAA, adding to profits and enabling all the services to be improved.

The change to private sector status also gave BAA access to private capital markets, because as a Government-owned entity its borrowing had been limited. This has enabled BAA to undertake major capital expenditure programmes, such as the expansion of Stanstead airport and the addition of a fourth (and soon a fifth) terminal at Heathrow. BAA is also proceeding with the creation of a high-speed rail-link between London and Heathrow airport which will be run jointly by BAA and British Rail. BAA is bearing 80 percent of the cost of this project. It seems remarkable that under public ownership such a link had not been built.

The privatization of airports owned by municipalities is going ahead. Speke airport in Liverpool, currently owned by five local authorities, is to be sold to British Aerospace, which has a £1.2 billion plan to develop it into an international aviation hub channelling transatlantic passengers onto short-haul services to the rest of Europe. Under municipal ownership the airport has lost money consistently.

The other major municipally owned airports, such as Manchester and Birmingham, have been required by the government to be converted to joint-stock corporate legal form, to prepare plans for bringing in private capital, and then to be fully privatized.

A further interesting type of airport privatization in Britain is the creation of new airports by the private sector. About the same time that BAA was privatized, permission was given to John Mowlem plc, a construction company, to build a new airport in the London docklands, an area which had become desolate since the decline of the London shipping trade but was very close to London's financial district. Mowlem saw the need for an airport close to central London which could serve businessmen needing to travel to short-haul destinations such as Paris and Amsterdam.

To date it has used STOL or short-take-off and landing aircraft because of its limited runway space. However, on September 26, 1991 the UK Government gave permission for the airport to lengthen its runway, enabling it to take small jets which can serve most European destinations. The airport is an example of how the private sector can move in and fill gaps in the airport infrastructure if allowed to do so. Moreover, this new airport is in fact an example of what we cover in section 3.5, the private finance of new infrastructure.

3.4.5 Questions of monopoly and the need for independent regulation

Many Government entities, particularly utilities such as those described above, act as monopolies. The reasons for the monopoly differ. In some cases it is perceived that the service has a natural monopoly. For example it is relatively clear that the supply of piped water to domestic premises is largely a natural monopoly. However, in the case of electricity, long perceived by many to be a natural monopoly, it is now very clear that certainly in generation there is no natural monopoly at all but rather full potential for competition.

In other cases a monopoly has been granted in an attempt to preserve a national network - posts is an example here. In other cases there have been more political considerations involved.

When these entities are corporatised - with the aim of acting more like normal, profit-seeking private companies - the question arises of how their monopoly should be treated and how consumers should be protected.

Often consumers have not been adequately protected while the entity was a government department or public sector statutory body. For example, in Britain the nationalised industries had a duty only to break-even, not to make profits. However, this did not prevent them from investing their 'surpluses' in unnecessary capital expenditure, expanding already bloated workforces or undertaking other activities which led to unnecessarily higher prices for their captive customers. In some countries, most notably (but not only) some developing countries, state monopolies charge very high prices but deliver exceptionally poor quality services. Customers have nowhere else to go.

The first question that must be addressed at the time of corporatisation is the extent to which it is possible to introduce greater competition - the most effective protection for the consumer if it can have full effect. Many of the services that were deemed to have natural monopoly features will be found not to be natural monopolies at all. On removal of the statutory, legal monopoly competition may flourish. An example would be the removal of the state monopoly on long-distance bus travel in Britain at the beginning of the 1980s, at the same time as the state company National Express was corporatised for later privatization.

However, in other cases, it may be very important to restructure the industry to allow or

encourage competition to occur. For example, although the market for supply of new electricity generating capacity had been liberalised in Britain in the mid-1980s, the private supply of new power did have a serious effect on the monopoly position of the Central Electricity Generating Board. When the future of the electricity industry was considered in the mid-1980s, it was clear that it was necessary to restructure the industry by breaking it up if competition was to be effective. Therefore the industry was broken up as described above.

This raises a very important point, which we will deal with further below. It is at the point of corporatisation that any restructuring should occur - with a view to increasing competition, improving efficiency, or whatever - not at the point of privatization. Thus a long-term view should be taken when governments decide to corporatise.

Insofar as there is continuing monopoly power on the part of the corporatised entity it must be dealt with by regulation. It is generally better that such regulation should be explicit and transparent. There are different methods of price regulation - with the US method of rate-of-return regulation being the most widely used throughout the world - but today it is generally accepted that British-style price-cap regulation is the most effective at both keeping prices down and encouraging efficiency on the part of the regulated company. (The regulatory formula is usually expressed as 'RPI-X,' meaning that the company may increase its prices by the rate of inflation minus a certain amount).

Privatization may well create the need for independent regulation of the newly privatized body or indeed newly corporatised industry. Government entities often hold regulatory & licensing powers, which it is inappropriate for them to retain once corporatised or privatized.

For example, British Telecom had inherited from the Post Office (of which it was once part) the duty to issue licences to many private and public entities which were connected to or used its systems. In the new scheme that was introduced when it was fully corporatised then privatized British Telecom itself had to be granted a license. It was clearly inappropriate for it to be responsible for granting licenses to others, some of whom would be its competitors. Thus these powers were transferred to the newly created Office of Telecommunications (OfTel).

Similarly, to take a developing country example, as the Government of Trinidad & Tobago is currently considering how to corporatise then privatize its electricity industry, it faces the problem that the state electricity monopoly now has the role of granting licenses for any new generating capacity. This is obviously a serious constraint on the introduction of private capital to a newly liberalised industry and will need to be amended.

The water industry in Britain in its nationalised form had both the responsibility of producing and disposing of water and of regulating its quality. Aside from problems of lack of capital investment, it is not surprising that water quality often fell below acceptable standards, as the industry was policing itself.

When the industry was fully corporatised, prior to privatization, the responsibility for regulation of quality standards was transferred to the National Rivers Authority and the pollution inspectorate.

Although regulatory functions can be retained or acquired by Government Ministries directly, many countries have found it preferable to create semi-independent regulatory organisations. This is done partially to remove the conflict of interest that still exists between the Government as owner of some of the operators in the market and regulator of all the operators. Examples in the UK are the Office of Telecommunications (OfTel), the Office of Gas Supply (Ofgas), and the Office of Water Services (Ofwat).

3.5 PRIVATE FINANCE OF NEW INFRASTRUCTURE

3.5.1 Transport infrastructure

Private funding of our transport infrastructure is now a well-established and expanding practice in the UK. The first privately-funded road scheme in Britain this century is the Dartford bridge over the river Thames in London, opened by the Queen at the end of October 1991. Of the £200 million cost, £130 million has been borrowed from three banks who will be repaid from the toll receipts from the bridge and the two existing tunnels.

The three banks, Kleinwort Benson, the Prudential, and the Bank of America each own 17 per cent of the Dart Crossing Company and 49 percent is owned by Trafalgar House, which is building the bridge, the longest cable bridge of its type in Europe. Other bridge projects have also gone ahead along the same lines, for example, a privately financed crossing over the Severn estuary in the West of England and a privately financed toll bridge between the mainland and the Isle of Skye on the West coast of Scotland.

Psychologically, of course, it is a big jump from charging for bridges and tunnels to charging for roads themselves. Unlike the United States, Britain has not had any toll roads this century. But the Government has made this important policy change and the first private toll road will soon be built. The UK Department of Transport recently announced that Midland Expressway, a joint venture between Trafalgar House and Italstat, had won the competition for the concession to design, build, finance and operate the Birmingham Northern Relief Road. Their proposal will provide a 30-mile six lane tolled motorway at a cost of £260 million.

Of course the largest private infrastructure project is the Channel tunnel, which will finally end continental Europe's isolation by linking it with Britain. It is the world's largest infrastructure project, and one of its most complex. For the last 200 years the British and French Governments talked about such a link, but it has taken the private sector to get on and actually create it. The tunnel is now open for traffic.

The tunnel is 32 miles in length, connecting Folkestone and Calais. (In fact, there are 3 tunnels, two of which carry the traffic with the third being a service tunnel between them, providing ventilation, access for maintenance and an emergency exit). It is a rail tunnel that uses trains carrying three types of traffic. Firstly, shuttles running between terminals at Folkestone and Calais carrying road traffic, (the trip lasts 35 minutes and passengers stay in their cars in well-lit, air-conditioned shuttles and then drive off at the other end); secondly, high-speed passenger trains connecting European cities, and thirdly, through freight trains. Despite a number of construction problems, the project moved steadily forward and is now complete and operational.

The project costs over £7 billion, all of which has been raised from the private sector. Eurotunnel, the company which owns the tunnel and will operate it, raised £1 billion from shareholders when it was originally floated, and £5 billion in bank loans from a banking syndicate including 39 Japanese banks contributing £1.6 billion, 34 French banks contributing £897 million, 21 German banks contributing £629 million and 11 British banks contributing £468 million. Also in the banking syndicate are 17 banks from Scandinavia, 14 from Belgium and Luxembourg, 15 from the Middle East, 13 from Italy and 11 from Switzerland. Other banks involved are from Austria, America, Canada, Holland, Singapore and Hong Kong.

The original Channel group consisted of 10 contractors and five banks. The sponsors ceded control of the project to Eurotunnel in 1986. The contractors then formed Transmanche-Link to design and build the link for Eurotunnel. In October 1990, following revised estimates of the total cost of the project, Eurotunnel entered into a revised credit agreement with an international group of lending banks, increasing the total of project finance loan and letter of

credit facilities available from the banks from £5,000 million to £6,800 million. In December 1990 Eurotunnel raised a further £566 million by means of a 'rights issue' of new shares for existing shareholders. There are some 600,000 shareholders in all.

The Channel Tunnel project demonstrates conclusively that the largest and most complex of projects can be undertaken speedily and efficiently by the private sector, and that there is a ready source of funds from individual investors and investment institutions to finance such projects.

3.5.2 Private finance of new prisons

The prison system is always one of the more interesting and controversial privatization topics. This is primarily because we largely think of the criminal justice system as a state monopoly. However, that does not mean that you cannot have private sector providers of services within the criminal justice system. After all, in most countries criminal lawyers are not employees of the state.

Public sector prison systems in most countries have three main characteristics:

- * Underinvestment in existing prisons;
- * Underinvestment in new prisons, leading to overcrowding;
- * Lack of innovation in running of the service.

Politicians do not usually care much about prisoners, because they usually have no right to vote and are despised by the rest of the population. There are therefore no votes in trying to create a better prison system. It can be argued however, that a more efficient prison system which does a better job of lowering reconviction rates is of positive benefit to the rest of society.

There are two different forms of privatization which can be usefully applied to the prison service. One is the contracting out to a private operator of the running of a prison. The second is the retention of a private company to finance, build, own and operate a new prison.

In both cases the private operators is remunerated by a contractual payment from the Government, usually related to the number of prisoners held. In some case this is a rate per prisoner per day. In the case of a new prison, this means that the Government does not have to find the initial capital for the prison, but in effect pays for over its operating life.

When the operation of an existing prison is put out to bid, there is an opportunity to see if private companies could run the prison at lower cost, and if they have any good ideas for running the prison more efficiently. However, the greatest benefits are achieved when a build-own-operate contract for a new prison is put out to bid, because design improvements related to operation are built in to the new prison.

For example, in America, where the majority of new private prisons have been built, these prisons often utilise modern electronic control centres, from which all doors can be controlled and video cameras can survey the entire prison. This reduces the need for large numbers of guards and improves security. Another characteristic of modern private jails is the effort to produce a more relaxed, less tense atmosphere. Guards do not wear militaristic uniforms and are called supervisors rather than guards, while the prisoners are called residents. A deliberate effort is made to persuade prisoners not to reoffend and indeed many American private prisons have a lower reoffence rate of their prisoners. It is of course

possible to link the remuneration of the private company running the jail to the reoffence rate.

There is now quite an amount of experience with prison privatization in different countries around the world. In Britain we have been relatively slow in taking up this policy, with the first contract for a new private prison only having been awarded this year. Prior to that the transport of prisoners between courts and jails was privatized. Undoubtedly the bulk of experience is in various American states, but other countries, such as Australia and South Africa, have also gone the privatization route.

3.6 RESULTS AND CONCLUSIONS FROM THE BRITISH EXPERIENCE

3.6.1 Results

The results of Britain's privatization programme have been favourable. By almost every measure privatization has been beneficial. It has certainly been beneficial for the many millions of British citizens who bought the shares of companies sold by public offer. Here is a comparison of the flotation price of various privatization shares compared with the share price as at August 18, 1997:

| Company | Flotation price | August 18 , 1997 price |
|------------------------------|-----------------|------------------------|
| BAA | 330 | 572 |
| British Airways | 125 | 617 |
| British Gas | 135 | 255 |
| British Steel | 125 | 174 |
| British Telecom | 130 | 381 |
| National Power | 175 | 507 |
| Powergen | 175 | 712 |
| Scottish Power | 240 | 429 |
| Eastern Elec. (Energy Group) | 240 | 628 |
| Anglian Water | 240 | 767 |
| NW Water (Unit. Utils) | 240 | 705 |

These gains for investors are not windfall profits bestowed by underpricing of the original share offers but the result of sustained increases in the privatized companies' profits, performance and efficiency. The improved profit performance is demonstrated by Chart 1, which is attached to this paper. Three individual examples of improved performance are:

- * British Airways , a heavy loss-maker in state ownership but now the most profitable airline in Europe and one of the most profitable in the world has increased productivity by more than 40 % per employee since privatization.

- * The National Freight Consortium (NFC), loss-making and with declining market share when in state ownership, has been transformed by a management/employee buyout in 1982 into a successful international company now quoted on the stock exchange. An increase in employee share-owners from 38 % of the workforce in 1982 to 90 % in 1992 has been accompanied by a compound annual increase in profits of 29 %.

- * British Telecom has increased the number of telephone lines by more than 30 per cent, while the overall rate of failed calls has fallen from 1 in 30, to 1 in 200.

The consumer has benefited substantially, as is evidenced by the following:

- * a fall of 30% in real terms in prices charged by British Gas to domestic and small business consumers since privatization;

- * a fall of 40 percent in British Gas's contract prices to industrial customers since privatization;

- * a fall of 50 per cent in real terms in British Telecom's main prices since privatization;

- * British Gas has reduced by 50% the number of disconnections since privatization;
- * now 95 % of British Telecom's customer installations are completed within the time agreed by the customer;
- * by 1993 95 % of payphones were working compared to 77 % sixteen years previously and, since privatization, British Telecom provide nearly 45 % more of them;
- * Since privatization of the electricity industry at the beginning of the 1990s domestic prices have fallen by 20 per cent in real terms. Some businesses have had even larger reductions in price.

3.6.2 Conclusions

The experience of privatization in Britain is a positive one. Most of all, it shows that with appropriate political will almost anything can be privatized, and privatized in such a way that there is a clear benefit both to the consumer and the taxpayer.

Although privatization in Britain has been indeed substantial, the programme was a calm and measured one which took many years to implement. The experience of each previous privatization helped in the design of the next. It also must not be forgotten that privatization in Britain started in 1979 in what was a very hostile political and ideological climate. In the early years, each individual privatization had to face a barrage of hostile publicity, public campaigns, threats of strikes etc.. As the programme progressed successfully this of course subsided. In fact today the new Labour Government are continuing to implement the privatization programme, even the more controversial parts, such as the privatization of prisons.

The extent of what was politically possible gradually increased. Those who advocated privatization of the telecommunications company in 1980 were derided as fools and ideologues. But in 1984 it was carried out very successfully. In 1984 it was still not mainstream policy to advocate privatization of the electricity industry, but in 1990 it was successfully carried out. In the early 1980s it was thought completely impossible to privatize the coal industry because of the power of the mining unions, but today one of the unions is offering to buy the industry. When in 1987 The Adam Smith Institute produced reports advocating the privatization of prisons, it was still regarded as a rather a way-out idea. In 1992 the Government privatized the first prison and in 1993 announced the privatization of a further 12.

With perseverance and careful attention to the design of privatization policies, success can indeed be had. Countries do not need to go through the same lengthy ten year process of privatization as Britain. The pioneering work has already been done and most of the political, economic and financial problems of privatization have now been solved. It is now largely a question of adapting that international experience to one's own particular circumstances.

4.0 PRIVATIZATION IN THE REST OF THE WORLD

As mentioned in the introduction to this paper, there are very few countries which are not pursuing privatization programmes of one sort or another. The Adam Smith Institute's own International Advisory Unit has never been busier, and is advising governments on privatization in an extraordinarily broad range of countries, including the following: Ecuador, Guyana, Nepal, Vietnam, Belarus, Egypt, Palestine, Trinidad and Tobago, Bulgaria, Kyrgyzstan, Romania, Bulgaria, Oman and Mongolia. I never thought I would see the day when we would actually be advising the Mongolian Government on privatization.

Unless this paper is to be some 200 pages long, there is not space to detail the progress being made towards privatization by every country in the world. Instead, I will give a brief review of progress in each of the three main category of country: developed countries, defined as those which are members of the OECD; postcommunist countries; and developing countries, defined as the remainder.

4.1 OECD countries

OECD countries have proceeded at different speeds down the path of corporatisation and privatization, although the policy is now universal throughout the OECD. This is natural, given their different starting points, and different economic circumstances. For example, Britain and New Zealand have been among the most radical in pursuit of the policies. Germany, on the other hand, has been rather late in developing the policies, at least in the original Western part of the country.

What is remarkable, however, is that in 1994 every OECD country has some form of privatization and corporatisation programme, although of course of varying degrees of size & depth.

Privatization started with commercial, competitive companies in Britain, extended then to utilities in Britain, was taken up by other OECD countries both in respect of commercial companies and utilities, and then began to be extended to more core functions of government in the UK and some other OECD countries.

Corporatisation of utilities of course raises many more complicated issues than does that of commercial companies which operate in a competitive market. In the case of utilities there are usually issues of restructuring, competition and regulatory frameworks to consider in addition to the more straightforward matter of converting the organisation from a state entity into a private sector legal form. These issues are however being tackled in many OECD countries.

Utility corporatisation and privatization in those OECD countries belonging to the European Community will be significantly boosted as a result of European directives. For example, the Commission has issued a directive specifying that the telecommunications market within each EC country should be liberalised by 1998, allowing EC telecommunications companies to compete in each other's markets. A similar directive has been issued in the case of electricity. This means that those countries which do not corporatise & privatize their telecommunications & electricity sectors will be at a significant competitive disadvantage.

The extension of privatization to core Government functions is less prevalent. The UK has made most progress in this area, followed by New Zealand. Other countries are, however, examining aspects of this policy and making their first steps to introduce it.

4.2 Postcommunist countries

Postcommunist countries obviously differ from others in that the whole of their economies were subject to state control and state ownership. The task is therefore much greater and of a different order to that in other countries.

Ever since the initial collapse of the communist regimes the crucial importance of rapid privatization was widely acknowledged as a key element of successful reform of postcommunist economies. Without it, the transition to a market economy could not properly take place. Much emphasis has since been placed by the West on helping post-communist countries develop and implement privatization programmes.

However, although much has been achieved over the four year period since the abandonment of communism, there must be serious concerns over the implementation of privatization in many post-communist countries. Whilst new and innovative methods have been devised to "sell enterprises that nobody owns and nobody wants to buy to people who cannot pay", (in the words of the former privatization minister in Poland Janusz Lewandowski), such as voucher schemes and the sale of shares to employees with little money changing hands, with the partial exceptions of Poland, the Czech Republic, and Hungary, progress has overall been painfully slow. This is particularly the case in southern East European states and in the southern former Soviet republics.

Furthermore, a significant proportion of the privatization that has been carried out is significantly flawed, involving the transfer of monopolies to the private sector, the inability of the new owners to exercise their ownership rights properly, the entrenched positions of the old management, restrictions on the scope of activity of the privatized company, inability to trade shares effectively, regulatory restrictions on private sector activity as a whole, etc.. The primary *raison d'être* of privatization - to create a competitive market economy - - appears to have been at least partially forgotten or misunderstood by many.

Success in privatization is usually defined as the achievement of the transfer of a significant proportion of the economy from state hands into private hands. However, with the above reservations in mind, there are three key qualifications which need to be made to this goal if it is to be compatible with the wider aim of creating a prosperous market economy.

- (i) Privatization must be defined as the majority of shares or controlling shares being fully in the hands of private individuals and private businesses. For example, ownership of a majority of shares by another state enterprise, state bank, or any other organisations controlled by the state does not represent, in our view, privatization. Throughout the postcommunist world, there are many enterprises describing themselves as privatized which do not fit our definition - - either through indirect state ownership or through leasehold arrangements initiated under the pre-1991 Gorbachev reforms, or some other forms of indirect state control.
- (ii) Privatization is a necessary (but not sufficient) condition for the creation of a market economy. For example, if a whole sector is privatized but existing monopolies, cartels, and cartelised networks are maintained, the benefits of privatization could be small. Furthermore, the benefits of privatization can be severely diminished if shares in privatized enterprises cannot be traded (legally or informally) or if licensing, business regulations, or terms under which enterprises are constituted have the effect of erecting insurmountable barriers to market entry. Thus privatization must be accompanied by liberalisation measures which create competitive pressures, ownership pressures, and economic freedom.
- (iii) The success of privatization will be short-lived if the process is conducted in a non-transparent way and if the process is managed as an opportunity for enrichment amongst a bureaucratic or economic elite. In most postcommunist countries, a number

of joint stock companies of closed type have been created, the structure of which prevents shareholders from selling their shares and provides the scope for directors of enterprises to exercise effective full control and sometimes to allocate themselves large, artificially created, dividends. Whilst such enterprises describe themselves as having been privatized, we would not agree. Therefore, a third qualification is that privatization must be conducted in an open, transparent and equitable way, and must involve real ownership, where shareholders can exercise ownership rights and freely sell the shares they own.

Most postcommunist countries are failing to achieve this wider form of 'real privatization.' For example, although the quantity of privatization that has been carried out in Russia has been substantial, some of it seems to involve little more than 'changing the nameplate on the door' of the company, with the same management in control doing the same things.

In summary, the Czech Republic has been most successful in transferring large numbers of companies to the private sector through its voucher programme. Of the countries that have adopted an individual sales approach, Hungary has been most successful, with a very large number of sales. Progress in Poland has been disappointingly slow, although their own mass privatization programme has now started. In the countries of South-Eastern Europe, such as Bulgaria and Romania, little has been achieved, and the same is true of the Southern countries of the former Soviet Union (FSU) such as those in the Caucasus and Central Asia. The exceptions to these general statements are Albania and Armenia, where privatization of agriculture and small business has been successfully carried out. Good progress has also been made by the Baltic states of Latvia, Lithuania and Estonia, but progress in neighbouring Ukraine and Belarus is poor.

4.3 Developing countries

Almost all developing countries are pursuing privatization programmes. The exceptions are primarily those which are so disorganised that they have been until recently unable to pursue any sort of policy. Examples are Rwanda and Zaire. However, among developing countries, privatization programmes fall into different categories. Some countries, such as Chile and Argentina, have pursued privatization so thoroughly that there is very little left to privatize. Chilean pensions privatization is the most sophisticated in the world and is being copied by developed and developing countries alike.

Others, such as many in Africa, are pursuing privatization slowly and with little enthusiasm. This is because the environment is particularly difficult and local elites find their privileged positions threatened by a diminution of state subsidies and privileges. Nevertheless, privatization is picking in speed throughout Africa, and some of the poorest countries, such as Gambia, have made impressive progress.

In Latin America the slow starters are Uruguay, Paraguay, Bolivia, Ecuador and Brazil. In the case of the first four privatization is now getting well underway. In the case of Brazil it is now finally moving ahead under the leadership of President, former Finance Minister Cardoso. In Asia the largest late starter is India, where there is now limited progress at both a state and a federal level.

One surprising recent development is the advent of privatization in the Middle East, including the resource-rich Gulf states. These countries have found both that they are running out of money and that levels of efficiency under state ownership are unacceptably low. The likes of Kuwait, Oman and Saudi Arabia have now joined the ranks of the privatizers.

A summary view of the developing world would therefore find privatization as a fairly universal policy, but one that is being pursued at varying speeds and degrees of sophistication.

5.0 POLICY AND OBJECTIVES OF DEVELOPING COUNTRY PRIVATIZATION PROGRAMMES

The objectives of privatization in a developing country are normally somewhat different from those in a developed industrial economy such as Britain. Careful analysis of these objectives is a precondition of success. In any modernisation and privatization programme there are different objectives, some of them conflicting. In the case of developing countries the overall objective should be to create a stable, equitable, thriving, competitive, profitable private sector economy, where opportunity to gain wealth is more easily available to the mass of the population.

In order to achieve this overall objective, it is necessary to:

- * turn key services over to the competitive private sector;
- * reduce government expenditure, by terminating unnecessary subsidies and allowing the private sector to take on the burden of necessary new investments;
- * encourage the indigenous population to invest in their own country and thus strengthen capital markets which will fuel sustainable economic growth.

Applying priority objectives to individual enterprises

Different enterprises obviously have different characteristics which fit only some privatization objectives in each case. Most countries starting a privatization programme pursue 7 key objectives:

- * Increase in national economic efficiency & growth, through better, more competitive services, and/or lower prices
- * Reduction of government current expenditure
- * Reduction of major government capital expenditure
- * Economic democratisation/wider share ownership/capital markets
- * Early success to popularise process
- * Raising of sale proceeds,
- * Attraction of international management skills, technology and investment, (internationalisation)

The secret of success in building an effective privatization programme is to build the right mix of privatizations, using the the appropriate methods in each case to attain the right objectives, and sequencing the privatizations in the best order.

One does not need to attain every objective in each privatization. Indeed, as is obvious, it is impossible to do so. What one must achieve is the right mix of objectives over the entire programme.

Priorities

The key overall objective of maximising economic growth and national prosperity means that in many developing countries the priority of the privatization programme is to transfer to the competitive private sector those services which are most necessary for the growth of the rest of the economy and where the inefficiencies and lack of targeted investment that result from monopoly state ownership cause most damage to the rest of the economy. These

tend to be such services as telecommunications, ports, electricity and water.

These also happen to be services the sale of which will raise significant revenues for the Government and where substantial investments will be required in the future, funds for which should preferably come from the private sector rather than the Government. However, it is important not to go into the privatization of utilities with the wrong short-term motives, which usually leads to trying to sell a company as a monopoly quickly to a foreign buyer in order only to make it work effectively.

Getting a telecommunications or electricity company to work properly is not very difficult, and should not be the summit of national ambitions. The critical factor is the introduction of competition into utility sectors such as telecommunications, electricity and gas. Competition is quite possible in large parts of these sectors - all of telecommunications, generation of electricity, the supply of gas, for example. Only competition will guarantee continuing long-term increases in efficiency and provide the incentives for improvement and extension of service and introduction of new technology.

Therefore utility sectors should be restructured so as to increase competition where possible. For example, this means dividing the electricity industry into competing generating companies, as well as a separate transmission company and separate distribution companies. Those parts of the industry which are monopolies - such as transmission and distribution in the case of electricity - should be regulated to ensure that they do not exploit their monopoly. In the case of telecommunications dividing the industry may be helpful but is less important. What is crucial is to permit full competition and introduce a clear regulatory framework which requires interconnection between networks, prevents exploitation of parts of the system which retain temporary monopoly power, etc.

Privatization of new infrastructure is also very important. Much infrastructure, such as new roads, bridges, tunnels, power stations, airports, ports, and even prisons, can be financed, built, owned and operated by the private sector. However, to launch such projects requires the involvement and support of many different parts of government, and if those parts of Government do not fully understand the complex nature and requirement of such private projects, then much time and resources can be lost and little will be achieved. Similarly, there is a need to understand how new privately-financed projects fit within an overall strategy for the sector concerned, which may involve the restructuring and/or privatization of existing facilities. The question of a clear regulatory framework for the sector is all important here.

In addition to the basic utilities, developing country Governments usually own wholly or partly a large number of other industrial, agricultural and service companies, which variously consume significant subsidies, provide poor services to the rest of the economy, crowd out private investment and generally contribute to economic inefficiency.

These companies provide opportunities for spread of capital ownership and reduction of Government subsidy. Governments should privatize the vast majority of those companies as soon as possible and in a manner likely to increase the likelihood of privatization of the basic services, such as telecommunications and water.

Priority should be given to developing intelligent strategies to privatize those companies which inhibit growth in key areas of the economy and which offer the best prospects for economic development of the country and increased employment.

In order to increase the public popularity of privatization, to broaden the domestic investor base and thus to make the privatization of the basic services easier, privatization of successful commercial companies by sale to the general public and/or the employees should occur first. During this time, the privatization of the first basic services should be prepared.

During this time also, the privatization of the larger, less successful commercial companies should also be prepared.

The successful sale of smaller commercial companies will raise some revenue which can be utilised to pay the costs of subsequent transactions, in which many employees may have to be paid compensation. These early successes will also smooth the way to the larger transactions through which significant revenues will be raised.

Popularising the privatization programme is obviously crucial to success. This means firstly that the programme must be characterised by full transparency and accompanied by an extensive marketing campaign, directed at all interested groups, most notably the general public and employees.

Each privatization should be designed to take account of existing interest groups and their concerns and fears. Particular concerns can often be dealt with by inserting provisions into sales contracts and licences. For example, if the public fears that a privatized telephone company will not maintain public call boxes in rural areas, it can be required in its licence to do so. If certain users of the service receive it for free or at a subsidised price, then after privatization they can be given vouchers by the government to spend on the service. In other words, the subsidy, if desirable, should be routed through the consumers rather than the producers of the service.

If possible, key interest groups should be able to participate in the privatization, for example by the sale or allocation of shares to employees on preferential terms and the sale of shares to large numbers of the general public. An early success in privatization, which shows clearly how service levels improve and the whole of the population can benefit, will do much to inspire success in the whole programme. Nothing succeeds like success.

Economic democratisation

The entire programme should contain a substantial element of economic democratisation - spread of capital more widely throughout the bulk of the population. Despite the fact that only a limited number of people in most countries have many spare resources with which to invest in the privatization programme, it is possible through various mechanisms to increase very substantially the number of capital owners.

One of the obvious mechanisms of economic democratisation is to sell shares to the employees of state enterprises. Usually this will have to be done on discounted terms and/or on credit, if they are to be able to take up the opportunity. Another mechanism, the most successful throughout the world, is to make fixed price shares easily available to the whole population through a mass marketing campaign which makes it specifically simple to acquire shares, for example by simply filling in an application form in a newspaper. Of course the shares must be priced so they are competitive with other investments carrying lower risk, for example foreign bank accounts.

Experience shows that the population usually has more money than the Government thinks. However, people may still find it difficult to find the resources to buy. In some cases it may be possible to help them further - for example by allowing them to pay for electricity shares in instalments by a supplement on their electricity bills. We may summarise the range of approaches as follows:

A. Sale of shares at a discount to their likely market value

In most of the large privatizations in the U.K., shares have been sold slightly underpriced, with a large marketing campaign aimed at the ordinary citizen. Preference is then given to small investors in the allocation of shares.

The approach would be following:

A single price for the shares should be set, as should a date of sale. A large marketing campaign should be organised and a proper prospectus issued. Application forms for shares should be published in the newspapers and made available through banks and other outlets, and through the post to applicants. There should be a period of some two weeks from the time that the application forms are made available before the closing date for applicants to lodge these by post or at certain designated locations, such as branches of a bank.

It is quite possible that the share offer will be oversubscribed - that is there will be more applications for shares than there are shares available. In this case the applications should be scaled down to favour the small investor. For example, those who apply for 1,000 shares or less should receive their full request; those who applied for between 1,000 and 5,000 shares should receive two thirds of their application, those who applied for between 5,000 and 10,000 shares should receive half of their application, and those who applied for more than 10,000 shares should receive half of their application or 10,000, whichever is the higher.

B. Large discounts on set number of shares.

In large privatizations in the UK, employees of enterprises being privatized have generally been given X no. of shares free, an allocation of y no. of shares at a 50% discount, and z no. of shares at a 20% discount.

C. Vouchers for purchase of state assets (Russian method).

In Russia vouchers have been issued to citizens which can be used to purchase state assets, property (i.e. flats) as well as shares in state enterprises. They can bid the vouchers for certain shares or for certain property & mix the vouchers with money. The vouchers were issued before privatization started in any meaningful way.

The vouchers are 'bearer' securities & can be bought & sold freely. Vouchers can be 'invested' in private investment funds, which use many vouchers to bid for large quantities of assets.

D. Vouchers (Czech method)

In Czechoslovakia each citizen was able to buy for a nominal price equivalent to ones weeks wages a voucher book. He was then able to use those vouchers to bid numbers of 'points' towards the purchase of shares in set companies through a fairly complicated auction method. Many citizens chose to lend their vouchers to investment funds which used them to bid on their behalf.

E. Participation certificates (Polish method)

Shares of 600 companies are split between 15 investment funds and 'participation certificates' in these are distributed to the population.

In most developing countries wealth is already heavily concentrated in the hand of the few. It is vital that the privatization programme does not serve to further concentrate that wealth. If the result of the privatization programme is to transfer wealth only to a few of the existing large domestic corporate groups and some big foreign companies, then we may expect that privatization will not be very popular and will be easily reversible.

Methods of privatization therefore are very important. In many developing countries it is

often thought that sale by auction to the highest bidder is the best method of privatization because it is transparent and, if handled properly, by definition achieves the highest price. This is true, but again by definition those who are able to pay the highest price are those who already have the most money. If all the privatization programme takes this approach then wealth will definitely be concentrated further in the hands of the few, the economy will be more open to manipulation, and economic growth in the medium to long term will not be served well.

Utility regulation

A discussion paper and briefing note

**prepared for
the Yemen Privatization Seminar**

by the

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1. Utility regulation - history and context

Regulation of privately-owned utilities in liberalised markets is a new policy area for most countries. Although utility regulation in some form dates back to the creation of the first utilities – toll roads – in 18th Century Britain, modern approaches to this topic date from the early 1980s and the British attempt to create new regulatory frameworks for the utilities that were privatized in Britain from 1984 onwards.

There are no simple answers in utility regulation. Indeed Adam Smith himself had clearly not found any brilliant solution when, referring to toll roads, he commented on the subject in 1802 in "The Wealth of Nations:"

"If mean and improper persons are frequently appointed trustees; and if proper courts of inspection and account have not yet been established for controlling their conduct, and for reducing the tolls to what is barely sufficient for executing the work to be done by them; the recency of the institution both accounts and apologises for those defects, of which, by the wisdom of parliament, the the greater part may in due time be gradually remedied."

Adam Smith's answer, to leave it to parliament, was indeed the approach adopted in the first half of the 19th century, when utility regulation concerned mainly railways. Before 1844, railways were regulated in each separate parliamentary bill authorising each new line. This led the future Prime Minister William Gladstone to state in the report of the 1844 select committee on the subject which he chaired, that:

"It is almost impossible to hope that that from the separate and unconnected proceedings of bodies whose existence begins and terminates with each particular railway bill, that there should issue any distinct system of sound general rules."

In response the 1844 Railway Act introduced rate of return control, set at 10 percent, but this approach was seen as unsatisfactory, since railway companies were able to boost profits by a variety of means. In 1873 the Railway and Canal Commission was established by law, with the power to set rates as it saw fit. In 1894 the Railways & Canals Act shifted the burden of proof on proposed rate increases to the railways. If there was an objection to a proposed rate increase, the railway had to justify it. After 1899, railways had lost the battle to increase rates, they increasingly lost money and were eventually nationalised.

The other utilities, such as the electricity industry, experienced a similar history with regard to regulation and were also nationalised. Regulation by commission was then replaced by Ministerial control and self regulation by the boards of nationalised industries until the 1980s brought privatization and the new form of

independent regulation that was created at the time.

The 18th Century British model of rate of return regulation by semi-judicial commission did not however altogether disappear. It crossed the Atlantic to America where it still exists today. US regulatory bodies are invariably commissions which apply rate of return regulation through a legalistic tribunal process of rate hearings.

When the US and UK approaches to regulation are contrasted, it therefore bears remembering that what is actually being compared is in fact the British utility regulation model of the 19th Century and that of the late 20th Century.

The regulatory institutions that exist in several developing countries draw upon the US or old UK model of regulatory commissions, invariably called Public Utility Commissions. This model has not worked well in developing world just as it did not work well in Britain and does not work well in the US.

Despite some problems in the UK, the more recent British version of utility regulation is the one that is held up in most parts of the world as the most preferable one to emulate. Even US practice is moving towards that of the UK. It must be remembered, however, that even within Britain a fierce debate continues around the whole subject. There are many proposals to amend the UK model, for example by combining some of the sector specific regulatory bodies, or by changing the price control formula to include an element of profit control.

The renewed interest in utility regulation has emerged from the efforts of many countries to transform their public utilities from state-owned monopolies to competitive, commercial enterprises. Whereas in the past many utilities such as telecommunications, electricity, gas and water were state-owned monopolies, today the need for private investment, the development of new technology, and the general move towards privatization are opening these sectors to more than one player and have created a requirement for firm rules to govern the activity of these players.

However, the formulation of the appropriate regulatory frameworks is a complex task, and the decisions taken have considerable implications for future national economic efficiency and prosperity. Within the context of each countries' own individual circumstances, many questions have to be addressed and answers found that reconcile conflicting objectives.

Countries recognise that in many cases competition in utility sectors will have beneficial results for efficiency and the consumer and will speed technological advancement. Yet given the monopolistic features of each sector, how can that competition be introduced, policed and encouraged? How can the policy towards competition in utility sectors be combined and reconciled with competition policy towards the economy in general?

If privatization is to accompany the introduction of a regulatory framework, then how should it be structured in order to increase efficiency and maximise investment and efficiency? How can key interest groups be protected from negative effects of the change without undermining the beneficial objectives of the privatization?

If the 'rules of the game' are unknown or unclear, countries may be unable to attract any investment at all to their utility sectors, or they may be at the mercy of one foreign company or consortium which succeeds in negotiating a deal to its own benefit to the detriment of the long-term economic interests of the country. For example, equipment suppliers are usually solely focussed on the need to sell their own equipment. How can the demands of investors be reconciled with the need for efficiency, transparency and competition? How can investment be maximised in today's capital-hungry world?

Britain has taken the lead in resolving many of these questions over the last decade and can be regarded as the world's primary source of expertise on the privatization and regulation of utilities. This is not because Britain is the country with the most long-standing history of private ownership of utilities. As noted, that honour goes to America, where most utility sectors have remained largely private since their inception.

Rather, Britain has been faced with the challenge of privatizing and liberalising all of her utilities over the last ten years, of creating appropriate industry structures and of devising legal and regulatory frameworks that are appropriate to the late 20th century with its rapidly changing technology and growing competition. Since 1980 Britain has privatized her telecommunications, electricity, gas, water, bus, port and airport industries. The privatization of the last major utility, the railways, is now nearing completion. In each sector a separate regulatory policy has been established, usually with an individual independent regulatory body to implement the regulation.

A variety of adaptations of the basic UK model have now emerged or are emerging. The topic is in a state of flux around the world, and many countries have a hybrid regulatory structure, with different policies being applied to different sectors.

Developing countries are therefore in a position to draw upon the experience of several countries in modernising their own regulatory frameworks.

It is possible for a country, such as Yemen, which is currently designing a system of utility regulation to devise models that combine best practice from the entire world. This could indeed provide that country with a competitive advantage over others. Such an advantage could be quite significant, in that it is now recognised that the incentives that are provided by the regulatory framework for utilities are as important if not more important than the incentives provided by privatization itself.

2. Sector policy

The development of the overall policy for each utility sector is the responsibility of government. Government policy objectives are likely to vary according to the circumstances of each sector. Around the time of privatization they might well include some mixture of the following:

- * To shift the burden of financing new infrastructure to the private sector
- * To raise funds for the Government by the privatization of existing infrastructure
- * To improve the efficiency of the companies in the sector, through increased competition and/or more effective regulation, and thus to reduce prices and increase service quality
- * To achieve various social objectives, such as more widespread or universal access to the service in question, or improved protection of the environment
- * To reduce or eliminate government subsidy of the service
- * To build strong domestic companies in the sector, capable of diversification at home and abroad
- * To encourage innovation and the introduction of new technology and techniques
- * To preserve or increase employment
- * To assist in strengthening capital markets and in widening capital ownership

It is clear that some of these objectives are short-term ones, and others long-term objectives. There is considerable potential for conflict between objectives.

Decisions taken in relation to privatization of the companies within the sector are usually critical for the long-term future of the sector. Sector restructuring, which may well be vital to permit effective competition and effective regulation, is much easier to carry out prior to privatization.

When regulation of a sector is failing in some respect, it may well be that a revision of sector policy will assist in rectifying the problem.

As noted above, it is the responsibility of government to establish the overall policy for a sector, and for the regulators - who should preferably be independent of day-to-day political control - to act within the framework of that policy and the governing legislation to regulate the sector.

3. The institutional framework for utility regulation

There are fundamentally five different institutional models for utility regulation, which we may list here then briefly discuss:

- 1) no regulatory body and no ministry with detailed powers, but a reliance on the general court system, (e.g. as in New Zealand telecommunications).
- 2) an autonomous commission with judicial or semi-judicial powers (e.g. the Federal Communications Commission (FCC) in America);
- 3) an independent official backed up by a separate organisation/regulatory body (e.g. the Director General of Telecommunications in Britain supported by the Office of Telecommunications (OFTEL));
- 4) an independent official backed by a unit in a Government Ministry (e.g. the former Directeur de la Reglementation Generale (DRG) within the Ministere des Postes, des Telecommunications et de l'Espace in France);
- 5) a government ministry with full responsibility for regulation, (e.g. in Germany the Bundesministerium fur Post und Telekommunikation (BMPT));

To examine each of these briefly, we may see that they have their advantages and disadvantages, and some are more suitable than others for developing countries:

MODEL 1: The New Zealand model of no specific regulatory body is more appropriate to a situation of strong competition and long-standing and effective competition laws. In some developing countries competition may not initially be strong and the competition laws are less tried and tested than those in New Zealand. In any case, this approach is probably only suitable to be utilised in the telecommunications sector, where full competition *between* networks is possible.

Furthermore, it is by no means clear that the courts are the most effective regulatory institutions. Some doubt may be expressed with regard to the New Zealand model subsequent to the October 1994 decision of the Privy Council in London to refuse to adjudicate on an interconnection dispute between New Zealand Telecom and Clear Communications, its main competitor. This dispute had wended its way through the New Zealand judicial system up to the final court of appeal, which is the Privy Council in London. Effectively the Privy Council, which has no particular experience of telecommunications matters, referred the matter back to the New Zealand government. The process was time-consuming and the outcome not very satisfactory.

MODEL 2: The US model of a semi-judicial commission, entirely separate from Government, is that which has been applied in the U.S. to many industries.

(Interestingly it is based on the British Railway Commissions of the last century). Such a system is meant to be more accountable, more transparent, and more free of political pressure. Because of the use of legal procedures and the need for each participant to argue and support every decision as if in a court of law, these commissions tend to be very much larger and more bureaucratic organisations than other types of regulatory body. For example the FCC employs 1795 persons and had a 1991 budget of \$116 million compared to the British OFTEL's staff of 134 persons and budget of \$12 million.

Furthermore, it should be noted that the judicial nature of the commission's processes has meant that those dealing with it have had to retain legal counsel and other experts in order to argue their case, thus adding considerably to the cost. In practice the FCC has proved to be a rather slow-moving bureaucracy which has often served to delay necessary changes and innovations in the US telecommunications sector.

MODEL 3: The British model of an independent regulator supported by a free-standing organisation was first introduced to accompany the privatization of UK utilities which started in the mid-1980s, and has been applied to the telecommunications, electricity, gas and water industries (OFTEL, OFFER, OFGAS and OFWAT). It involves a single government appointee, the Director General, being given wide powers to regulate the industry. This official is appointed by the Minister for a five year term and can only be removed on grounds of extreme misbehaviour or incapability of performing his functions.

The concentration of decision-making power in one individual has received criticism from some commentators, who state that the nature of that individual can have a disproportionate effect on regulatory outcomes. (Some state the case of the Office of Gas Regulation (OFGAS) where the first Director General developed a bad relationship with the main regulatee, British Gas plc. Others argue that conflict between British Gas and the regulator was inevitable, given the unreformed and very monopolistic structure of the gas market after privatization).

However, on the plus side, decisions have been taken quickly and have generally been regarded as fair. The costs have been relatively modest, and expertise has been built up in the small regulatory organisations.

MODEL 4: In the telecommunications sector, until recently France has had a version of the UK model which was effectively a half way house between an independent agency and full Ministerial control. This was an independent regulator supported by a unit in the responsible government ministry. The French independent telecoms regulator was Bruno Lasserre, a judge from the Superior Court who was appointed on an indefinite duration contract.

Mr. Lasserre had responsibility for almost all telecommunications regulatory matters, save the issue of licenses which is a Ministerial function. Much the

same comments applied to the UK model can be applied to this French variant, save that rather greater Ministerial control and interference may be possible in practice, since the staff who support the independent regulator are accountable directly to the Minister. Costs may be a little less, since existing Ministry resources are used.

In fact, France recently moved to adopt the UK model of a separate independent regulatory body.

MODEL 5: Full ministerial control and operation of the regulatory functions - as has held until recently in Germany in the telecommunications sector - is the most statist regulatory model. Although this model may be superficially attractive to a Government because costs are probably lowest and political control greatest, in practice it will likely hold back the development of a utility sector. It is most suited to a utility sector which remains primarily a government owned and controlled monopoly. It should be noted that to accompany the privatization of Deutsche Telecom and the introduction of competition the German Government has created an independent regulatory body.

Regulation by a Ministry cannot be termed 'independent regulation' because the regulators are fully answerable on a day to day basis to politicians who may well take decisions on a political basis. Furthermore, if the state continues to own shares in an operator or operators in the utility sector in questions, considerable conflicts of interest will occur. It is unlikely that the state will be able to distinguish clearly its roles as regulator of all the companies in the sector and as owner of one of the companies within it.

There are of course variants of the models described above:

A multi-sector regulatory body

In small countries it is difficult to justify the establishment of a multitude of sector regulatory bodies when both the extent of regulatory tasks and the human and financial resources available to support regulatory bodies are limited.

Therefore the establishment of just one utility regulatory body, with divisions dealing with each sector, is often considered. There might be an overall director-general of the body and deputy director generals responsible for each sector. Decisions could be taken on a collegiate basis.

Other arguments in favour of such a multi-sector body is that it will have greater independence from both the regulated utilities and the sector Ministries, and that a multi-sector body, after it is established, will be able to take on responsibilities for new sectors faster than if individual bodies are set up for each sector. Effectively new sector divisions would be bolted on to an existing structure.

Another factor which suggests that a multi-sector approach may be appropriate is that many modern utilities are involved in more than sector. For example, in the UK there are combined water and electricity utility companies, as well as combined gas and electricity and telecommunications and electricity utility companies.

The competition agency to take responsibility for utility regulation

It may also be difficult to justify the existence of both utility regulatory bodies and a competition policy body. Another option is therefore to make utility regulation the responsibility of the competition body, which would establish a division or divisions to deal with it. The advantage of this is that many of the skills necessary for personnel of a competition body are very similar to those needed in utility regulation. Furthermore, a competition body is not likely to be subject to 'regulatory capture' by either a former state monopoly utility company or by a sector ministry.

One disadvantage of using a competition body for utility regulation is that such a body is a convenient appeals mechanism in the event of a dispute between the regulator and a licensee. Combining both removes the possibility of using the competition body as an appeals mechanism. Perhaps an alternative is to combine utility regulation and competition policy in one institution but to establish a separate appeals panel without permanent staff but access to consultants in the event of an appeal.

Regulatory bodies which cover several related sectors

A half way house between the creation of one multi-sector regulatory body and a plethora of sector specific bodies might be to create a smaller number of bodies with responsibility for several related sectors. For example there might be an Office of Energy Regulation, (including electricity, gas and oil); Office of Transport Regulation, (including Railways, Airports, Ports); Office of Communications Regulation, (including telecoms & posts); etc.

Individual regulators or commissions

In Britain regulatory authority in any one utility regulatory agency is held by one individual, the Director General. However, in many small countries there is often a reluctance to appoint one individual as an independent regulator with full powers under the law. There may not be the range of people with appropriate skills to make a good choice. There may also be a reluctance to appoint a foreigner to the post.

Instead the preference often is to appoint panels or commissions of persons. A critical question, however, is whether such appointees are appointed for fixed

terms, or if their resignation can be demanded by a Minister at his wish. If the latter then the regulatory body will not be truly independent. Another consideration is whether they are to be full or part-time. If part-time, they may not be able to allocate enough time to grasp and deal with the very complex issues that are bound to arise.

The degree of independence of the regulatory body

There is often much confusion about the concept of 'independent' regulation. Key reasons as to why independent regulation is needed include the following:

- * Because there must be a transparent, independent and professional means of establishing non-competitive utility prices, so they are sufficient to recover costs. Otherwise the relevant sectors may well wither and die through lack of new investment. If price-setting is left to politicians, there will be a tendency for prices to be depressed below economic levels in order to help the politicians win votes. Politicians are also likely to make decisions that are based on other short-term political considerations.
- * Because the best means of keeping consumer prices at levels sufficient to recover costs is by taking monopoly price-setting out of the political arena and giving the task to an independent body in which people have confidence.
- * Because investors in utility sectors need a stable legal and regulatory framework in order to commit to long-term investments. Without such stability, risks will be higher, the cost of capital will be higher and final consumer prices will be higher.

It is important to clarify the exact nature of 'independent' regulation. Some people think that an independent regulatory body is not accountable. But in fact it is accountable - to the law, and to the tariff-setting and other criteria laid down in the law, rather than to a Minister with changing day-to-day political priorities. An independent regulatory framework is effectively a pact with investors and consumers, and a means of giving a credible commitment to both.

Any regulatory body should have clear duties to guide it in its decision-making. This will help it to reach decisions quickly and make it more difficult for its decisions to be challenged. Primary duties should normally include:

- * To protect the interests of consumers
- * To ensure that regulated companies are able to finance their activities
- * To promote the development of competition in the sector

These duties of course involve a tension between the objective of protecting the interests of consumers and that that of ensuring that regulated companies are able to finance their activities. It means that regulators need both to keep prices down so that consumers do not have to pay any more than necessary and to ensure that prices are sufficiently high to enable companies to remain financially viable.

Each sector will of course involve specific additional duties for the regulator, such as ensuring security and safety of supply in the case of the electricity sector. Such duties, in addition to the other provisions of the law, should be sufficient to guide an independent regulatory body in its decision-making. The day to day intervention of politicians should not be necessary. In the event that participants in the sector believe that the decisions of the independent body are incorrect, there should be an appeal body to whom they can take their complaint. In the UK this appeal body is the Monopolies and Mergers Commission, an independent body responsible for competition matters.

4. Regulatory techniques

The appropriate choice of regulatory techniques plays a major role both in the effective implementation of sector policy and in permitting a more integrated regulatory framework to function well.

There are two main ways of increasing effectiveness and limiting cost without seriously weakening the strength of regulation over time:

- Using techniques of regulation that take into account the expertise, information and resource disadvantages of the regulator. This means regulating outcomes more than processes. For example, difficulty in managing large complexities is the main reason why price control through capping (an outcome-based method) have become more prevalent around the world rather than return on investment methods (a process-based method). Outcome-based methods of regulation place less emphasis on the expertise & knowledge of the regulatory authority vis-a-vis that of the regulated firms.
- Seeking to reduce the need for regulation over time by increasing competitive pressures where practicable. This means reducing the number of regulatory tasks over time as competitive pressures reduce the need for regulation. Thus being able to remove specific services from the scope of regulation is a clear measure of success.

If relatively consistent approaches are taken towards each utility sector, then it becomes easier to integrate utility regulation institutions and save cost and effort in developing expertise. For example, if consistent approaches are taken in price regulation, then consistent norms can be used regardless of sector, such as inflation indices, assessment of cost 'pass through' claims, or rules for accounting separation. Probably the greatest benefits arising from institutional integration lie in the development of expertise in the process of regulation, and the pressure it provides to *maintain* consistent approaches over time.

Essentially utility regulation has three main components:

i) Technical regulation.

In utility sectors this means agreeing technical standards and other issues to allow 'networks' to operate effectively. In addition there is a need for technical standards for customers who connect to the network in question. Environmental regulation is another form of technical regulation, in which certain clear environmental standards are set for all market participants. Environmental regulation is clearly more important in some sectors, (such as water), than others.

ii) Economic regulation

Essentially, economic regulation of utility sectors involves two primary activities; the control and mitigation of monopoly power arising from network control or unusually high barriers to market entry, (e.g. such mitigation is normally applied through price control, compulsory interconnection, additional consumer rights etc.) and 'prequalification'.

Prequalification means ensuring market entrants have sufficient competence and financial resources so as to *limit* risk of failure - market exit or technical failure can have much wider consequences in utility sectors than in other sectors. Prequalification is of course usually applied through licensing.

iii) Security regulation

Because of the strategic nature of some utility services, governments wish to have the right to take over facilities, or have other privileges; in case of military conflict or threat, civil unrest, natural disaster or other circumstances. In practice, security regulation is much less significant than either technical or economic regulation.

Where these three components are clearly separated in legislation and regulations, the efficient operation of regulation is very much easier. There is a need to ensure that technical regulation is properly under the control of the regulatory authorities, rather than remaining with the former monopoly operator. Defining what is technical regulation and what is operational can sometimes be uncertain. For example, in telecommunications it was initially unclear to governments that control of telephone numbering is an important source of market power for a dominant operator.

There are various approaches which can be adopted in order to reduce the cost of regulation. Most importantly it is clear that reliance on a price control approach to regulation of monopoly services is much less onerous and less costly than a rate of return approach. Secondly, it is important that regulated companies are required to audit their own compliance with regulatory standards, rather than this being done in detail by the regulatory body. The role of the regulatory body should be only to check the accuracy of the regulated body's own reporting system. This may be done by independent audit, commissioned and paid for by the regulated company.

5. Telecommunications sector regulation

Telecommunications regulation provides a different set of challenges from that of other utility sectors. Here the potential for competition is greatest. It is quite possible to have extensive competition between networks based on different technologies, as well as using existing networks as common carriers. Nevertheless the process of transition from monopoly to competition is a difficult one, and can easily be frustrated by difficulties over interconnection, accounting separation, universal service and subsidy issues.

Some of the core issues are discussed below:

Interconnection

Interconnection is a key issue in telecommunications regulation. Interconnection - the arrangements for linking up two networks and the conveyance of calls from one to the other - is essential if competition is to succeed. In particular access by competing operators to the former monopoly operator's network will be critical to their success. Interconnection is a key element in a competing operator's costs and therefore the terms and conditions on which interconnection is available can determine the viability or otherwise of a business. Technical standards for interconnection are also important.

In Britain the regulatory framework leaves interconnection matters initially for commercial negotiation between the parties concerned. But if such negotiations fail the regulator can intervene. In practice he has had to do so. In New Zealand, these negotiations are wholly left as a commercial matter and subject to normal commercial and competition law.

An important question in developing countries is whether the regulator should have the power to lay down interconnection terms or to intervene in interconnection negotiations. Of course the nature of commercial law is important here.

Should the regulator be given such power, its extent will need to be determined. For example, should the regulator be empowered to impose standard terms and conditions for interconnection and/or to require publication of the agreements the former monopoly operator concludes with competing operators.

In developing countries it seems preferable for interconnection terms to be laid down by the regulator and not left to commercial negotiations between the parties.

Accounting separation at the former monopoly operator

Detailed accounting separation between different parts of the former monopoly operator's businesses will probably be necessary to assist the development of competition and ensure that the former monopoly operator does not abuse its dominant position as a provider of both telecommunications and network services.

The intention usually will not be to separate the former monopoly operator into different companies, but to ensure that the accounts for each business area are prepared and reported as though they were operating as separate businesses.

Arrangements will likely be necessary:

A) To expose the costs relating to each of the former monopoly operator's businesses;

B) To ensure that services provided by one former monopoly operator business to another are offered on similar terms to other businesses. Transfer payments including interconnection arrangements will need to be transparent, not anti-competitive;

C) To enable the former monopoly operator to demonstrate that its businesses which face competition are not pricing unfairly, since interconnection and other transfer payments made between different of the former monopoly operator's businesses will be explicitly reported.

Restrictions on the former monopoly operator's activities

It will be necessary to consider whether any restrictions should be placed on the former monopoly operator's ability to engage in other activities apart from voice telephony, such as cellular and other mobile, satellite transmission, cable T.V. information systems, etc.. In some cases the former monopoly operator may need to be prevented from establishing a dominant position that would have an anti-competitive effect. Restrictions may also need to be placed on other operators.

Service standard obligations to be placed on the former monopoly operator

In most countries there is a strong case for ensuring that the regulator should be able to impose overall standards of performance on certain telephone companies (notably those in a monopoly situation). It can be argued that without the choice available through competition, consumers are at the mercy of poor service from monopolies, and therefore regulators should police minimum quality standards until competition fully develops. Without service standards, operators subject to price caps would have a natural incentive to reduce service quality in order to make more money.

The questions then are:

- * Which operators should be subject to quality control?
- * Which services provided by those operators should be subject to quality control? and
- * What should the quality control standards be?

For example, in Britain the operators subject to control (designated operators) are British Telecom and Kingston Communications (Hull) ply, on the grounds that they provide at least 25% of the voice telephony services within their licensed area. Services covered are:

- (a) telephony services,
hard wired telephone rental services,
directory information services,
directory services, and
facsimile transmission services,

but, in each of the above cases, only where the service is supplied by a designated operator to residential premises, or to nonresidential premises supplied by a single exchange line; and

- (b) public call boxes provided by the designated operator, no matter who is the user.

Should a country decide that quality standards should be imposed on certain operators, the various points of contact between the customer and a telephone company should be examined to determine where standards should be applied. These points of contact are:

- (a) the ordering and installation of a telephone line;
- (b) the takeover of an existing telephone line;
- (c) the reporting and repair of line faults;
- (d) appointments to install line equipment and repair line faults
- (e) the handling of billing procedures by designated operators;
- (f) the provision of directories;
- (g) the use by operators of their power to disconnect;
- (h) the handling of a request by a customer to a designated operator to cease to provide service (e.g. because a customer is moving);
- (i) the provision of services to special classes of customers (e.g. disabled or hard of hearing people).

In determining what the standards should be, the following questions should be addressed:

- (a) how long should it take for a new line to be installed?
- (b) how long should it take for line faults to be repaired after they

have been reported?

(c) what percentage of public telephone sites should be serviceable?

(d) what is an acceptable call failure rate?

(e) how long should it be before the assistance operator answers?

(f) how quickly should directory enquiries answer?

(g) how accurate should directories be?

(h) how often should directories be issued?

(i) how can the presentation, timing and layout of bills be improved?

(j) how quickly should services such as itemisation of bills and call barring be available to all customers?

(k) how quickly should there be a response to written and telephone enquiries to designated operators?

Universal service and subsidy of less profitable services

Universal service is often a sector policy objective in many countries. The regulatory problem is posed as to who should bear the cost of serving non-economic households, or of extending service to poor rural areas. This problem is often quoted as a reason why monopoly in telecommunications should be preserved, in order to enable a monopoly provider to cross-subsidise non-economic customers from richer customers. (Nevertheless, the record of monopolies in extending service to poorer areas is generally bad. The monopoly rents are usually captured by other groups).

However, little work has been done on how to extend service within a competitive industry framework. In the UK British Telecom has benefited from an 'access deficit contribution' from other operators to compensate British Telecom for the fact that its line installation and rental charges have been set below economic cost.

Such a policy of sharing the burden of subsidy can be applied more widely. For example, all long distance operators could be obliged to pay an amount into a common fund - known as a universal service fund - which would be used to subsidise the cost of extending service to poor areas. Resources from this fund would be allocated to the operators who agreed to extend service most extensively for the least subsidy. There are other means of seeking universal service within a competitive structure. For example, favourable regulatory treatment of telephone service shops is another means of tackling this issue.

The case for competition

The case for competition in telecommunications is a strong one. Today new technologies have both made competition much easier and opened up a host of new business opportunities which depend on low-cost communications.

A number of countries are have now introduced full competition in their telecommunications markets. The evidence that is available in comparisons between competitive and non-competitive telecommunications markets shows much sharper price falls in the competitive markets. Furthermore, in he competitive markets, the speed of price decreases continues to accelerate:

| Status of Telecommunication Services Competition In OECD Countries, July 1994 * | | | | | | | |
|--|---------------------|-------|-------|-------|--------|--------|---------|
| Country | PSTN | PSTN | PSTN | X.25 | Leased | Mobile | Mobile |
| | Local | Trunk | Int'l | Data | Lines | Analog | Digital |
| Australia | D | D | D | D | D | M | C |
| Austria | M | M | M | M | M | M | M |
| Belgium | M | M | M | C | M | M | M |
| Canada | M | C | M | C | C | RD | D |
| Denmark | M | M | M | C | M | D | C |
| Finland | C | C | C | C | C | D | D |
| France | M | M | M | C | M | D | D |
| Germany | M | M | M | C | M | M | C |
| Greece | M | M | M | C1996 | M | M | C |
| Iceland | M | M | M | M | M | M | M |
| Ireland | M | M | M | C | M | M | M |
| Italy | M | M | M | C | M | M | D1994 |
| Japan | C | C | C | C | C | RD | C |
| Luxembourg | M | M | M | C | M | M | M |
| Netherlands | M | M | M | C | M | M | D1994 |
| New Zealand | C | C | C | C | C | C | C |
| Norway | M | M | M | C | M | M | D |
| Portugal | RM | M | D | C1996 | C | C | C |
| Spain | M | M | M | C1996 | M | M | M |
| Sweden | C | C | C | C | C | C | C |
| Switzerland | M | M | M | M | M | M | M |
| Turkey | M | M | M | M | M | M | M |
| United Kingdom | C | C | D | C | C | D | C |
| United States | PC | C | C | C | C | RD | C |
| C | Competition | | | | | | |
| PC | Partial Competition | | | | | | |
| M | Monopoly | | | | | | |
| R | Regional | | | | | | |
| D | Duopoly | | | | | | |
| Source: OECD | | | | | | | |

* Figure 1 indicates with 'C' where competition is permitted by law. This does not mean that effective competition yet exists; indeed the incumbent public telephone operator still holds a dominant market share in virtually all PSTN markets.

| Tariff Trends in Competitive and Non-Competitive Telecommunications Markets, OECD Countries | | | | | |
|--|--------|--------|--------|--------|--------|
| Business tariffs: | | | | | |
| | 1990 | 1991 | 1992 | 1993 | 1994 |
| <i>Fixed Charges</i> | | | | | |
| Competitive | 100.00 | 104.94 | 109.40 | 109.43 | 107.92 |
| Non-Competitive | 100.00 | 111.71 | 114.72 | 118.73 | 125.12 |
| <i>Usage Charges</i> | | | | | |
| Competitive | 100.00 | 101.64 | 97.14 | 93.86 | 85.48 |
| Non-Competitive | 100.00 | 100.92 | 95.26 | 94.69 | 92.94 |
| <i>Total Charges</i> | | | | | |
| Competitive | 100.00 | 100.73 | 99.37 | 97.73 | 91.43 |
| Non-Competitive | 100.00 | 102.34 | 98.88 | 98.42 | 96.88 |
| Residential Tariffs: | | | | | |
| <i>Fixed Charges</i> | | | | | |
| Competitive | 100.00 | 102.77 | 101.81 | 103.84 | 101.64 |
| Non-Competitive | 100.00 | 120.50 | 129.74 | 130.36 | 134.19 |
| <i>Usage Charges</i> | | | | | |
| Competitive | 100.00 | 105.73 | 99.30 | 92.39 | 91.06 |
| Non-Competitive | 100.00 | 102.36 | 97.43 | 98.77 | 96.18 |
| <i>Total Charges</i> | | | | | |
| Competitive | 100.00 | 102.17 | 100.30 | 98.82 | 96.93 |
| Non-Competitive | 100.00 | 106.69 | 106.68 | 107.67 | 108.65 |
| Source: OECD | | | | | |

| NATIONAL TELEPHONE CALL (OVER 200 MILES) | | | | | | |
|---|--------------|--|--|----------------|--------------|--|
| 1994 | | | | | 1995 | |
| COUNTRY | PRICE | | | COUNTRY | PRICE | |
| 1. GERMANY | 0.81 | | | 1. GERMANY | 0.81 | |
| 2. ITALY | 0.76 | | | 2. ITALY | 0.68 | |
| 3. FRANCE | 0.68 | | | 3. FRANCE | 0.59 | |
| 4. AUSTRALIA | 0.47* | | | 4. AUSTRALIA | 0.47* | |
| 5. US | 0.43* | | | 5. US | 0.42 | |
| 6. BELGIUM | 0.42 | | | 6. BELGIUM | 0.40* | |
| 7. CANADA | 0.35* | | | 7. CANADA | 0.29* | |
| 8. SWEDEN | 0.27 | | | 8. SWEDEN | 0.22 | |
| 9. UK | 0.24* | | | 9. UK | 0.21* | |
| 10. NETHERLAND | 0.22 | | | 10. NETHERLAND | 0.20 | |
| Prices in pounds/pence sterling for a three minute call | | | | | | |
| *Discounts applied | | | | | | |

| INTERNATIONAL TELEPHONE CALL | | | | |
|---|--------------|----------------|--------------|----------------|
| 1994 | | 1995 | | |
| COUNTRY | PRICE | COUNTRY | PRICE | + / - % |
| 1. ITALY | 2.74 | 1. ITALY | 2.44 | NIL |
| 2. GERMANY | 2.44 | 2. GERMANY | 2.15 | -21.5 |
| 3. BELGIUM | 2.13 | 3. BELGIUM | 2.13 | NIL |
| 4. NETHERLANDS | 2.1 | 4. NETHERLANDS | 1.83 | -12.9 |
| 5. US | 1.95* | 5. US | 1.76 | NIL |
| 6. SWEDEN | 1.78 | 6. SWEDEN | 1.74* | NIL |
| 7. FRANCE | 1.76 | 7. FRANCE | 1.63* | -16.6 |
| 8. AUSTRALIA | 1.74* | 8. AUSTRALIA | 1.55 | -12.9 |
| 9. CANADA | 1.16* | 9. CANADA | 0.88* | -18.5 |
| 10. UK | 1.08* | 10. UK | 0.71* | -38.0 |
| Prices in pounds/pence sterling for a three minute call | | | | |
| *Discounts applied | | | | |

| MONTHLY COST PER EXCHANGE LINE RENTAL | | | | | | |
|---|--------------|----------------|--------------|----------------|-------------|--|
| 1994 | | 1995 | | | | |
| COUNTRY | PRICE | COUNTRY | PRICE | + / - % | %ROI | |
| 1. CANADA | 34.18 | 1. CANADA | 34.18 | NIL | 0.2 | |
| 2. US | 14.01 | 2. US | 14.01 | NIL | 2.7 | |
| 3. SWEDEN | 11.46 | 3. SWEDEN | 11.46 | NIL | 2.8 | |
| 4. AUSTRALIA | 11.35 | 4. AUSTRALIA | 11.35 | NIL | 2.5 | |
| 5. UK | 10.69 | 5. UK | 10.69 | 2.4 | 2.9 | |
| 6. GERMANY | 10.56 | 6. GERMANY | 10.56 | NIL | 2.2 | |
| 7. NETHERLANDS | 9.12 | 7. NETHERLANDS | 9.12 | NIL | 2.7 | |
| 8. BELGIUM | 8.03 | 8. BELGIUM | 8.03 | NIL | 1.7 | |
| 9. ITALY | 6.78 | 9. ITALY | 6.78 | NIL | 4.1 | |
| 10. FRANCE | 4.54 | 10. FRANCE | 4.54 | NIL | 1.6 | |
| Prices in pounds/pence sterling for a three minute call | | | | | | |
| *Discounts applied | | | | | | |

6. Electricity sector regulation

The electricity sector is a complex one to reform and regulate, not least because of the many technical complications involved. For example, it is not possible to store electricity in significant quantities, nor is it possible to distinguish which electricity is supplied by which generator.

Sector policy decisions with regard to the structure of the sector are absolutely critical with regard to the nature and extent of regulation. For example, the basic principles of UK electricity sector policy are:

- * Separation of functions - into generation, transmission, distribution, and supply
- * Regulation of monopoly elements (transmission and distribution)
- * Competition in generation and supply
- * Transitional arrangements (including support for nuclear generation)

Without splitting up the former state monopoly industry, both vertically and horizontally, this sector policy would be impossible to implement. In fact there have been problems with the development of effective competition in generation, because the generating side of the industry was not broken up into enough pieces at the time of privatization. The regulator has had to negotiate an agreement with the two dominant generating companies for them to divest some of their power stations.

Competition in supply is as yet incomplete in the UK. At the moment only 100 KW + consumers can choose which company to buy their electricity from. However, after 1998 all consumers will be free to choose their electricity supplier.

After 1998 regulation will be confined to only the network services of transmission and distribution. This makes the task of the regulator much easier.

However, extensive competition in generation must be based on the introduction of a wholesale market for electricity, such as the electricity pools that exist in Britain, Argentina, Norway and various other countries.

In small countries the potential for extensive competition in generation is often limited by the size of the system. In very small countries there may be only two or three power stations in the country.

The restrictions imposed by long-term contracts with IPPs

When new generation is primarily introduced by the conclusion of long-term contracts between independent power producers (IPPs) and a central power company, there arises a natural conflict between the desire on the part of the private companies for maximum security of revenue and the possibility of competition in the short-term. If electricity sale contracts are fixed over the long-term, then the potential for competition between these generators is very limited and the potential for regulatory intervention is also very limited.

Sector policy and regulatory policy must address this problem.

Service standards

Given that full competition in supply is unlikely to be introduced in any country until after a period, another regulatory question is the extent of quality of service regulation.

Service standards should be designed to achieve high standards across the board for such matters the provision of electricity supply, the restoration of supply interruptions, the estimation of charges, advance notices of planned interruptions to supply, voltage complaints, meter disputes, charges and payments, and customer appointments kept.

A related question is that of compensation. If a company fails to meet the standards that are set, should it make a payment to the customer affected? In Britain, electricity companies are required to make such compensation payments.

7. Water sector regulation

Water sector regulation is again a complex area, negatively affected by the fact that it is very difficult to introduce effective competition in the water sector. The nature of the regulatory arrangements will be strongly affected by the type of water privatization that is introduced.

In many developing countries privatization of the water sector is being considered. This is usually because the existing water system is plagued by administrative difficulties, suffers a high level of leakage, and is in urgent need of considerable capital investment, the funds for which are not available from public sector sources. Developing countries will need to consider carefully which variant of water privatization most fits their needs. The main alternatives are as follows:

- * management contracts.
- * the leasing or "affermage" arrangement;
- * a concession contract arrangement;
- * alternative concession arrangements;
- * full privatization, involving outright sale of the assets.

The essential difference lies in the division and acceptance of risk by different parties taking part in the structure. The parallel factor is the extent to which the perceived benefits of efficiency from private sector involvement are seen as desirable or attainable.

Management contracts

- * All responsibility remains legally with the public authority but private enterprise undertakes contractual responsibility to it for all or any of a wide range of management and administrative functions for operation of the system.
- * Finance for fixed assets and working capital are provided by the public authority.
- * Ownership and the associated risks of operation remain with the public authority.
- * The private enterprise involvement is remunerated either by fee or a proportion of tariffs collected.

Leasing or "affermage"

- * Capital costs of the system are met by the national or regional authority.
- * The system is leased to a private enterprise company.
- * Private enterprise provides working capital requirements for operation.
- * The private enterprise company is responsible for and takes the risks/reward of operation and maintenance of the system.
- * Decisions as to methods of operation and management are within the total control of the private enterprise company.
- * Control of quality regulation is retained by the national authority.
- * Remuneration of the private enterprise company is predominantly by his retaining a proportion of the tariff charged to customers. The proportion is settled by bidding procedures or by negotiation.

Concession contract arrangements

- * The concessionaire takes responsibility for provision by construction or otherwise of the underlying system. Similar arrangements would apply for any improvements or expansion of the system.
- * The concessionaire thus bears the capital cost of the underlying system as well as providing working capital for operation.
- * The concessionaire accordingly takes the risk/reward for capital commitments in the provision of the system as well as operation and maintenance risks.
- * The concessionaire is responsible for determining the methods and techniques employed in constructing, maintaining and operating the system provided he secures compliance with the quality specifications.

Alternative concession arrangements

This structure is an established variant of the concession contract arrangement. It arises when the economic benefits available from the scheme are not seen as sufficient to support the bank lending and equity commitment for the underlying system. The alternative concession arrangement will, therefore, have all the facets of the concession contract structure described above except for the following features:-

- * Some part or all the initial capital cost of constituting the system will be borne by the public authority under the terms of the construction contract arrangements.
- * The principal, but important, difference between this approach and the leasing or "affermage" system lies in the continuing responsibility for defects and maintenance. In effect under this arrangement the concessionaire carries the risk of defects in construction not just for a normal 'defects liability period', but for the full period of the concession.
- * A feature of this structure will usually include significant bonding liabilities. This is necessitated by the absence of disciplinary pressure from private enterprise bank finances.
- * The period of the concession will depend on the economic viability of the scheme and the mix of objectives of the public authority.

Full privatization

- * The assets and liabilities of the existing water and sewage operations are sold outright to private investors.
- * Before privatization the industry may or may not be restructured into several water companies, in order to permit comparative competition
- * The regulatory framework, including means of tariff control and initial tariff levels, are clearly established before privatization

In all relevant schemes an essential ingredient in determining the economic viability of the scheme from the point of view of private enterprise is the regulatory environment controlling the levels of tariff charges. Accordingly, in assessing the different areas of risk involved under the different schemes it is necessary to maintain this feature clearly in mind.

In the UK the body responsible for economic regulation is the Office of Water Services (OFWAT). Regulatory power is exercised by the Director-General of Water Services. His primary purpose is to protect the interests of consumers of water and sewerage service. The companies appointed to supply these services are, in most respects, monopolies and there are few "pure" market pressures on them. Consumers cannot therefore look to market mechanisms to protect them from unnecessarily high charges or a poor service or both. The objective of the Director General is to achieve through regulation the same balance as would otherwise be achieved by competitive markets. Where market pressures exist the regulator fosters them.

The Director General has a duty to ensure that companies can finance their

functions. Subject to that, he has to protect customers, promote economy and efficiency and facilitate competition. Customers benefit if efficient companies remain financially viable.

The main control which the Director General can exercise through the Licence is to limit the prices which the companies can charge to their customers. The annual increase is restricted to the Retail Price Index plus an additional factor "K" which has been allocated to the companies on an individual basis for each of the next 10 years to offset the significant investment programmes which have been necessary to achieve higher environmental standards. The formula also includes an element for future efficiency savings.

He can influence the performance of the companies by introducing an element of competition. There are two main examples of this. Firstly he can act as a surrogate for the market, comparing the performance of the 39 separate companies and using the example of the best to set a standard for the others.

He can also create partial contestability by making new appointments for greenfield sites within existing allocated areas. These are known as "inset" appointments and can be introduced under Section 12 of the Act. However the scope for such appointments is not be large.

8. Transport regulation

8.1 Overview¹

The taxonomy of regulation distinguishes quality, quantity, and price control, as objectives and also distinguishes franchise and registration as techniques for quantity control (many systems being a hybrid of the latter two).

QUALITY CONTROL is taken to be an inescapable necessity for mechanical transport, where the prospective user cannot assess in advance the state of the vehicle or vessel, so that the Common Law maxim caveat emptor (let the buyer beware) cannot apply. The extent to which quality control needs to be taken is related to the extent to which a given mode is fail-dangerous - clearly air and sea transport rank higher than land modes by this measure.

The economic consequences of quality control are not negligible. Such a system places a barrier to entry (but not exit) and thus reduces contestability. It may also inhibit innovation, thereby distorting the entrepreneurial process. This distortion will be the more problematic (and the harder to justify) if it extends beyond the need to ensure safety in the construction and use of the vehicle or vessel.

QUANTITY CONTROL exists where the number of firms in a given market is limited, not by the nature of the trade but by restriction or prohibition of new entry. By analogy, it can extend to the output of existing firms. Its economic consequences are plain; it is a form of protectionism. Experience shows that it tends to encourage x-inefficiencies in management.

PRICE CONTROL is plainly anti-competitive, and is normally justified only in the presence of a monopoly. This is the argument behind UK utility regulation. Where a monopoly has been brought into existence by statutory quantity control it is usual for price control to be enforced.

The subject is usually discussed in terms of statutory regulation, but any or all of the objectives may be sought by a cartel. A key economic criterion by which regulation may be judged is the extent to which it inhibits the trade off between price and quality in a given market.

REGULATORY SYSTEMS may take the form of a franchise or they may involve the registration of firms in a more or less open market. Since the regulation of safety (quality control) is a sine qua non, these techniques are usually examined in the context of quantity (and consequently price) control. This is why it is a misnomer to talk of UK 'bus deregulation' which of course did not extend to quality control: the correct term is regulatory reform.

Franchise implies that some branch of government lays down, in more or less

¹ The bulk of this section has been prepared by Professor John Hibbs, Senior Transport Adviser, ASI.

detail, the services that shall be required, and invites firms to tender to provide them, either as a whole or for individual routes. It is the form currently in use in London, and is found at its most extreme in Belgium (where the franchiser SNCV is a 'parastatal' business). Registration leaves the initiative with the firms in the market but seeks to optimise provision, often through some form of administrative law. Confrontation is thus intended to be removed from the marketplace to the investigative tribunal, but here again x-inefficiency tends to follow.

Internationally, franchise is most usually found in countries with the Napoleonic Civil Code, whereas supervision is more common where the Common Law is found. An exception is Latin America where, despite the prevalence of the Civil Code, most regulatory systems are supervisory (probably because commercial law followed from British and US investment). It may be that there is a deeper distinction, familiar to philosophers rather than economists, whereby franchise can be seen to follow from Cartesian systems of thought, and supervision from the UK/US tradition of empiricism.

INTERNATIONAL REGULATION exists chiefly in sea and air transport, apart from EU regulations within Europe. Cross-border road and rail operators function under the regulations of each state within whose borders they operate, which means that the quality regulations of the stricter regime will apply. (It is not impossible for conflict to arise). In the USA the Interstate Commerce Commission regulates traffic that crosses state borders, whereas the Australian constitution provides for free trade between the states. In any federal state it is necessary to analyse issues of this kind to see where the onus for compliance lies.

International air transport is regulated for quality by the International Civil Aviation Organisation (ICAO), which is a United Nations agency. Since the end of the Second World War an international cartel has existed, the International Air Transport Association (IATA). This has sought to extend quality control (to size and pitch of seats, provision of meals and films aloft, etc) so as to minimise price/quality competition among carriers. Its policies have become significantly less effective in recent years.

International sea transport is the responsibility of another UN agency, the International Maritime Organisation. It has far weaker powers than ICAO, and much quality control is carried out by insurers. Flags of convenience are a problem, and ferries tend to be nationally regulated.

8.2 Regulation of passenger road transport

The British bus industry as a whole was regulated in 1930, replacing an unsatisfactory system operated by some but not all local authorities. It was a registration system, with strong quantity control, to which price control had to be added shortly after. Partial nationalisation took place between 1947 and 1968, with regulation unchanged. By 1968 the industry was owned in equal thirds by two parastatal companies, over 100 municipal councils and private firms, almost all quite small and mainly engaged in coach hire.

The Transport Act 1968 created four (later five) Passenger Transport Authorities in the principal conurbations (increased to seven in 1974). Each PTA acquired the municipal fleets in its area and had powers of compulsory purchase or franchise, so as to make it, in effect, the sole bus operator in its area. Over the rest of the country the parastatals operated through their ownership of nominal joint stock companies, but the county councils were given powers amounting to a quasi franchise. The registration system remained in place, limited largely to quality control over the PTAs but with unchanged powers elsewhere.

Deregulation and privatisation The Transport Act 1980 made the first moves to dismantle the 1930 regulatory system. Quantity control was removed with respect to all services of 30 miles or more (the inter city express coach network), and price control was removed altogether. The latter was not very logical since quantity control remained in force for bus services. The registration procedure was amended to shift the onus of proof from the applicant to the objector. Provision was made for four 'trial areas' (mostly rural) in which quantity control was to be abolished.

The outcome of the 1980 act was limited. Some firms took advantage of the removal of price control to introduce discriminatory charging, and certain of the PTAs developed the travel card. The 'trial areas' proved nothing, except for a short period of head-to-head competition in the city of Hereford, where the incumbent parastatal came off best. But the expected development of competition in the express coach market did not last, and the incumbent parastatal National Express strengthened its monopoly by its control of coach stations and booking agencies. Only in Scotland did Mr Brian Souter and his sister take advantage of the liberalisation.

After reviewing the situation the government decided to proceed at once to dismantle quantity control for services, and to privatize at the same time. It was plain from the experience of National Express that to deregulate without privatizing would leave the parastatal companies in a dominant position, but to privatize without deregulating would merely transfer the companies to private monopolists. Initially it was proposed to sell the two parastatals (one in Scotland and one in England and Wales) to private ownership, but the present author pointed out that this would inhibit competition, and also the emergence of

market-driven management (in an industry markedly product-driven for the previous 50 years).

The Transport Act 1985 put these policies into effect, except for London where the monopoly operator whose origins went back to 1912 was to be broken up and privatized, but on a franchise basis. The act also required the PTA and municipal bus undertakings to be converted into joint stock companies and then sold to the private sector. No provision was made for a Regulator, but the industry's exemption from the Fair Trading Acts was removed.

The outcome - ten years on. The 1985 Act came into force in stages, and deregulation was completed in early 1987. Privatisation started at once, but is not yet fully complete. The outcome has varied considerably from place to place, but the biggest problems emerged quickly in certain PTA areas where the local authority had political objections to the process. As a result, the problems have received more attention than the many success stories from other areas.

At its worst, the outcome has been instability where weak management against a political background proved proved incapable of functioning effectively in a market context. In certain areas there has been head-to-head competition, and there have been several examples of predatory behaviour. These could have been avoided by suitable legislation. In some cases the outcome has been neutral, where an existing large firm has been barely challenged and a protectionist culture has remained undisturbed.

At its best, privatisation has enabled managers to take advantage of deregulation, leading to innovation and a market-driven ethos. There have been a number of striking examples of success in attracting more patronage, no little of it from people who previously travelled by car. National statistics now show an upturn in bus traffic, after its long-term secular decline which set in in the 1950s. Niche operators have appeared, and sporadic price competition has tended to hold down fares in general.

The successful outcome of the process turned upon the continued existence of nominally joint stock companies, which could be sold as going concerns. Many were sold to management teams while new money also entered directly. There is a contrast here in the problems faced by the Irish government, whose parastatal company had emerged in the 1930s as a single monopolist. From the first, sales were monitored to avoid the acquisition of adjoining firms by the same buyer and as the inevitable process of merger has developed the Director of Fair Trading has ensured that the 'patchwork quilt' of business should be retained.

Informed opinion concludes that the process has worked reasonably well as a whole and that it is about to show its merits after an over-long period of adjustment. Research by the present author shows that the one outcome most necessary - the development of sound marketing management policies - has taken longer than was forecast, and still has a good way to go in many companies.

The merger process has meant that almost all of the management buy-out firms have been sold to the large holding companies, and this is a source of concern if it leads to standardisation of management practices and inhibits further innovation. On the other hand, the fact that the holding companies are mostly quoted on the Stock Exchange means that the financial pressure for growth will encourage innovation as and when the merger process comes to an end.

London is sometimes taken to offer a preferable system, but it is plain that the franchise there has retained too much power in the hands of the public body that controls it. London has thus been largely denied the innovation and other advantages to be found in the best provincial towns and cities.

The 1985 Act gave power to county councils to support rural bus services through subsidy by tender. In some places this has led to a partial franchise. Informed opinion holds that much money is wasted and that the necessary services would be provided by the market if the system were dismantled. Similar provision is used to subsidise bus services in early morning or late evening, and on Sundays, where it is feared that the market will not provide them.

The taxi trade has always been subject to local authority regulation and this has often incorporated quantity control, such as to give holders of a licence monopoly privilege. (London is a special case, as also is its requirement, found in some provincial cities also, for the use of 'black cabs'). There is a problem in that the old system encouraged the emergence of the hired car trade (the mini cab), with no hail-and-ride authority. Deregulation has reached a half way mark and needs to be extended so as to encourage the development of a unified industry.

8.3 Regulation of railways

The development of railways presented the UK Parliament in the 1830s with the first challenge to its laissez-faire policy, and it is fair to say that the regulation of railways has remained a problem ever since. Provision for state ownership was made in 1845 but never proceeded with; quality control was developed early on; and in the 1870s a Commission was set up to control the supposed natural monopoly. By the end of the 19th century the idea of state ownership was still canvassed, but in 1921 the government merged the companies into four, retaining price control. The growth of commercial road transport undermined their profitability despite the protectionist legislation of 1930 (passenger) and 1933 (freight). In 1947 the new Labour government took the system into state ownership, but Foster argues that this was in effect another method of regulation.

The attempt to create a single undertaking for inland transport in 1947 failed for a number of reasons, and in 1962 the railways were reorganised as a separate British Railways Board. Subsequently the Beeching reforms started to turn the bankrupt system round, but railway policy continued to be weak and ineffective and the

undercapitalised system was never enabled to develop its potential. Commercial drive was encouraged by several reorganisations, but the industry remained product-driven.

The problem appears to have been behavioural as much as economic. Authors have developed the term 'the culture of the rail' and the present author, who was 'in the railway service' for a period in the 1960s, can confirm that this has all along been a serious problem. (It is a pan-European attitude and only recently challenged by deregulation in the USA).

The need to make railway managers act commercially was recognised by 1960, but the weight of the bureaucracy and the lack of strategic financial management has stifled such attempts as have been made. The foremost argument for privatisation is the need to invigorate management in the way that bus management has been invigorated since 1985.

Quite plainly, safety regulation of railways is a prime necessity and it was maintained by a separate organisation (the Railway Inspectorate) throughout the period of state ownership. The idea of selling British Rail plc to the market was turned down for fear that the culture shift would not take place. As a result the new system consists of a wide range of separate businesses.

To start with, ownership of the infrastructure - 'track, terminals and signalling' - has been separated from train operation. An EU Directive requires that separation takes place, at least, to the extent of distinct accounting structures, so as to enable access to be open to other users. The Swedish system has moved some way to this end in that local government trains operate on state railway metals. But only the British government has gone so far as to set up quite separate organisations and then to sell them to the private sector.

The Railtrack company itself has to buy in many of its functions from other firms; train operating companies (the passenger companies are franchised) have to pay for the use of the track; and a strong Regulator has been appointed, (the Office of the Rail Regulator, ORR). It is fair to say that the first results indicate that the 'culture of the rail' has been effectively challenged, and that a product-driven industry is starting to react to the requirements of the market by giving priority to the satisfaction of the customers.

'Direct access' is not new on the railway. 'Company trains' provided under contract date from the 1960s, and some quarry firms have more recently reached agreement to provide and operate their own rolling stock between private depots. Tourist trains to scenic areas have been hauled by BR locomotives.

With the recent reforms the railway industry in the UK is now almost wholly privately owned.

8.4 Regulation of road freight transport

In the pre war period most Road Transport operations in the UK were owned by the State and very few private operators existed. Those that did were able only to carry their own goods and were given restricted 'Operating Licences'. The Railways and to some extent Canals, both of which were state owned, were still a major mover of freight, especially bulk materials.

This system of Operating Licensing (quantity and anti-competition based) remained in place until the introduction of the 1968 Transport Act. This Act ensured a more widespread operating licensing system, but controlled the construction & use of vehicles, drivers hours and the quality of applicants to be Operators. These quality measures included an assessment of the financial standing of the Applicant, the ability of an Operator to operate within the legislation (weights, driving hours, vehicle maintenance etc) and the professional competence of an Operator.

The regulations of the 1968 Act were strengthened in 1983 with the introduction of the Europe-wide Legislation concerning Road Transport Operations.

While this led to a large growth in small companies, operating three to six vehicles, the state-run companies continued to dominate the road transport market and it was not until 1984 when the National Freight Consortium was sold to its managers and workers that a totally privatized road freight transport sector existed.

The growth of road freight transport has evolved in a de-regulated but heavily legislated framework, where the emphasis of the legislation has moved from being one of central control of the industry to one of quality control.

Major developments have seen the growth of expertise in distribution (latterly logistics) management, coupled with specialist companies in the various fields of dry freight, bulk freight, temperature-controlled freight, parcels and tank freight, all of which are supported by up-to-date information technology systems and driven by the logistics maxim: The time-related positioning of resources, or simply put, "Ensuring the goods are in the right place, at the right time, in the right quantity, at the right quality and at the right price".

Today's UK road freight companies, while reliant upon the state for providing the Infrastructure (roads, tunnels, bridges etc) can be in control of their own destiny. Various transport organisations exist: general haulage operators, third party distribution companies, logistics providers, joint manufacturer/distribution company arrangements, franchisees and owner-operators.

9. Regulation of downstream gas, oil and LPG

The establishment of a modern regulatory framework is necessary to promote efficient, environmentally sound and safe operation of the industry. This should take two forms:

- technical regulation that sets standards in relation to health and safety matters and environmental issues
- economic regulation that provides the framework and incentives for efficient transmission, distribution and consumption.

The purpose of economic regulation is to control the monopoly power of the transmission, distribution and trading companies in an open and transparent way. This needs to strike a balance between:

- avoiding the abuse of monopoly power that arises out of the existence of natural (and artificial) monopoly, mainly in the gas industry,
- preserving incentives for regulated companies and ensuring that transmission, distribution and marketing companies recover the full
- economic costs of supply and a reasonable but not excess profit,
- allowing participants in the industry to behave in a commercial way without unwarranted interference in management decisions.

Technical, safety and environmental regulation seeks to:

- ensure that consumers are assured of a reliable quality of service in return for paying prices that fully reflect economic costs,
- avoid adverse impacts on health and environment, resulting from the transmission, distribution and usage of gas, oil and LPG,
- minimise risks for public safety and property damage, resulting from unwanted gas escapes.

It is necessary to achieve an effective balance between the Regulatory Authority and the regulated companies: too much regulatory power or intervention can weaken incentives for companies to behave efficiently or to continue to invest, and too little could cause loss of wealth for the country in the long term. The guiding principles are to achieve clarity, transparency, autonomy, stability, and certainty for participants in the industry and for consumers.

The principal issues are how to establish an independent Regulatory Authority to oversee the commercial activities of the gas (and possibly the downstream oil industry, although this is not suggested as a priority for the time being), by means of a new Gas Law and/or other legislation, and what regulatory regime and service conditions should be imposed on the existing state gas company and other participants in the (oil and) gas industry. The key need, as far as the gas and LPG industry is concerned, is progressively to introduce competition at all points in

الخصخصة في اليمن مشكلة تسريح الموظفين

(PRIVATISATION IN YEMEN / THE PROBLEM OF REDUNDANCY)

إن الخوف من البطالة قد يولد حاجزاً سياسياً أمام الخصخصة ويُعيق بالتأكيد تنفيذها مالم تصبح القضايا المتعلقة بالتوظيف من اهتمامات الحكومة الأساسية. ولكن وجود عدد فائض من الموظفين قد عوّض عن وجود القطاع الخاص الضعيف وشبكات الأمان الاجتماعية غير الملائمة، ولهذا يجب النظر الى قضية تسريح الموظفين التي تُسببها الخصخصة من المنظورة الاقتصادية العريضة.

إن نسبة البطالة المرتفعة والقدرة المنخفضة لاستيعاب العمالة تعكس سياسات صناعية ضعيفة غير ملتزمة ببرنامج الخصخصة. والخصخصة جزء من رزمة اقتصادية تعتمد على الإصلاح والتعديل وتتضمن تخفيضاً ضخماً للخدمات المدنية. وعن التطرق الى السياسات التي تسعى الى التخفيف من وطأة فقدان الوظائف بسبب الخصخصة علينا أن نأخذ بالحسبان تأثير هذه السياسات على السياسات الراهنة للبطالة وقوانين العمل.

وتظهر مشكلة تسريح الموظف نتيجة إعادة تنظيم المشاريع الفردية ونتيجة إعادة التنظيم الاقليمي أو القطاعي. وتشمل العملية الأخيرة إغلاق المناجم أو أحواض بناء السفن غير المستعملة وغير المثمرة، وأيضاً حيث يشمل التغيير، بغض النظر عن برنامج الخصخصة، تسريح عدد كبير من الموظفين. ولهذا من الضروري أن تنتهج الحكومة وسيلة أكثر فعالية.

إن هذا التغيير الذي يطرأ في الإقليم أو القطاع قد يشمل:

- إستثمارات حكومية؛
- هبات إستثمارية تجذب صناعات جديدة؛
- مساعدة المؤسسات لكي تعيد نقل أمكنتها أو مواقعها؛
- دعم شركات تنمية اقليمية؛
- ومرافق تدريبية حديثة.

وعلى مستوى المشاريع فإنه من الأهمية بمكان أن نُعلِّم ونُثَقِّف الجهات المتأثرة كالنقابات والموظفين والدوائر الحكومية ووسائل الإعلام وعمامة الشعب حول ضرورة الاستغناء عن الموظفين. والحجّة الرئيسية هي الحاجة الى تحسين الفاعلية الراهنة سواء تمّ تغيير ملكية الشركة أو عدمه.

ويمكن تخفيف حدّة المقاومة إزاء التغيير بتقديم الاقتراحات التالية:

- الاستغناء عن الموظفين أو تسريحهم هو البديل الوحيد لتصفية الشركة؛
- يمكن للعمال الفائضة أن تلتحق بالصناعات الجديدة التي تجذبها برامج الخصخصة؛
- يحصل الموظفون الباقون على شروط أفضل بكثير من السابق؛
- تُخفّض صفقات تسريح الموظفين الجذابة المقاومة (المدفوعات مقابل الإيرادات)؛
- خطط لتملّك الموظفين لحصص أو أسهم في الشركة.

تشمل الوسائل التي يمكن استخدامها لتخفيف صعوبات العمّال الذين تمّ خفض إيراداتهم:

- تقديم مكافأة إنهاء الخدمة؛
- تقاعد مبكر طوعي أو العمل لفترة زمنية قصيرة؛
- إعادة التدريب/تدريب مهني؛
- مشاريع ريادية أو ترقية (SME?)؛
- ومشاريع للتقاعد المبكر.

المنطقية للخصخصة وتقييم لنتائجها العالمية

(THE RATIONALE FOR PRIVATISATION AND A REVIEW OF ITS GLOBAL RESULTS)

منذ أواخر أعوام السبعينات ، تزايد الإ تجاه بالخصخصة في دول العالم عندما بدأت بريطانيا وتشيلي بتنفيذ هذه السياسة. وتبنت هذه السياسة تقريباً جميع دول العالم بنسبة متنوعة والأسباب مختلفة منها الأسباب التالية:

- فشل المشاريع الحكومية بتزويد نتائج متعمدة بها بسبب فقر أو نقص بالحوافز أو بالأموال أو تصادم وتدخل سياسي ، كذلك عدم الفعالية.
 - الحاجة لتخفيض النفقات الحكومية - وهذا بيانها الاعلانات الحكومية الغير ضرورية التي تدفع للمشاريع والمؤسسات الحكومية كذلك بالسماح للقطاع الخاص بتحمل العبء بتمويل مشاريع جديدة.
 - الرغبة بالنمو والتطوير الاقتصادي من خلال خدمات تنافسية أفضل بالتنوعية وبأسعار منخفضة تُقدم من قبل المؤسسات المختصة.
 - الحاجة لزيادة الربح والدخل من البيع لجزئية وزارة المالية للديون وغيرها.
 - الحاجة لتشجيع الشعب أن يستثمر أو يورع أمواله في بلده لتقوية الأسواق المالية التي سيتغذي وتساعد على النمو الاقتصادي وتوسع من أساس الملكية في الاقتصاد.
 - الحاجة لجذب المهارات الإدارية العالية والتكنولوجيا والاستثمار.
- تنتج الخصخصة في الحكومة التي تكون بحاجة الى التغيير في دورها بعيداً عن إنتاج الخدمات والحاجيات، ولكن نحو مبادرة تشجيع وتطوير الاقتصاد ونحو منظم لخدمات القطاع الخاص الذين يستيقوا بعض الإحتكار.

هل نجحت الخصخصة؟

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والدول الشيوعية سابقاً الى تاريخه - فان الدرس الأساسي الذي استنتجته هذه الدراسة هو ان في تقريباً أكثر الحالات ناجحة ومفيدة في عملية الإصلاح، وخاصة في الدول النامية والشيوعية سابقاً (POST COMMUNIST). النتائج في هذه الدول عامةً جيدة خاصة في العمل والأداء للشركات والتأثير المالي وعلى المستهلكين والموظفين وعلى المساحة الاقتصادية الواسعة التي تؤثر على العوامل الضرورية مثل ازدياد أو تطوير الاستثمار الخاص. ومع ذلك، فإن هذه الدراسة قد استنتجت بأن نوعية الخصخصة ممكن تحسنها الى الأفضل فمثلاً تأسيس أهداف ولضحة ضرورية جداً للنجاح في المدى الطويل. وفي بعض الأحيان فإن هدف ازدياد الدخل يتضارب مع الكفاءة بالعمل أو مع الفعالية، كذلك في المنافسة وازدياد في خيار المستهلك.

هناك حكومات تستبقي شيئاً من الاحتكار في عملية الخصخصة وهذه تتعلق بضغطات مالية بهدف استخراج سعر بيع أعلى. وشبه ذلك، فإن عدد كبير من الحكومات تفشل في التحديد ما بين الأهداف القصيرة المدى والأهداف الطويلة المدى. فان الحكومة تنظر إلي إزالة الشركة الخاسرة من سجلاتها وتؤكد أنها ستبدأ بالعمل الفعال. ولكن هذا العمل أحياناً يتم بطريقة تقلل من ضغوطات التحسين في الأداء والفعالية على المدى الطويل.

تأسيس خصخصة الخدمات - تشجيع الفعالية والمنافسة في الإقتصاد

ORGANISING THE PRIVATISATION OF UTILITIES- ENCOURAGING EFFICIENCY)
(AND COMPETITION IN THE ECONOMY

معظم الخدمات التابعة للحكومة مثل الإتصالات الهاتفية والكهرباء والغاز والماء يُمثلون الإحتكار. ولذلك عندما تتخصص هذه الشركات لا بد من أخذ الخطوات المحددة لخلق الضغوط للانتاج الفعال وأيضاً لحماية المستهلك من أي نوع من الفساد وذلك لتزويد المنافسة في هذه القطاعات إلى أقصى حد ممكن وكذلك هيئات هيكلية لمنع إساءة استعمال أي نوع من الاحتكار.

في العادة، لم يكن للمستهلك حماية في الوقت التي كانت فيه الهيئة التنظيمية تابعة للجهاز الحكومي. فمثلاً في بريطانيا كانت الشركات الحكومية تعمل من غير أرباح ولكن هذا

لم يمنعهم من الاستثمار بزيادات ومصاريف غير ضرورية مثل توسيع القوى العاملة أو أي نشاط يؤدي إلى ارتفاع في الأسعار على المستهلك. ففي بعض البلدان، وخاصة الدول النامية يخلق الاحتكار الحكومي أسعار باهظة بينما تكون الخدمات من نوعية سيئة جداً وبهذا لا يكون للمستهلك خيار آخر.

إن أسباب وجود الاحتكار تختلف. وفي بعض الحالات يتبين أن نوعية الخدمة هي بطبيعتها إحتكار. مثلاً فمن الواضح أن تزويد المياه إلى الأماكن السكنية عبر أنابيب المياه يعتبر إحتكار طبيعي. بينما في حالة الكهرباء التي تُعتبر مُحتركة من الكثير، فنرى الآن أنه لا يوجد هناك إحتكار طبيعي في التوزيع، بل يوجد هناك استعداد كبير للمنافسة. وفي مجال الإتصالات "التكنولوجيا الحديثة" تعني أن المنافسة الكاملة قد تحدث في شتى القطاعات في السوق.

وعلى الأوجه أن السؤال الهام الذي يجب طرحه في كل من الخدمات المطروحة للخصخصة في المستقبل هو مدى فعالية المنافسة ومدى تأثيره على المستهلك. وتُعتبر الكثير من الخدمات التي لديها ميزات الاحتكار الطبيعي نرى بأن إزالة نظام قانون الاحتكار يؤدي إلى ازدهار المنافسة.

ولكن في الحالات الأخرى سيكون من المهم جداً أن يكون هناك إعادة بناء الصناعة لتشجيع المنافسة مثلاً بالرغم من أن السوق في تزويد القوة الكهربائية تحررت في منتصف الثمانينات، هذا فإن القوة الكهربائية الحديثة لم يكن له تأثير فعلي على وضع الاحتكار وفي الهيئة المركزية لتوليد الكهرباء (CEGB). عندما تم دراسة مستقبل صناعة الكهرباء في منتصف الثمانينات كان من الواضح ضرورة إعادة بناء صناعة الكهرباء بتجزئتها ليكون للمنافسة تأثير فعال وبهذا قد جُزّأت إلى هيئات توليد كهرباء منافسة لبعضها البعض وقُسمت إلى شركات توزيع إقليمية.

ولتكون للمنافسة فعالية أكثر، يجب إعادة بناء هذه الصناعة في مرحلة التشغيل للهيئة وليس في مرحلة الخصخصة.

ومع وجود قوة الاحتكار على هيئة التشغيل فمن الضروري أن يكون هناك تنظيم. وعلى هذا التنظيم أن يكون في غاية الوضوح والشفافية.

تحتوي الكثير من الهيئات الحكومية على أجهزة للتنظيم والترخيص. وتصبح هذه الأجهزة غير مناسبة للعمل بعد الانتهاء من عملية الخصخصة. فمثلاً في شركة الإتصالات البريطانية (BRITISH TELECOM) ورثت عن البريد (مؤسسة واحدة سابقاً) مسؤولية إصدار تراخيص إلى الكثير من الهيئات الحكومية والخاصة التي كانت متصلة مع وتستخدم هذا النظام. وعندما تم خصخصة شركة الإتصالات إحتاجت الشركة نفسها إلى الترخيص الخاص. ومن الواضح أنه كان غير مناسب لشركة الإتصالات أن تكون مسؤولة عن إصدار تراخيص لغيرها من الشركات، ومن ضمن هذه الشركات كان هناك المنافسين. هذه القوة التشريعية إنتقلت إلى هيئة حديثة أنشئت لهذا الغرض وسُميت بـ "الأوفتل" (OFTEL) -مكتب الإتصالات.

وبالرغم من امكانية إبقاء هذه النشاطات التنظيمية بيد الحكومية مباشرة ولكن الحل المفضل هو إنشاء هيئات تنظيمية مستقلة. فهذا يُزيل وجود أي تضارب للمصالح وخصوصاً عندما تكون الحكومة مالكة لبعض الشركات العاملة في الأسواق ومسؤوليتها كمنظم لجميع هذه الشركات وأيضاً هذا يُعزل الجهاز التنظيمي من التداخلات السياسية.

الاستثمار الأجنبي في الخصخصة

(FOREIGN INVESTMENT INTO PRIVATISATION)

خلال السنوات القليلة الماضية اتخذت معظم الدول سياسة بهدف جذب أموال للاستثمارات الأجنبية لدمجها إلى اقتصاديتهم (FDI). وقد قَلَّت المعارضة عن الاستثمار الأجنبي نتيجة أن الدول في الداخل تعاني من قلة الوفر والسيولة المالية وبزيادة معدل الرأس مالية والبناء الركيك والتكنولوجيا الضعيفة. الرأس مالية الخاصة تفيض عالم اليوم النامي بسرعة وتسبق الدول ذو المعونة الإنمائية الرسمية. ويعرض البنك الدولي معطيات توضح أن في عام ١٩٩٦ وصلت السيولة النقدية الرسمية للعالم النامي إلى ٤.٨ بليون دولار وأن التمويل الخاص قد وصل إلى ٢٤٣.٨ بليون دولار. والاستثمار المباشر الأجنبي (FDI) وصل مجموعه إلى ١.٩٥ بليون دولار ووصل مجموع الاستثمار الخاص عن طريق السندات والاوراق التجارية لوحده أكثر من مجموع النقد الإنمائي الرسمي.

والمشكلة بأن أكثر هذه السيولة النقدية تكون مع الدول النامية الأكثر ثراء مع الأقلية التي

تذهب الى الدول الفقيرة الغير نامية. وبدأ الوعي لدى حكومات البلدان الفقيرة بأنه هناك حاجة وفائدة للإقتصاد المفتوح، ولكن خبرتهم كانت مختلفة لجذب الاستثمار المباشر. واستطاعت بعض الدول في تأمين الإنماء المستمر من قبل الاستثمار الأجنبي المباشر وأن الدول الأخرى مع المياذلة الكبرى لم تستطع تحرير اقتصاديتها من الانعزال الدولي ومن الحلقة المفرغة من القلة في رأس المال والكساد الإقتصادي.

والمهمة المقبلة لجذب تدفق الأموال الأجنبية قد أصبحت أصعب بكثير بسبب تزايد واحتداد المنافسة لإستقتاب الاستثمار الأجنبي المباشر ما بين الأسواق الناشئة. وأن جذب المناطق مثل جنوب شرق آسيا وأوروبا الغربية وأميركا الشمالية قد ازداد أو بقي قوي نسبياً.

قد أصبحت الخصخصة اسلوب مهم لجذب الاستثمار الأجنبي. لقد تسببت الخصخصة بجذب نسبة عالية من الاستثمار الأجنبي الإجمالي في الدول الشيوعية سابقاً (مثل المجر - Hungary) ٨٦٪ وبولاندا ٦٤٪. وأما في بيرو والفنزويلا والأرجنتين والجاميكا فالنسب تتراوح ما بين ٣٠ الى ٤٠٪ من إجمالي الاستثمار الأجنبي. أما الدول مثل نيجيريا والبرازيل لم تستطع جذب إلا القليل من الاستثمار الأجنبي في الخصخصة. وذلك بسبب القيود الموضوعة على الاستثمار. وأما بعض الدول الأخرى فقد خففت القيود على البيع للأجانب.

وكان للخصخصة أيضاً عامل مهم ولقد عملت الخصخصة أيضاً "كمؤشر فعال" الذي يشير الى التزام الحكومات في الأسواق الحرة ويشجع الاستثمار المجزي وأشكال أخرى من الاستثمار ليس لها أي علاقة بالخصخصة، ومؤشر كهذا قد يساعد أيضاً على عكس عملية هروب رأس المال.

ويصرح "فرانك صادر" في دراسة أجراها البنك الدولي بأن الخصخصة لديها تأثير قوي خاصة على قرارات الاستثمار ويجب أن يوكد كل دولار من إيرادات الخصخصة ٣٨ سنتاً من الاستثمار الجديد. وتشير الدراسة أيضاً الى أن الخصخصة المالية وخصخصة البنية التحتية لديها الأثر الأكثر إيجابية على الاستثمار الأجنبي المباشر.

ولدى بعض الدول مخاوف حول الاستثمار الأجنبي لانهم يعتبرونه تهديد. وهناك مخاوف خاصة تدور حول الأجانب الذين يملكون أجزاء رئيسة من البنية التحتية للاقتصاد، مثل الاتصالات والصناعات الكهربائية. ولكنه من الجدير بالذكر أن بعض أكثر الدول قومية في

٦٧ العالم كالأرجنتين ، مثلاً قد استطاعت التغلب على مخاوفها وقامت بخصخصة شركات الكهرباء والاتصالات مباشرة للأجانب، لأنه في النتيجة، يفضل الجمهور الشركات الأجنبية الناجمة على الشركات المملوكة من قِبل الدولة ولا تعمل.

ولكن "التهديد" المزعوم حول الملكية الأجنبية يكمن في العقل أكثر من الواقع. إذ أن الأجانب لن يأخذوا أثمانيب المياه وأسلاك الكهرباء معهم إلى بلادهم.

وترجع كثرة الفوائد للاستثمار الأجنبي على أي من المساويء المتوقعة. إذ أنها تتضمن التدفوق الرأسمالي والتقنيات الجديدة ومهارات الإدارة الحديثة. وأن الاستثمار في السندات والأوراق المالية (PORTFOLIO) مهم جداً أيضاً ولكنه يحتاج إلى أسواق رأسمالية تعمل بالشكل الصحيح.

اساليب مبتكرة للخصخصة نماذج للإقتصاد النامي

(INNOVATIVE METHODS OF PRIVATISATION: MODELS FOR DEVELOPING COUNTRIES)

(ملخص الجلسة)

تعتقد الكثير من الدول النامية (الناشئة) التي تعاني من التدهور الإقتصادي، والتي تتصف مشاريعها المملوكة بشكل أساسي من قِبل الدولة، بعدم الفعالية وقلة المقدرة على التنافس إلى درجة تصبح في النتيجة عبء يستنزف خزينة الدولة، تعتقد أن الأمل الوحيد لمستقبل أفضل هو عبر تحويل هذه المشاريع إلى القطاع الخاص الأقدر على إصلاح الضرر والتعويض عن النقص.

ومع ذلك، بائت محاولات معظم الدول أوروبا الشرقية والوسطى التي كانت تعتقد الشيوعية في السابق، لاتخاذ الأسلوب التقليدي الذي يتبع أسلوب الحالات الخاصة للخصخصة، كالمرض العامة ، بالفشل. ولذلك فقد اختاروا البرامج الواسعة النطاق ، أي برامج الخصخصة الضخمة. وهذه عملية يتم من خلالها تحويل نسبة لا بأس بها من الموجودات

- تزويد المستثمرين الاستراتيجيين.

- تسريع عملية الخصخصة.

لا يوجد حلول متطابقة تماماً ولكن مع وجود أكثر من ٧ سنوات من استعمال هذه الأساليب يمكن استخلاص العبر من تجربة العديد من الدول ومن نجاحاتها واخفاقاتها.

وستُختتم هذه الجلسة بنقاش حول أهمية وجدوى هذه التجارب وبعض الأساليب المتبعة في حالة اليمن بالذات.

استعمال أسواق رأس المال في الخصخصة
تنفيذ العروض العامة في دول لديها أسواق رأس مال
غير متطورة

USING CAPITAL MARKETS IN PRIVATISATION / IMPLEMENTING PUBLIC)
(OFFERS IN COUNTRIES WITH UNDERDEVELOPED CAPITAL MARKETS

(تلخيص الجلسة)

ان الدور الرئيسي لسوق السندات المالية هو تزويد الدول والشركات بألية يتم من خلالها جني مبالغ جديدة، واعطاء المدخرين فرصة للاختيار من مجالات أوسع للاستثمار وللسماع بانتقال الملكية، وكل ذلك ضمن أطر نظامية تتلائم مع ما يقتضيه القانون.

جمع الموارد المالية

(RAISING FUNDS)

من أهم الخيارات عند وضع استراتيجية الدولة للخصخصة هي امكانية عرض الأسهم أو

جزء من الأسهم العائدة للشركات التي سيتم خصصتها على الجمهور إما مباشرة أو عن طريق مستثمرين من المؤسسات في السوق "الابتدائية" وأن هذا التحرك نحو توسيع نطاق الملكية له عدة فوائد:

- تزويد مدخل التعامل مع رأس المال المحلي من أجل توجيهه نحو الاستثمار المنتج.
 - تحفيز تطوير تسهيلات أسواق السندات المحلية ووسطائها.
 - اعطاء مؤشرات قوية بالدعم والاستقرار للمستثمرين الاجانب المرتقبين.
 - اعطاء الجمهور الفرصة للمساهمة في موجودات الدولة وبذلك تزويد نوع من الفرص المتساوية.
 - ضبط نفوذ المجموعات القوية.
- وتستطيع الشركات المصنخمة أيضاً أن تستعمل السوق كي تحصل على رأسمال، مثلاً من أجل إعادة البناء وتستطيع كل من الحكومات والشركات أن تستقرض الأموال عن طريق اصدار السندات أو القیود.

احتياجات المستثمر

(INVESTOR NEEDS)

- مهما تكون جاذبية فكرة السندات المالية، قد لا يريد المستثمر الاحتفاظ بها حتى البلوغ أو الأبد. ولذلك فإنه من الضروري ان تزود سوق السندات الالية لتحويل الاستثمارات بطريقة فعالة ومتعارف عليها قانونياً. ومن أجل تحفيز الاستثمار والاستفادة بالشكل الأقمسى من فوائد برنامج الخصخصة، ستحتاج السوق "الثانوية" الجيدة الى العناصر التالية:
- سوق مضمون ومتظم، مع مؤشرات وبراهين واضحة على أن الانظمة سوف تطبق بشكل صارم.
 - آليات التجارة الفعالة والغالية من المخاطرة وآليات التسوية.
 - الشفافية التجارية من أجل التاكيد على معاملة المستثمرين بسواسية ولكي لا تستطيع إتحادات (CARTELS) المستثمرين من تشويه السوق أو احتكاره لصالحهم الخاصة.

التطورات المستقبلية

(FUTURE DEVELOPMENTS)

سوف نتخذ نموذج غير رسمي لعمليات السوق "الثانوية" ، كأساس للنقاش ونستعرض المشاركين الرئيسيين والعمليات وتدفق المعلومات. ومن المهم ان تبني الدول التي لديها سوق رأسمالي في طور بدائي الثقة باقتصاد السوق منذ المراحل المبكرة . ويجب أن يتخذ بالأولويات التالية:

- تأسيس اطار اساسي منظم وقانوني للعمليات لتشجيع على اتخاذ المستويات المهنية والحماية من سوء الادارة والاحتيال.
- تطوير هيكلية للسوق "الثانوية" تتحلّى بالضمان والفعالية والعدالة ولديها مؤسسات وعمليات تغطي مجالات التسجيل، والتجارة والتخليص والتسوية.

وسوف نتطرق الى خبرات برامج التخصصة في دول تعاني من أسواق رأسمال مختلف لاستخلاص العبر. وستُختتم الجلسة بنقاش حول الاحتياجات والخيارات لتطورات السوق الرأسمالية في اليمن.

قضايا التقييم

(VALUATION ISSUES)

بينما تقييم المؤسسات الحكومية البرمجة للتخصصة جانب مهم في عملية التخصصة، فمن الضروري أن لانسعى الى القيمة الدقيقة التي لا قيمة لها كما ليس من الضروري أن يكون هناك مفهوم غير واقعي بالنسبة لهذه المؤسسات. ومع ذلك فإن بيع مدخرات الحكومة بأسعار زهيدة هو عردة انتقاض للحكومات ولذلك فيصبح مهم على الحكومة أن يكون لديها فكرة تقريرية عن الثمن قبل البيع وذلك في حالة استلام عطاء جيد وبسعر منخفض فيكون هناك دفاع وحماية مقابل هذا الانتقال.

يقدّر المستطاع فإن التخمين أو ثمن البيع يجب أن يحدد من خلال عملاءات مفتوحة. وكثيراً ما يكون عرض الشعب معمول بأسعار ثابتة مرتكزة على بيع سابق من الأسهم من هلال عملاءات . نظرياً العطاء المفتوح هو سعر السوق ولكن من المهم أخذ العذر للتأكيد بأن جميع المناقصين لديهم علم عن البيع. كما أنه من المهم تزويدهم بالوقت الكافي لتقديم عطاءهم وكذلك تزويدهم بمعلومات كافية.

ويمكن توقع تحسن الأسعار بعد الخوض في البرنامج بعد سنوات قليلة ويصبح هناك أيضاً اهتمام من قبل المستثمرين. وبعملية التخمين لقيمة الممتلكات والأسهم يجب الأخذ بعين الاعتبار اساليب مختلفة للتقييم وبما فيه السعر البديل بحالة انخفاض القيمة، للارباح، قيمة الممتلكات، سيولة نقدية مخصصة أو أي قانون راهن حسب الخبرة. ولن يكون هناك نتيجة واحدة صحيحة. فهو من العادي استخدام أكثر من مضمّن لتقييم المشاريع الكبيرة. في حالة عدم وجود تقييم للأسهم فإن الحكومة عينت مضمّنين للممتلكات لتثبيت قيمة هذه الممتلكات. عمّلت هذه الحكومة على أساس قيمة الأرباح التقريبية وأخذت رقم ما بين العديدين كدليل للمناقصة للعطاء المنطقي. العطاء الذي يكون دون السعر الأدنى المقدر كانت في أكثر الأحوال مرافق عليها وخاصة عندما يكون لدى المستثمر خبرة عالية وله النية للتخطيط وإعادة البناء.

من الصعب تقييم المشاريع الخاسرة ولن تعتمد القيمة كثيراً على تقييم الحكومة على مدى الربح الذي سيحققه القطاع الخاص لنجاح العمل. هذا ومع زيادة في وضع أمور جديدة ومع إدارة متحمسة أو القيمة الموظفة على الممتلكات من قبل المُخمن ، ولكن مدى المخاطرة الذي يعتبرها القطاع الخاص. هذا يختلف من مستثمر إلى آخر. وفي أكثر الأحوال، المؤسسات الحكومية التي لديها ممتلكات كثيرة ولكن أرباحها ضئيلة هي الأكثر انتشاراً من المؤسسات الحكومية الخاسرة كثيراً منها موجودة في مناطق نامية وتكاليفها عالية وأخرى تعاني من الزيادة في الموظفين وأخرى لم يتوقع منها كسب أي أرباح. فإذا كانت الاسهم تُباع الى عدد كبير من المستثمرين الصغار فإنه من الصعب على الحكومات على أن توافق بفكرة ان اهتمامهم فقط هو الأرباح الموزعة على المساهمين وان في أسواق المالية في الدول الأكثر نامية الوراق ان ممتلكات الأسهم لها تأثير أقل من سعر السهم. ان التقييم هو جانب أساسي للعمليات الشفافية ولكن ليس بالضرورة ان يبالغ في أهميته خاصة وأن قيمة السوق ستبرز نتيجة لعملية العطاء.

تطبيق أساليب فنية أخرى للخصخصة

(IMPLEMENTING ALTERNATIVE PRIVATISATION TECHNIQUES)

تبنت عدة دول من خلال تجاربها في استراتيجيات الخصخصة عبرة أساسية وهي بأن الملكية مهمة ويوجد فارق كبير وليس صغيراً بين بيع ٤٩٪ وليس ٥١٪ من ممتلكات الحكومة. وفي دراسة أتمها البنك الدولي مؤخراً عن موضوع الخصخصة وعقوده، استنتجت بأن عقود العمل كانت أقل نجاحاً من البيع الكلي، (OUTRIGHT SALE) كلما زاد عمل وتدخل القطاع الخاص فيكون للأفضل.

يوجد هناك عدة عوامل تؤثر على اختيار الأساليب المختلفة منها حجم المشروع ومدى مكسبه، وضع القطاع ومدى المنافسة فيه، مستوى التطوير في الأسواق المالية ومميزات المستثمرين. بالإضافة فيوجد هناك صلة قربية بين الأساليب التقنية والأهداف في برنامج الخصخصة. إن الدول التي تعطي أولوية كبرى إلى تطوير المقاولين المحليين ستختار تجزئي، الوحدات الكبرى إلى وحدات أصغر.

بينما الدول التي تزيد حمولة البيع تبيع الوحدات الكبرى إلى أعلى المزايبين. إن تشجيع ملكية الأسهم من قبل الشعب يتحقق من بيع الأسهم من خلال العروض العامة ولكن الاستثمار الجديد وملكية الإداريين القامحين يتحقق بنجاح أكبر من البيعتات التجارية. نستطيع أن ندمج هذه الأهداف في خصخصة مشروع واحد من خلال بيع مشاريع استراتجية (HOLDINGS) لمستثمرين لديهم الخبرات اللازمة في الأمور الإدارية والمالية بينما لبيع الأقلية من الحصة للشعب من خلال العروض العامة. وبدلاً من ذلك فإن الشركة قد تُباع ٨٠٪ إلى مزايد واحد مع متطلبات بأن هذه الزيادة تعرض الأقلية من الحصة إلى عامة الشعب بخلاف عدد من السنوات الحدة.

الهدف العام لتشجيع ملكية موظفي الشركة (MANAGEMENT BUYOUTS) يتحقق في طرق مختلفة وأحياناً يكون مطلب للمستثمرين ببيع نسبة من حصتهم للموظفين في وقت محدود. إن النقص في رأس المال المدراء في الدول الأقل نامية يعيق الشراء الكلي من قبل الإدارة. كما أن النقص في الخبرات لدى هؤلاء المدراء في الحكومة يؤثر تأثيراً سلبياً على هذا الخيار. يُشار أيضاً إلى مشكلة إستبقاء حصص الأسهم من قبل الحكومة. السياسة

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الأفضل هي أنه يجب على الحكومة أن يكون لها سبب مبرر لفعل هذا. ممكن أن تكون إحدى الأسباب هي أن الحكومة تُفضل أن تباع الأسهم للشعب عندما تزيد قيمة الربح وتزيد قيمة الأسهم في الأسواق. الرغبة في التدخل فقط لهذه الغاية يجب أن تتجنب منه الحكومة. كثير من الدول خاضت تجارب ضعيفة في المشاريع المشتركة (JOINT VENTURES) مع القطاع الخاص وبهذا أوقفت بعض الحكومات الاستثمار في هذه النشاطات التجارية. فمن الواضح أن خيارات العقود الادارية وعقود إعادة البناء مع القطاع الخاص تطبق بطريقة واضحة في استراتيجيات الخصخصة.