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Privatization and Development Project

Midterm Evaluation

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Elliot Berg
Melissa Graham
Daniel Hogan
Carl Ludvik

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DAI

7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

TABLE OF CONTENTS

LIST OF TABLES

PART ONE
MAIN REPORT

EXECUTIVE SUMMARY

MAIN FINDINGS

1. *The Privatization and Development (PAD) Project of the U.S. Agency for International Development (USAID) has been successful in achieving its major objective: making available to USAID and to client governments a vehicle for the provision of high-quality technical assistance in privatization.*

The project's level of activity dwarfs that of the predecessor (Center for Privatization) project and far exceeds that foreseen at its outset. Commitments under the PAD project between May of 1991 and the end of 1993 were more than $34 million, and disbursements were about $26 million. This is two to three times the expected spending level, and the project is only at midpoint.

2. *The USAID management of the PAD project and the project's chief contractor (the International Privatization Group of Price Waterhouse or PW/IPG) have made effective contributions to the restructuring efforts of the many countries in which they have worked.*

This indeed is one of the central findings of the project: that the U.S. government, through USAID and its contractors, has demonstrated its capacity to provide high-quality technical assistance in privatization.

3. *USAID, the prime contractor, and its subcontractors have shown great flexibility in adapting the specified objectives of the project to rapidly changing needs.*

Scopes of work often require adaptation, but this was rendered especially urgent in this project because of the unforeseen and radical transformation of the international environment after 1990, which made reworking of the objectives of the PAD project essential.

The original objectives, as set out in the contract, were concentrated on means or instruments rather than activities or actions, and were passive in nature.[1] They gave heavy emphasis to research and information dissemination objectives and said little about implementation or the specifics of helping privatization processes move forward. They said extremely little about transactions, or about institutional development (building local capability).

The post-1989 openings for privatization activity arising in Eastern and Central Europe, the ex-Soviet Union, and elsewhere led to a shift in priorities away from research and information dissemination, from the development of instruments and methods, and from pre-privatization activities and toward transactions. This shift in the balance of priorities is evidence of flexibility and

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[1] For example, the contractor is asked to develop a mechanism for monitoring privatization efforts, a framework for identifying target countries, a method for expanding knowledge of privatization activity, a means for gathering information, and the capability to deliver quality technical assistance.

responsiveness (as defined in the scope of work). The pattern of demand changed, and the project managers responded accordingly.

4. *Relations between PW/IPG and USAID/Washington (USAID/W) and the Missions have been generally — though not uniformly — cordial and cooperative.*

Almost all Missions found the contractor responsive and competent. The best evidence of this is that USAID Missions repeatedly returned to PW/IPG for assistance; buy-ins, once tried, usually multiplied. However, dissatisfaction was reported from several Missions — Zambia and Bolivia, for example. And several specific grievances were reported. Some Mission staff said that PW/IPG occasionally did a poor job of informing local Missions of the results of their buy-in work. Sometimes, reports of these buy-ins or reports of consultants were not sent to the Missions (Poland and Morocco). Staff in some Missions have also felt left out of the loop when buy-in teams are in-country; they are too often ignored by the consultants.

5. *The PW/IPG consortium has been very effective in the delivery of services.*

PW/IPG's management has been competent and responsive to changing demands in many parts of the world. It has recruited highly qualified people for its home office staff and as consultants and advisors for Mission buy-ins. Most technical outputs have been solidly professional. Operational performance has met high standards of quality.

Furthermore, PW/IPG has innovated in some important directions. In Poland, for example, it was one of the leaders in testing sectoral approaches to privatization; in Russia it was among the leaders in implementing voucher auctions. In the Philippines, Bolivia, and Morocco, PW/IPG sponsored new thinking and activity on private provision of public services.

6. *Impact — the effect of PAD-financed services on the pace and quality of privatization programs and on the building of local capacity — is harder to discern.*

A priori, the provision of so much high-quality technical assistance, training, and studies has to be assumed to have had some positive impact in aided countries. Impacts are difficult to measure, however, especially in the short run. By one criterion that is often used — the number of completed transactions brought about with PAD assistance — impact has been slight.[2] Between 25 and 30 state-owned enterprise (SOE) privatizations have come about in countries with PW/IPG assistance.

[2] This was the principal criterion used by USAID until relatively recently. It is a major criterion in the recent USAID assessment of privatizntion programs in East and Central Europe: Louis Berger International and Checchi and Co., *Privatization Phase II Program Evaluation (Contract No. 180-9914), Final Report*, July 1993, especially pp. 76 ff. See for a similar emphasis on successful transactions as a benchmark of choice, USAID, *Evaluation of Privatization in Central and Eastern Europe*, July 1, 1993 (Contract No. DPE-0016-Q-00-1002-00).

But use of this criterion is misleading, in two respects. First, sparsity or abundance of sales will in all cases be the result of many other factors, which have greater weight in explaining privatization outcomes than the USAID-provided technical assistance. Secondly, this criterion downplays the positive proximate impacts of the project.

Thus, in the Philippines, the PW/IPG presence strengthened the operating capacity of the state privatization agency and speeded adoption of private approaches to infrastructure financing. In Nicaragua, PW/IPG was the principal source of technical assistance for that country's successful privatization program. In Morocco, PW/IPG provided sustained analytic services that kept the privatization program alive in periods of flagging government interest. Many other examples can be cited.

It should be mentioned also that USAID's Policy Directive on Privatization of 1992 reduced the emphasis on divestiture and trade sales. It broadened allowable privatization actions to include nontransaction approaches such as management contracts and Build-Operate-Transfer schemes.

7. *The research function has not been accorded much priority.*

The research objective was met by the production of seven applied research papers, written by the Research Director, Andrew Cao. However, the budget was small, staffing thin, and output accordingly modest; few of the papers are known or cited in the privatization literature.

It is symbolic that the Research Director position, and the function it represents, which was given high priority in the original Request for Proposals, has been eliminated — or at least is no longer regarded as very important. Its "key personnel" status has been removed; that distinction has been bestowed on the project manager's job, presently occupied by Peggy Norgren. There's nothing invidious in this. It simply flows from the reality of the activities and priorities of PW/IPG, which in turn reflect those of USAID. Priorities changed as the demand for PW/IPG services changed.

8. The *requirement of the PAD project to gather and distill experience on key aspects of privatization* is being met, though more intensively in recent months than earlier.

These analyses are to integrate the lessons learned into useful guidance, for wide dissemination to privatization practitioners, government officials, and the donor community — including USAID. In pursuit of this objective, PW/IPG expanded its privatization database and distributed such publications as a periodic collection of press clippings; notes on PW/IPG projects; and, most important, two issues of its flagship publication, *Trends in Privatization and Development*.

More recently, PW/IPG undertook, through its subcontractors, a series of studies looking at experience in such key areas as mass privatization projects, pension fund privatization, housing, industrial sector analysis, and hotel privatization in the Caribbean Basin. These studies should be completed by the fall of 1994. They should make available useful lessons, drawing on PW/IPG's operational experience. They will help fill the research gap that persists in privatization matters.

9. *Capacity building has tended to be ignored.*

Capacity building is mentioned as one of the objectives of the PAD project. The formal efforts in this area are represented by some training workshops. The transfer of know-how is reported to have been notably successfu. in Russia, and there are undoubtedly many instances where on-the-job training took place naturally. But it was not an explicit objective in implementation; scopes of work in Delivery Orders rarely mention it. For this reason and others, PW/IPG consultants have tended to work by themselves, apart from local counterparts.

10. *Relations with subcontractors have been uneven.*

Some subcontractors complain that the prime contractor (PW/IPG) has funnelled them too little work. Others point out that information flow to subcontractors was practically nil, and that no team-building efforts were undertaken. It is hard to assess these grievances. Work given to subcontractors is in fact relatively small: $2 million out of $26 million total spending. Commitment shares are larger — $5.5 million out of $34 million total as of December 31, 1993. But only two subcontractors have been called on to any extent — Abt and Intrados. One reason is that the investment banker subcontractor (Morgan Stanley) and the lawyers (Baker and McKenzie) are expensive and also uninterested in taking on small projects. PW/IPG is in any case aware of this problem and is giving it attention, as is evidenced by the allocation of new research studies to subcontractors.

LESSONS LEARNED AND RECOMMENDATIONS

The evaluation team had the opportunity not only to review documents and talk to Washington-based practitioners, but also to benefit from on-the-ground visits to nine countries. The following recommendations are based on that exposure. Because of the diversity of conditions, the brevity of our field studies, and other limits to our knowledge of the state of the art, these recommendations are put forward tentatively. Many of them are based on conclusions about problems and shortcomings in present approaches to privatization that are themselves tentative because of their uncertain generality.

The recommendations put forward below inevitably address only problem areas. This is the nature of the genre: unsqueaky wheels go unoiled. It is therefore worth reiterating at the outset the earlier finding that the PAD project has been very successful in delivering high-quality technical assistance for the restructuring efforts of the many countries in which project staff and consultants have worked. This indeed is one of the central lessons of the project: that the U.S. government has this capacity, through USAID and its contractors.

Thus, the many parts of the PAD project that are going well receive no comment. And it should be understood that the recommendations for changes in future emphasis in privatization assistance put forward here are based on unfolding experience and changed environments in developing and transitional economies. They do not reflect difficulties in the PAD project, which has been well implemented.

1. *Higher priority should be given to pre- and post-privatization activities.*

Four critically important lessons evident from past privatization efforts follow:

- Privatization, in the sense of trade sales (sales of going concerns), is extremely difficult.
- Except in a handful of countries, trade sales are relatively few in number and economic weight.
- Divestiture in general invariably takes much longer than anticipated, and one basic reason for this is the inadequacy of pre-transaction preparation ("readying").
- Post-divestiture problems can dilute positive, efficiency-enhancing impacts, or even negate the sales themselves (for example, through state reacquisition of sold assets).

It follows that more attention should be given to pre- and post-divestiture aspects of the privatization process. Sale of SOE assets is the central event in the privatization process, and assistance in implementation of transactions should therefore remain a component of USAID-financed privatization programs. However, the divestiture transaction — actual transfer of ownership to private hands — is only one element in the continuum of actions that makes up the privatization process. One of the chief lessons of experience during the past five years is that the pre- and post-privatization activities are frequently crucial to successful divestiture and yet are often neglected. Their neglect is a basic reason for slow privatization progress in many countries. An increase in the relative attention given to these nontransaction implementation elements of the privatization process should be considered for the next phase of the PAD project.

Before transactions take place, for example, there should be more attention to reforming company and commercial codes, creating joint stock companies, undertaking extensive financial and management audits of SOEs, doing better company plans, and introducing performance contracts or related schemes for defining company objectives and government-SOE relations. Core studies should be undertaken routinely: inventories of company debt structures and cross debt, the prevalence and magnitude of direct and indirect subsidies, and the costs and benefits of alternative methods for cushioning disemployment effects (social safety net strategies). Fragmentation (spinoffs or internal divestiture) should become a systematic element at an early stage in all programs, whether formal privatization programs exist or not. There should be more assistance to public information efforts, based on serious (credible) policy analysis; these information and education campaigns are essential early measures needed for building a welcoming environment for privatization.

After or absent transactions, many of these same activities are pertinent. Improving regulatory and legal environments and studies and strengthening capacity to carry out studies will continue to be critical — impact assessments, for example, and analysis of institutional and policy blockages to competition and better economic performance. Analysis of opportunities and options for private infrastructure and social sector financing should be ongoing. Social safety net issues will continue to require attention. Help with problems of corporate governance will be important in many instances.

2. *Intellectual commitment to privatization is still hesitant in some places, so more policy research is essential.*

Except perhaps in transitional economies, policy-focused research on privatization is sparse, and not much seems to be in the pipeline — even at the World Bank, which has been the main source of such research in the past.

Such research is not a luxury, superfluous to the main tasks at hand. Events of the past five years have made clear that pro-privatization forces have not yet won the analytic battle to shift opinion among developing country intellectuals and policy makers in favor of privatization. Unless it is more decisively won, privatization progress will continue to lag in most of the world.

Resuscitating the research function doesn't necessarily mean costly reinforcement of the PW/IPG Research and Training Unit. As noted above, PW/IPG has already launched, through its subcontractors, new and relevant research on experience in specific areas -- mass privatization, hotel privatizations, and many others. This should be expanded.

It might also be possible to create a kind of small grants facility that would finance small research awards for local researchers or civil servants to undertake policy studies on privatization-related issues. The facility could be administered by PW/IPG or by USAID Missions with implementation assistance from IPG. In any event, PW/IPG management and USAID/W staff concerned with private sector development should review the research question and reconsider its place in the next phase.

3. *Alternative supplies of information about privatization events have expanded, so some PW/IPG information dissemination activities should be dropped.*

The information dissemination activities within the Training and Research Unit — and especially the centerpiece, which is the publication and distribution of *Trends in Privatization* — do not appear to be cost-effective. Nor is it clear why the provision of this information should be subsidized when competitive private publishers make available more comprehensive information for which they charge market rates. For these reasons PW/IPG should phase out these activities, including the data collection operations on which they rest.

4. *Because capacity building is neglected unless it is given explicit priority, it should receive such priority in future.*

The issue of whether greater emphasis should be given to capacity building raises two main questions. First, is it necessary, given the inherently ephemeral nature of privatization agencies? Why not just get on with it, divest, and let privatization agencies fade away?

The answer is that these agencies will be around a long time, and that in any case there is a great deal of valuable on-the-job learning that is presently being absorbed mainly by foreign consultants and advisors. In diagnosing and valuing corporations and negotiating sales, general analytic and managerial muscle is developed that should accrue to locals, for use when privatization programs are finished.

Second, once agreed that capacity building should receive higher priority, how do you do it? Scopes of work should emphasize that building of local capability is an important objective of privatization-related technical assistance. Teaming between advisors or consultants and local counterparts, which is already done in many cases, should be better and more systematic. Internships in home offices might be tried. In-service training courses could be made a more frequent part of consultants' and advisors' mandates. Use of local consultants could be more extensive, even in countries with embryonic consulting capacities. Just talking about capability enhancement would increase sensitivity to it and encourage its more energetic pursuit.

It is important for all parties to recognize that there is a trade-off between the contractor's expeditious execution of short-term assignments and more collaborative operating styles. The latter usually require more time and more money to "bring along" the local counterparts. Because USAID-funded delivery orders are often underfunded, contractor teams are pressured to get the job done quickly. So the encouragement of capacity-building efforts requires USAID attention in the drawing up of scopes of work and in budgeting for field missions.

5. *When the prime contractor has depth and diversity in its staff, subcontractors tend to be underused and clients feel they are not being given access to the full range of competence represented in the consortium. To avoid reducing the impact of the project and affecting its image, greater attention should be given to subcontractor relations.*

The prime contractor for the PAD project has allocated some of the work of the contract to the other members of the consortium it heads. But sharing more work would enhance project image and effectiveness. Failure to draw more extensively on contractor competence limits PW/IPG access to a wide array of needed skills and experience. (High subcontractor cost and lack of interest also contribute.) PW/IPG management should re-energize the consortium by doing some midstream team building, by widening the flow of information on project activities that is made available to subcontractors, and by allocating more of the work to them.

6. *Upfront costs of preparing SOEs for sale often seem excessive. More cost-effective approaches should be explored.*

A standard approach to privatizing SOEs has evolved recently. It is observable in PW/IPG's experience. It entails extensive upfront diagnosis and analysis, and valuation exercises that estimate adjusted book value, physical asset value, and present market value by discounted cash flow methods, using two or three rates of discount.

This approach ensures transparency. It protects the privatization agency and politicians both because of its openness and because it reflects best international practice implemented by internationally respected consulting firms. It equips government negotiators with a set of well-defined price guidelines and floor prices. It is essential when adequate auction arrangements do not exist. But it is expensive and not cost-effective for very small company privatizations. It gives false impressions of solidity to numbers that often vary by a factor of three for small differences in discount rates. More important, it can miseducate politicians and others who are often persuaded that book value is what counts. And it risks misleading everybody by giving the impression that SOEs are worth what consultants project their market value to be; they are, of course, worth only what somebody out there is willing to pay for them. It can be intrusive, when consultants base analyses on their perception of investment and market opportunities.

Several modifications may be worth further attention. Upfront inputs could be reduced — for example, less extensive analyses in the valuation exercises; exclusion of investment-demanding profitability enhancements; briefer company memoranda for bidders; or briefer, lighter documents. Marketing should receive more attention. More radical changes might also be appropriate. There is no obvious reason why companies couldn't be turned over to consulting firms or other qualified agencies, to be sold mainly on a success fee basis. Such an approach has been tried in Hungary and Romania and perhaps elsewhere; review of these experiences could provide guidelines for adoption of this method elsewhere (or provide reasons for its rejection).

7. *Financial considerations sometimes seem to dominate pre-sale analyses. More attention should be given to economic analysis.*

A sampling of studies and company memoranda in several countries suggests that economic issues are usually not given adequate attention. In some cases basic questions may exist concerning the economic viability of enterprises being privatized or the policy implications of their privatization. Yet these are hardly addressed. This seems to have happened in Senegal, Burundi, and perhaps elsewhere.

As economic analysis makes plain, the profitability of an SOE depends on implicit and explicit subsidies of various kinds, and future profitability of such enterprises may be highly dependent on the continuation of these subsidies. Such firms may not be able to survive in a liberalized economy — that is, in more competitive markets. To privatize them may be giving hostages to policies that have to be changed if faster growth through more efficient use of national resources is to come about.

Moreover, economic analysis can indicate when liquidation makes more sense than attempted sale. The unwillingness to liquidate is one of the main reasons worldwide for delays in privatization programs. Government officials say: Let's not liquidate, let's try to sell first. They try, thereby cluttering their privatization list with cats and dogs that nobody wants, even at bargain basement prices — unless they get special privileges. Time passes. Little happens. Or worse, something is sold with distortionary sweeteners attached. Everybody gets discouraged and the program loses momentum. Avoiding inclusion in "to be privatized" lists of SOEs that are not economically viable without subsidization is therefore important for the timely implementation of privatization programs.

8. *There is unexploited scope for new, nondivestiture initiatives in privatization, among them private provision of public services; these should receive greater attention in the next phase.*

PW/IPG has pioneered in this area — in designing a privately managed solid waste disposal program for La Paz and in studying private disposal approaches in the Czech and Slovak Republics. Also, in its Philippines work, the project contributed to the spread of Build-Operate-Transfer activity and proposed private service provision in a planned new privatization program.[3] Related work was done on private provision of social services (in Czech and Slovak Republics and in Russia) and on privatizing trucking services (in Mozambique).

These are promising areas for future expansion of private sector activities and should be moved closer to the center of USAID and PW/IPG concerns.

9. *The sectoral approach has not proved cost-effective in transitional economies, and sectoral analytic studies elsewhere have not always been appropriately budgeted and planned. The appropriateness of sectoral activities under PAD should be reviewed.*

Sectoral approaches, which PW/IPG pioneered in Poland in the glass industry, represented an innovative effort in transitional economies. The original idea was to rehabilitate a sector as a whole — studying all the firms, merging some, arranging initial public offerings for others, liquidating the least competitive, arranging trade sales for some. This never got off the ground, either in Poland or — apparently — in other transition economies. It was too vast a task, for the consultants and for the administrative capacity of government. The approach ended up focusing on trade sales, and most of the effort given to industry studies was superfluous. The approach may have led a few enterprises to agree to nationalization (prelude to privatization), but it is an open question whether any sales resulted that would not have taken place anyway.

The PAD buy-in, like the standard IQC mechanism it closely resembles, is most appropriate for time-bounded, focused, and largely technical tasks. Some privatization tasks do not fit easily within this format. The most important is sector analysis — for example, the study of privatization options and issues in the Philippines power sector. Such studies are complex and take a long time, and entail unsettled issues of sectoral policy and reconciliation of stakeholder conflicts. PAD buy-ins for these broader kinds of studies should therefore either not be used or should be given what is needed to do the job right: a longer time frame, much heavier financing, greater planning, and much more intense collaboration with other donors than is the case with the more conventional privatization tasks.

10. *A complex project like PAD cannot be effectively monitored unless the project officer can check project activities on the ground. More budget support for USAID/W is therefore required for oversight.*

The issue here is general. The USAID officer responsible for management of PAD in Washington cannot track all the project's buy-ins in an effective manner unless she is able to see how they are working on the ground. Resources for travel are of course severely limited. And although in many countries USAID private sector officers maintain good communications on project implementation, and PW/IPG is cooperative, there's no substitute for field visits. Privatization is a relatively new, difficult, and evolving task, and circumstances change fast in many countries. USAID/W needs the independent assessments and timely insights that field visits usually yield.

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[3] For extraneous reasons, neither the La Paz experiment nor the extension of USAID's privatization program in the Philippines came to pass. (See the Bolivia and Philippines country studies.)

PART ONE

MAIN REPORT

CHAPTER ONE

BACKGROUND

A major objective of U.S. international assistance programs has always been to help bring about faster economic growth in developing countries. Greater efficiency in resource use has come to be recognized as essential in meeting this objective — not only because it raises incomes in general and hence incomes of the poor, but also because efficiency-based increases in growth are likely to be sustainable.

The interest of the U.S. Agency for International Development (USAID) in privatization stems from the objective of stimulating economic growth through efficiency-enhancement. In the early 1980s, world economic recession, declining commodity prices, growing debt burdens, and the increasingly patent failures of state-owned enterprises (SOEs) made it clear that restructuring of public sectors was a major requirement of renewed growth in most developing countries. State-owned enterprise sectors had to become less of a burden on budgets and credit supply, and less of a blockage to private sector development — which, by the mid-1980s, had come to be recognized almost everywhere as the key to faster and higher-quality growth. Those enterprises that governments wished to retain in the public sector thus had to made to work better, by becoming more "commercial" and less political and bureaucratic. But at least as important, the state sector had to shrink. SOEs doing things that private agents could do as well or better had to be privatized.

USAID'S FIRST RESPONSE:
THE DIVESTITURE AND PRIVATIZATION PROJECT

USAID responded early and in many ways to the privatization challenge — by sponsoring studies, conferences, special missions, and some specific privatization assistance. A major step was taken in 1985, with the award of the contract for the Divestiture and Privatization Project (940-0008) — the predecessor of the Privatization and Development Project (940-0016) being evaluated here.

Between 1986 and 1989, the Divestiture and Privatization Project was a leading USAID vehicle for promoting and supporting privatization efforts in the developing world. The $4.9 million project financed a Center for Privatization and a consortium of six companies tasked to provide expert advisory services to USAID missions, USAID/Washington, and developing country governments.

The project provided a wide range of technical services to more than 45 USAID missions in 49 countries between early 1986 and early 1989. Training seminars or conferences were sponsored in 16 countries, reconnaissance and strategy missions went to 27 countries, and enterprise analyses were performed in 31 countries. Long-term technical assistance (LTTA) was dispatched to Honduras, Tunisia, and Bolivia. The project had a research function: state-of-the-art papers were to be written; the project also had an information dissemination component.[1]

The Divestiture and Privatization Project represented a substantial beginning and made numerous positive contributions to the promotion of privatization. LTTA in Honduras and Tunisia helped in more than 21 completed transactions, for example. But this first effort revealed several problems. The organizational structure, for example, was difficult to manage: division of responsibility among the Center for Privatization, the prime contractor (Scientex), and the associated subcontractors was uncertain and contentious. The subcontractors did 75 percent of the work, the prime 25 percent. Quality control was difficult. Reports were frequently of low quality and late.[2]

Probably most important, the mandate was unclear. The relative weight to be given to research and to transactions was not well specified or understood. In the event, neither received adequate attention. Research was slender in volume and, according to the project's evaluators, generally superficial; no real state-of-the-art papers appeared, nor any noteworthy contribution to understanding of privatization issues. The transaction focus was blurred; many resources went into short-term reconnaissance missions with uncertain outcomes.

OBJECTIVES OF THE PRIVATIZATION AND DEVELOPMENT PROJECT

The successor project — the Privatization and Development Project (PAD) — was prepared in 1990 and incorporated lessons from the previous project. The purposes of PAD are to:

- Help decision makers recognize the potential benefits that privatization can bring;
- Assist in the establishment and implementation of effective privatization strategies and programs;
- Provide technical assistance to overcome specific technical problems that occur during privatization implementation; and
- Help countries to develop the capacity to implement their privatization programs independently without need of further donor assistance.

At the end of 1990, a consortium led by Price Waterhouse (PW) was awarded the contract for PAD. The contract actually has two parts — separate core and buy-in contracts. The total life-of-contract effort for the core part was estimated at 530 person-months for the Executive Director, long-term professional staff, support staff, and long- and short-term technical specialists. Under the

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[1] W. Grant and M. Mescher, "Evaluation of the Divestiture and Privatization Project," Development Alternatives, Inc., December 1989.

[2] Ibid.

buy-in contract, the contractor was required (if requested) to provide a minimum of 1,000 person-months of services during the contract period.

The contractor was required to :

- Develop and implement a mechanism for monitoring and evaluating privatization efforts in USAID recipient countries worldwide, including the activities of other donor agencies;

- Develop a framework for identifying target countries in which project interventions would have high potential for success in initiating or advancing a privatization process;

- Provide a method for advancing interest in and knowledge of privatization activities and techniques among the decision makers of the developing world;

- Provide a vehicle for assisting overseas USAID Missions and host countries in developing and implementing an effective privatization strategy or action plan;

- Provide USAID with the capability to provide high-quality technical assistance on short notice in a wide range of skill areas related to privatization;

- Allow overseas USAID Missions to procure technical services using Mission funds by means of a contract buy-in mechanism; and

- Provide a means for gathering and distilling experience in selected important aspects of privatization. These analyses are to integrate the lessons learned into useful guidance that will be widely disseminated to privatization practitioners, government officials, and the donor community — including USAID.

PAD'S MANAGEMENT STRUCTURE

PAD management structure was much more integrated than that which had evolved under the earlier Divestiture and Privatization Project. Price Waterhouse created a special unit, the International Privatization Group (IPG) to manage operations and relations with USAID/Washington.

Three key posts were specified: an Executive Director, a Program and Operations Director, and a Research Director. Roger Leeds was the first Executive Director, Edgar Harrell the Director of Programs and Operations, and Andrew Cao the Research Director. Leeds resigned after a year. He was replaced by James Waddell, a PW partner who was already doing oversight of the technical work in the project. Ed Harrell left in February 1993; he was replaced by Richard Breen. Peggy Norgren has been acting as Project Manager since August 1991 and has since replaced Andrew Cao as "key personnel." Cao left the home office in early 1994 for a long-term assignment in Indonesia. Two PW senior partners provide general supervision: J.C. Acebel and Auguste Rimpel.

The PW proposal stipulated that a Technical Advisory Group would be set up and provide high-level guidance. This group was never activated.

In principle, the same quality control is used in this project as in all PW work. A two-tiered approach is used: partner field visits to hear client reactions and to review progress and problems with team members in the field, and detailed home office review of all deliverables by the supervising partner and other senior staff as necessary.

CHAPTER TWO

EVALUATION METHODOLOGY

MAIN QUESTIONS

The evaluation addresses four main questions.

- Did the contractor (PW/IPG) do what the PAD project called for, and if not, why not?
- How responsive was the contractor to the needs and requests of USAID/Washington and USAID field Missions?
- What impacts have the activities financed by PAD and related PW/IPG-implemented projects had on the pace and quality of privatization and on understanding of the privatization process?
- What lessons can be drawn from PW/IPG experience, and from privatization experience in general, for future USAID programming?

APPROACH

The approach followed in this evaluation consists of the following elements:

- Detailed briefing and guidance by Private Enterprise Bureau (PRE) staff of USAID, in particular by the responsible Project Officer, followed by interviews with relevant staff from other USAID bureaus, PW, the World Bank, and other Washington-based sources;
- Review of USAID documentation on the project, including the Project Paper, the core contract and modifications for Mission buy-ins, the Request for Proposal (RFP) and the PW proposal, and the contractor's regular reports to USAID;
- Field visits (rapid reconnaissance) in nine countries (Burundi, Zambia, the Philippines, The Gambia, Morocco, Poland, Ecuador, Bolivia, and Nicaragua) and the preparation of a country analysis for each;[3]
- Assessment of PW/IPG and subcontractor reports and papers for pertinence and quality;

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[3] Three members of the evaluation team did the country studies: Carl Ludvik (Bolivia, Ecuador, Nicaragua); Dan Hogan (The Gambia, Morocco, Poland); Elliot Berg (Burundi, Indonesia, Philippines, Zambia). Melissa Graham assisted generally and was responsible for the analysis of the Mission and subcontractor responses to the questionnaires.

- Review of recent evaluations of other privatization projects, for example for Indonesia, Eastern Europe, and the Philippines;
- Dispatch of a questionnaire cable to all USAID Missions, whether they have had PAD buy-ins or not, asking for an assessment of their experience (if any) with PW/IPG, and their future needs in privatization; and
- Mailing of a questionnaire to all of PW/IPG's subcontractors in the consortium, followed up by interviews.

CRITERIA FOR EVALUATION

The criteria used to assess the project are related to the central questions listed earlier. The first question — Did the contractor do what he proposed to do? — is called "project effectiveness" in the scope of work for this evaluation; it means performance in meeting objectives. This is the first criterion we use. It includes what the scope of work calls "relevance," which means responsiveness of the project to evolving problems and needs.

The second criterion is closely linked: the degree of responsiveness of the project to USAID needs and requests. We rely on interviews and on the Mission responses to the questionnaire survey for judgements on this matter.

The third criterion relates to effectiveness and impacts. Effectiveness means: Did they do a good job in delivering their services? Impact means: Did their services have any effect on the pace and quality of privatization in assisted countries or (secondarily) on institution building or capacity strengthening?

LIMITATIONS OF THIS APPROACH

The limitations and hazards of evaluation along these lines should be underscored. The PAD project has been in operation a short time — only about three years — and most of its specific activities are considerably newer than that. It would be unrealistic in most cases to see impacts after so short a time. Effort put into training and institution building can't be expected to yield much visible fruit before five years, and even results from projects of assistance to privatization transactions may take a long time to ripen.

Then there is the attribution problem. PAD or PW/IPG inputs are only one influence among many in determining outcomes. Aside from environmental factors such as political commitment of recipient governments, there are often other donors in the arena. On privatization matters, the Bretton Woods institutions, particularly the World Bank, are major players in most countries. It is rarely easy to disentangle the effects of PAD contributions from those of other donors.

The obscuring effects of environmental factors are even more troublesome. Externally provided inputs such as resident technical assistance could be extremely productive and greatly enhance the efficacy of the privatization process in an assisted country, but these inputs can fail to advance the privatization program because of the many factors beyond the project's control, such as soft budget constraints, fear of political fallout from disemployment of redundant workers, weakness in the legal framework, or inadequate and cumbersome regulations.

A third general limitation is the subjective nature of effectiveness assessments. Rarely will a seminar, a study of the environment for privatization, a strategy assessment, or a company privatization plan fail to have some positive effects. But measurement is difficult or impossible, so how are these positive effects to be weighed? Many of the inputs are soft (advice, participation in negotiations, or training), and the outputs are frequently intangible (quicker, better privatization; better-trained people; more awareness of privatization; and strengthened organizational capacity). The introduction of a training program or the presence of PW/IPG advisers or consultants may have important intangible effects — for example, higher-quality analysis, stronger negotiating positions, better use of existing national staff, introduction of better systems of information management, and improved internal management procedures. But many of these effects don't show up right away and are in any case difficult to measure.

These are familiar problems, demanding caution in all evaluations. However, they do not prevent careful evaluators from being able to say a great deal about project strengths and weaknesses, successes and failures. This is especially so because the evaluation provided for extensive field visits. These were brief, but allowed face-to-face discussion with many of the main players. This first part of the evaluation draws heavily on the 10 country studies found in the second part of the evaluation. (Nine of these are based on field visits; the tenth (Indonesia) relies on a recent evaluation.) Each country study is intended to provide a snapshot of the privatization program and its progress to date, a summary of the work of the PW/IPG consultants and advisers, an assessment of their relations with the USAID Missions, and an appreciation of their effectiveness and impact.

CHAPTER THREE

PERFORMANCE COMPARED WITH OBJECTIVES

Comparison of objectives as stated in the contract with actual performance is probably the easiest dimension to assess. But even here there are problems. The world has changed dramatically since the Project Paper was written and even since PW was awarded the contract. The removal of the Berlin Wall, the dissolution of the Soviet Union, the worldwide rush to marketization — all this has happened since the project was designed. It would be unrealistic to expect project objectives and approaches to have remained unchanged, especially because so much of the activity is demand driven through USAID Mission buy-ins.

ORIGINAL OBJECTIVES

The objectives of the PAD project as set out in the contract were listed above. Four striking features stand out.

- The objectives are concentrated on means or instruments rather than activities or actions, and are relatively passive in nature. For example, the contractor is to develop a mechanism for monitoring privatization efforts, a framework for identifying target countries, a method for expanding knowledge of privatization activity, a means for gathering information, and a capability to deliver quality technical assistance;

- Heavy emphasis is given to research and information dissemination objectives;

- Little is said about implementation or the specifics of helping privatization processes move forward. Extremely little is said about transactions; and

- Very little is said about institutional development or building local capacity, though it is mentioned.

PAD ACTIVITIES

Focus on Transactions

As it turned out, the implicit priorities in these stated objectives were transformed as the project unfolded. The dramatic changes in Eastern Europe and the former USSR created new demand for technical services in privatization and stimulated demand in that area and in other parts of the world. Many USAID staff in Washington and in the field shared the view of PW's management that a more activist and hands-on approach was called for, and in particular a stronger focus on assisting in actual sales — on transactions. Postmortems on the Center for Privatization of the Divestiture and

Privatization Project concluded that it had done too many studies and surveys, and not enough implementation of transactions.

In the event, one of the central objectives of the PAD project has certainly been satisfactorily met: USAID found PAD to be an extremely effective vehicle for provision of technical services in privatization. Table 1 shows the large and varied work program that PW/IPG has undertaken since its first Task Order in May 1991. As of December 1993, PW/IPG had implemented 100 buy-ins, about half of them directly via PAD, and half through related privatization projects. Commitments under the buy-ins totalled $35 million and disbursements about $25 million. PW/IMG has been active in some 35 countries — and in others under regional arrangements. A project that had been expected to find $10 million in demand has, at midstream, been called on for activities costing three-and-a-half times as much.

The core budget of $5 million (Table 2) is half spent as of December 1993. It has financed mainly seminars, conferences, and participation in international meetings. This budget also finances research and information dissemination programs.

The main objective of the project has become assistance for implementing transactions. The original objectives of developing instruments to monitor privatization programs or choosing target interventions, for example, have almost entirely disappeared. The information-spreading objectives and institution-building goals have been downgraded. This is evident in Table 3, which shows a rough breakdown of PAD activities by type. Transaction-related activities are clearly the most important. Table 4 is the result of an effort to break out disbursements by type of activity. About $15 million out of total disbursements of $26 million were directly attributable to transactions work. Much of the $6 million in technical assistance is probably transaction related. Probably two-thirds of total disbursements are on transactions.

Research

The research objective was formally met, in the sense that seven applied research papers were published. Table 5 lists these studies. They were almost all produced by the Research Director, Andrew Cao. However, the research function was not accorded much priority. The budget was small, as Table 2 indicates. The staff consisted of the director himself, with assistance by interns. The director was called on for conference attendance and speech-giving, and for other assignments.

It is symbolic that this position and the function it represents, which was given high priority in the original RFP, has been eliminated or at least is no longer regarded as very important. Its "key personnel" status has been removed; that distinction has been bestowed on the project manager's job, presently occupied by Peggy Norgren. There's nothing invidious in this. It simply flows from the reality of IPG activities and priorities, which in turn reflect those of USAID.

TABLE 1

Buy–in Projects (Revised 12/02/93)
PW PROJECT NO.: 59716– –5

PW No.	D.O #	Country	Project Name	Start Date	Budget	End Date	Spent 10/31/93	Remaining
001	1	Morocco I	Priv. Advisory Services	05/31/91	$894,165.00	09/30/92 *	$587,914.16	$0.00
002	—	Morocco II	Priv. of Public Services Seminar	CANCEL	$0.00	CANCEL	$0.00	$0.00
003	2	Bolivia I	Private Prov. of Public Services	05/28/91	$149,316.00	09/30/91 *	$147,677.72	$0.00
004	3	Phil I	GOP Asset Privatization	07/03/91	$667,400.00	09/30/93	$629,836.31	$37,563.69
005	9	Czech I	Czech Technical Assistance	08/29/91	$1,689,820.00	06/30/93 *	$1,689,820.00	$0.00
006	8	Czech II	Slovak Technical Assistance	08/29/91	$1,699,347.00	12/31/92 *	$1,699,347.00	$0.00
007	10	Poland I	Privatization Support Services	09/11/91	$2,204,486.00	09/10/92 *	$2,204,486.00	$0.00
008	7	Pakistan	Telecommunications	09/01/91	$85,127.00	10/31/91 *	$48,327.59	$0.00
009	5	Sri Lanka	Project Assessment and Impact	09/06/91	$124,960.00	12/15/91 *	$124,584.36	$0.00
010	4	ENE—Turkey	Priv. Assistance/Training	CANCEL	$0.00	CANCEL	$1,800.58	$0.00
011	11	Armenia	Privatization of Social Services	09/30/91	$41,841.00	12/15/91 *	$41,841.00	$0.00
012	12	Phil II	Phil. National Oil Company	10/25/91	$247,380.00	03/31/93	$228,232.24	$19,147.76
013	13	Czech III	Municipal Waste Collection	11/08/91	$280,388.00	09/30/92 *	$265,307.07	$0.00
014	15	Cape Verde	Priv. Program Assistance	11/14/91	$68,373.00	02/28/92 *	$68,373.00	$0.00
015	18	Tunisia	Support to GOT Priv. Program	01/28/92	$13,291.00	03/30/92 *	$13,291.00	$0.00
016	14	Bolivia II	Technical Support to the GOB	11/13/91	$1,149,984.00	09/30/93	$1,031,840.89	$118,143.11
018	17	Gambia	Privatization of Ground Nuts	01/17/92	$36,220.00	03/09/92 *	$34,382.67	$0.00
019	19	Phil III	Priv./Impl. of Metro Transit	02/04/92	$262,165.00	12/31/92 *	$246,251.51	$0.00
020	20	Mozambique	Private Sector Road Transport	02/28/92	$180,444.00	10/31/92 *	$165,697.06	$0.00
021	21	Phil IV	Privatization of Power	03/20/92	$183,233.79	09/30/92 *	$141,251.17	$0.00
022	22	Nicaragua	Technical Assistance—CORNAP	03/20/92	$1,323,183.00	03/31/94	$1,105,196.48	$217,986.52
023	24	Gambia II	Privatization of Ground Nuts	04/23/92	$120,081.00	12/31/92 *	$120,081.00	$0.00
024	23	Ecuador	Privatization Assistance	05/01/92	$359,339.14	06/01/93	$359,339.14	$0.00
025	28	Phil V	Priv. of Mining Companies	06/17/92	$71,408.00	09/30/92 *	$71,408.00	$0.00
026	27	Poland II	Glass Sector Privatization	06/26/92	$1,415,430.16	12/31/92 *	$1,415,430.16	$0.00
027	26	Guatemala	Highway Privatization	07/09/92	$50,338.00	09/30/92 *	$50,338.00	$0.00
028	29	Burundi	Privatization Assistance	06/15/92	$468,768.00	09/30/93	$386,690.19	$82,077.81
029	30	Mongolia	Priv. of Housing Sector	07/20/92	$375,757.00	10/30/93	$300,922.93	$74,834.07
030	31	Tunisia II	Air Tunisia	06/15/92	$165,232.23	12/31/92 *	$165,232.23	$0.00
032	25	Zimbabwe	Telecommunications Conf.	08/13/92	$388,055.00	04/13/93	$345,691.69	$42,363.31
033	32	Bolivia III	Pension Fund Privatization	08/12/92	$1,523,911.00	12/31/93	$795,370.41	$728,540.59
034	33	East Eur.	Priv. and Women Entrepreneurs	08/25/92	$189,020.59	12/31/92	$31,871.72	$157,148.87
035	35	East. Eur.	Review of Privatization Program	09/04/92	$314,775.60	01/31/93	$276,823.57	$37,952.03
036	34	East Eur.	Priv. of Child Care	09/28/92	$98,698.11	03/31/93	$63,548.58	$35,149.53
038	38	Cape Verde	Privatization Assistance	09/28/92	$153,584.67	12/31/93	$143,390.70	$10,193.97
039	40	Zambia	Priv. Assistance to the GOZ	12/04/92	$548,199.68	07/15/93	$513,887.87	$34,311.81
040	41	Phil. VI	Privatization Seminar	11/28/92	$110,533.00	05/30/93	$101,242.17	$9,290.83
041	43	Grenada	Privatization Assistance	12/11/92	$475,406.00	11/30/93	$375,808.74	$99,597.26
042	42	Phil VII	Phil National Railway	01/27/93	$151,811.84	06/30/93	$151,811.84	$0.00
043	44	Uzbeckistan	Privatization Assistance	02/01/93	$1,079,349.00	06/01/94	$565,187.23	$514,161.77
044	46	Kyrghyzstan	Privatization Assistance	04/14/93	$1,167,473.00	04/13/94	$405,734.89	$761,738.11
045	48	Poland III	Privatization Assistance	05/04/93	$116,383.00	06/30/93	$116,383.00	$0.00
046	49	Haiti	Privatization Assistance	05/28/93	$15,185.00	07/31/93**	$6,726.64	$0.00
047	47	Honduras	Priv. of Hondutel	06/01/93	$530,100.51	03/31/94	$247,972.00	$282,128.51
048	50	Nepal	Privatization Assistance	06/08/93	$65,183.00	08/31/93	$0.00	$65,183.00
049	55	Zambia	Telcom Policy	08/02/93	$246,926.00	11/30/93	$162,871.81	$84,054.19
050	54	Ethiopia	Valuation Assistance	07/30/93	$38,500.00	10/30/93	$36,673.59	$1,826.41
051	52	Zambia II	Privatization Assistance	08/04/93	$130,330.00	11/30/93	$130,021.37	$308.63
052	56	Nicaragua	Telecommunications Priv.	08/20/93	$529,000.00	06/24/94	$96,862.59	$432,137.41
053	51	Nepal II	Public Enterprise Project	08/19/93	$1,295,320.00	09/18/94	$66,434.38	$1,228,885.62
054	53	Mozambique	Privatization Assistance	08/30/93	$51,762.00	12/27/93	$121.90	$51,640.10

PW PROJECT NO. 00922– –5

PW No.	D.O #	Country	Project Name	Start Date	Budget	End Date	Spent 10/31/93	Remaining
001	57	NIS	Health Care Privatization	09/04/93	$2,418,616.00	05/07/94	$0.00	$2,418,616.00
				TOTAL:	$25,945,600.32		$17,979,336.15	$7,544,980.91

*** COMPLETED— 5% Withholding Claimed**
**** Date Extension Requested**

TABLE 1 (continued)

PW PROJECT NO.: 81344- -5

001	16	Indo- H.Q.	LT and ST Tech. Asst. to GOI	12/09/91	$1,659,483.89	09/30/94	$897,232.17	$762,251.72
002		Indo- WP	First Year Workplan (TO #1)	02/12/92	$70,821.83		$66,499.79	$4,322.04
003		Indo- B/B	Soc/Bot Seminar (TO #2)	02/12/92	$55,433.00		$57,854.19	($2,421.19)
004		Indo- Train.	Training Needs (TO #3)	05/01/92	$157,998.74		$84,834.52	$73,164.22
005		Indo- BBII	Soc/Bot II (TO #4)	05/01/92	$26,003.74		$31,341.44	($5,337.70)
006		Indo- MIS	Mgmt. Info System (TO #5)	06/27/92	$39,882.97		$40,707.93	($824.96)
007		Indo- PFP	Pension Funds Priv. (TO #6)	07/01/92	$148,170.84		$133,628.01	$14,542.83
008		Indo-SOE	SOE Restructuring (TO #7)	07/08/92	$26,055.75		$22,136.34	$3,919.41
009		Indo- A.L.	Airline Leasing (TO #8)		$163,775.24		$108,961.66	$54,813.58
010		Indo - PPP	Paiton Private Power (TO #9)		$73,585.00		$87,764.26	($14,179.26)
011		Indo- IPO	Aneka Tambang		$36,264.00		$39,429.55	($3,165.55)
				TOTAL:	$2,460,475.00		$1,573,389.86	$887,085.14

PW PROJECT NO. 81309- -5

001	36	NIS Republic	Status Overview	08/28/92	$207,519.76	12/30/93	$207,519.76	$0.00
002		NIS - SS	Sector Study		$382,008.04		$351,408.86	$30,599.18
003		NIS - MA	Mission Assistance		$51,749.41		$51,749.41	$0.00
004		NIS - GS	GKI Support		$416,066.00		$417,750.05	($1,684.05)
005		NIS - ES	Energy Sector		$148.40		$148.40	$0.00
006		NIS - U	Uzbeckistan		$23,056.22		$23,056.22	$0.00
007		NIS - K	Krygyzstan		$13,914.62		$13,914.62	$0.00
008		NIS	Nizny Bank		$19,226.33		$19,226.33	$0.00
009		NIS	Investment Funds		$0.00		$747.07	($747.07)
010		NIS	Ukraine		$25,592.87		$6,668.09	$18,924.78
011		NIS	Moldova		$278,827.35		$195,746.99	$83,080.36
				TOTAL:	$1,418,109.00		$1,287,935.80	$130,173.20

PW PROJECT NO. 81348- -5

001	37	Africa	ONI	09/25/92	$69,682.15	01/24/94	$34,587.86	$35,094.29
002			Cote d'Ivoire	12/03/92	$68,548.00		$55,756.93	$2.791.07
003			Senegal		$93,722.97		$96,906.60	($3,183.63)
004			Zambia		$28,105.65		$25,471.06	$2,634.59
005			Mozambique		$56,365.00		$46,021.22	$10,343.78
006			Ethiopia		$60,636.75		$48,914.98	$11,721.77
007			Cameroon		$79,775.12		$52,310.26	$27,464.86
008			Madagascar		$97,484.74		$243.79	$97,240.95
009			Senegal-Phase II		$151,425.62			
				TOTAL:	$695,746.00		$359,968.91	$335,777.09

PW PROJECT NO. 81286- -5

001	39	Morocco II	Home Office	09/30/92	$922,900.66	09/30/94	$491,827.60	$431,073.06
002			CTM		$25,466.04		$25,518.10	($52.06)
003			Prep Work-Audit		$27,052.35		$27,587.68	($535.33)
004			Serv.-Transaction Adv.		$512,987.49		$226,001.55	$286,985.94
005			CADEM & ASMAR Audit		$351,999.17		$309,188.34	$42,810.83
006			Hotels		$115,441.29		$111,381.32	$4,059.97
007			BSO		$191,480.84		$77,794.32	$113,686.52
008			SOE Divestiture		$216,920.30		$116,644.56	$100,275.74
				TOTAL:	$2,364,248.14		$1,385,943.47	$978,304.67

PW PROJECT NO. 81352- -5

001	45	Russian Auct	Moscow/Home Office	12/22/92	$390,205.96	12/31/93	$638,863.19	($248,657.23)
002			Krasnodar Team		$333,182.59		$188,077.09	$145,105.50
003			Omsk Team		$356,768.76		$178,796.84	$177,971.92
004			Saratov Team		$371,402.07		$216,033.32	$155,368.75
005			Moscow Team		$366,650.39		$284,242.69	$82,407.70
006			Yekaterinburg		$330,887.23		$368,978.00	($38,090.77)
				TOTAL:	$2,149,097.00		$1,874,991.13	$274,105.87
		TOTAL OF ALL BUY-IN PROJECTS:			$35,033,275.46		$24,461,565.32	$10,750,426.88

Core Activities (Revised 12/02/93)
PW PROJECT NO. 81018— —5

TABLE 2

PW Number	Activity Number	Project Name	Start Date	Budget	Spent 10/31/93	Remaining
001	999	Home Office	12/20/90	$5,196,927.69	$2,540,351.30	$2,656,576.39
002	TO 1	NY/Morgan Stanley	02/04/91	$2,871.54	$2,299.68	$571.86
003	TO 2	Guidelines	02/01/91	$12,630.30	$12,218.69	$411.61
004	TO 3	Prague	02/25/91	$6,062.00	$5,464.74	$597.26
005	TO 4	NY Conference	02/20/91	$2,572.71	$2,430.53	$142.18
006	TO 5	Mining Conf.	02/20/91	$2,084.34	$2,226.56	($142.22)
007	TO 6	Int'l Comp. Conf.	04/04/91	$3,124.49	$2,328.59	$795.90
	TO 7	Prague	03/11/91	$0.00	NONE	$0.00
008	TO 8	Manila Visit	03/16/91	$9,987.81	$10,303.49	($315.68)
009	TO 9	OECD—Paris Conf.	04/08/91	$6,312.89	$4,608.72	$1,704.17
010	TO 10	Int'l Priv. Conf.	04/14/91	$4,733.02	$1,351.36	$3,381.66
011	TO 11	NY—Con. Interviews	04/24/91	$2,265.88	$377.41	$1,888.47
012	TO 12	London/Lisbon	06/23/91	$16,555.46	$21,920.80	($5,365.34)
013	TO 13	UNDP Collaboration	04/17/91	$1,169.90	$1,663.78	($493.88)
014	TO 14	Bolivia Program	04/29/91	$3,833.92	$3,876.59	($42.67)
015	TO 15	Prof. Dev. & Design	05/13/91	$15,141.78	$14,046.15	$1,095.63
016	TO 16	Case writing visit	05/28/91	$2,653.96	$2,876.63	($222.67)
017	TO 17	Slovina Oversight	06/18/91	$12,754.04	$36.05	$12,717.99
018	TO 18	Case writ. workshop	07/08/91	$183,269.94	$117,064.71	$66,205.23
019	TO 19	Fr. Mir. Pol. Czech	07/08/91	$22,291.91	$20,400.06	$1,891.85
020	TO 20	Indo/Phil.	07/18/91	$10,948.76	$4,633.69	$6,315.07
021	TO 21	Poland Project Dev.	09/01/91	$7,306.27	$11,675.94	($4,369.67)
022	TO 22	Thail. WB/IMF Meet.	10/13/91	$5,081.81	$408.32	$4,673.49
023	TO 23	Hungary OECD Conf.	11/14/91	$5,682.90	$0.00	$5,682.90
024	TO 24	New York Seminar	11/05/91	$1,221.40	$0.00	$1,221.40
025	TO 25	PAD Computer Network	12/20/91	$16,098.90	$14,463.11	$1,635.79
026	TO 26	UNDP Conf. Ecuador	01/20/91	$4,447.02	$1,743.82	$2,703.20
027	TO 27	Recon. Mission—Tun.	02/28/92	$5,126.86	$7,095.29	($1,968.43)
028	TO 28	Priv. Newsletter	03/03/92	$1,100.00	$1,496.53	($396.53)
029	TO 29	EBRD Annual Mtg.	04/09/92	$3,914.23	$0.00	$3,914.23
030	TO 30	Adams Smith Conf.	05/15/92	$13,121.55	$20,420.20	($7,298.65)
031	TO 31	Speechwriter	CANCELLED			
032	TO 32	UNDP Expert Group Mtg.	07/09/92	$6,712.41	$6,877.89	($165.48)
033	TO 33	Grenada Assistance	09/07/92	$14,555.74	$17,208.03	($2,652.29)
034	TO 34	Puerto Rico Conf.	10/02/92	$5,924.85	$4,398.88	$1,525.97
035	TO 35	Dominican Republic Conf.	11/20/92	$6,415.68	$5,524.03	$891.65
036	TO 36	PAD Brochure	09/01/92	$13,130.66	$12,042.02	$1,088.64
037	TO 37	Priv. in Retrospect	12/01/92	$32,181.71	$31,292.26	$889.45
038	TO 38	UNCTD Conference	11/25/92	$13,427.21	$5,669.74	$7,757.47
039	TO 39	Institute of The Americas	11/15/92	$10,033.59	$12,180.02	($2,146.43)
040	TO 40	Salzburg Seminar	02/08/93	$8,371.54	$8,786.02	($414.48)
041	TO 41	Haiti Privatization	05/21/93	$7,322.14	$6,436.62	$885.52
042	TO 42	UNCTAD Seminar	06/01/93	$5,760.17	$9,765.34	($4,005.17)
043	TO 43	AFSA Symposium	10/07/93	$15,000.00	$2,211.55	$12,788.45
044	TO 44	AFSA Symposium	10/07/93	$40,604.90	$24.10	$40,580.80
045	TO 45	Zimbabwe Telecom	11/15/93	$5,396.92	$724.21	$4,672.71
			TOTAL:	$5,764,128.20	$2,948,923.45	$2,815,204.75

OBLIG. FOR TO'S	$567,200.51
SPENT ON TO'S:	$370,444.29
% OF TO'S SPENT	65.31%
Obligated for Core	$5,196,927.69
Spent on Core:	$2,540,351.30
% OF OBL.SPENT ON CORE	48.88%
Total Obligation:	$5,764,128.20

APPROXIMATE NUMBER OF PAD ACTIVITIES BROKEN DC N BY COUN Y/PRIVATIZATION CATEGORY (1)

COUNTRY	Country Assessments	Sector Analysis	Medium/Long Term Advisor	Preliminary SOE Analysis	Valuation	Mktg/Investor Search	Trans-actions/ Privatizations	Auctions	Labor Red. Eval.	Training Seminars	Public Info/ PR	Other	TOTAL ACTIVITIES
Armenia	1	0	0	0	0	0	0	0	0	0	0	0	1
Bolivia	3	3	1	1	5	1	1	0	1	4	1	0	21
Burundi	1	0	0	4	1	1	1	0	0	0	0	0	8
Cameroon	0	0	0	0	0	0	0	0	0	1	0	0	1
Cape Verde	0	0	0	0	2	0	0	0	1	0	0	0	3
Cote d'Ivoire	1	0	0	0	0	0	0	0	0	0	0	0	1
Czechoslovakia	0	1	4	8	4	8	1	0	0	[illegible]	0	0	29
Ecuador	3	0	2	7	2	2	2	0	1	6	0	0	25
Ethiopia	0	0	0	0	0	0	0	0	0	1	0	0	1
Gambia	0	0	0	1	1	1	1	0	0	0	0	0	4
Grenada	1	0	0	0	1	1	1	0	0	1	1	0	6
Guatemala	0	1	0	0	0	0	0	0	0	0	0	0	1
Haiti	0	1	0	0	0	0	0	0	0	0	0	0	1
Honduras	0	1	1	1	1	1	0	0	1	1	0	0	7
Indonesia	0	1	1	0	1	0			0	1	0	1	5
Mongolia	0	1	0	0	0	0	0	0	0	0	0	0	1
Morocco	0	1	2	7	3	0	1	0	0	0	0	2	16
Mozambique I	0	1	0	0	0	0	0	0	0	0	0	0	1
Mozambique II	0	1	0	0	0	0	0	0	0	0	0	0	1
Mozambique III	0	0	0	0	0	0	0	0	0	1	0	0	1
Namibia (SADCC countries)**	0	1	0	0	0	0	0	0	0	1	0	0	2
Nepal	0	0	0	0	3	2	0	0	0	1	0	0	6
Nicaragua	1	6	2	18	8	8	7	0	8	2	0	0	60
NIS*	5	1	5	1	0	0	300	300	0	4	0	0	616
Pakistan	0	1	0	0	0	0	0	0	0	0	0	0	1
Philippines	1	0	0	9	8	6	5	0	3	2	0	0	34
Poland	0	1	8	34	15	34	5	2	0	5	0	0	104
Senegal	0	0	0	1	1	0	0	0	0	0	0	0	2
Sri Lanka	0	1	0	0	0	0	0	0	0	0	0	0	1
Tunisia	1	0	0	1	1	0	0	0	0	0	0	0	3
Zambia Telecom	0	1	0	0	0	0	0	0	0	0	0	0	1
Zambia Teleconference	0	0	0	0	0	0	0	0	0	1	0	0	1
Zambia Valuation Seminar	0	0	0	0	0	0	0	0	0	1	0	0	1
Zambia (ZPA)	0	0	4	0	0	0	0	0	0	0	0	0	4
Zambia (Desk Study)	0	0	0	0	0	0	0	0	0	1	0	0	1
GRAND TOTAL	18	24	30	93	57	65	325	302	15	37	2	3	971

*As of 9/30/93

Notes:

(1) These figures represent numbers of specific activities performed within each country. In some cases, countries have been listed more than once to represent separate buy-in activities.

*NIS includes: Russia, Uzbeckistan, Kyrghzstan, Ukraine, and Moldova

**Ten countries attended this telecoms conference

PROJECT DISBURSEMENTS BY TYPE OF ACTIVITY
(As of 30 November 1993) TABLE 4

Delivery Order #	Project Name	Project Disbursements by Type of Activity				Total
		Studies	Technical Assistance	Transactions	Public Info/ Research, Training	
1	Morocco I	$100,914	$287,000	$200,000		$587,914
2	Bolivia I			$142,677		$142,677
3	Philippines I			$633,687		$633,687
5	Sri Lanka	$124,584				$124,584
7	Pakistan Telecommunications		$48,328			$48,328
8	Slovak Technical Assistance			$1,349,347	$350,000	$1,699,347
9	Czech Technical Assistance			$1,339,820	$350,000	$1,688,820
10	Poland Glass Sector	$150,000		$1,854,486	$200,000	$2,204,486
11	Armenia	$41,841				$41,841
12	Philippines Nat'l Oil Co			$228,232		$228,232
13	Czech Municipal Waste	$265,307				$265,307
14	Bolivia II		$1,042,491			$1,043,491
15	Cape Verde		$68,373			$68,373
16	Indonesia	$437,849	$959,509	$134,538	$206,235	$1,738,131
17	Gambia			$34,383		$34,383
18	Tunisia		$13,291			$13,291
19	Philippines Metro Transit			$246,252		$246,252
20	Mozambique Road Transport	$165,897				$165,897
21	Philippines Power			$141,251		$141,251
22	Nicaragua CORNAP			$1,138,591		$1,138,591
23	Ecuador			$359,339		$359,339
24	Gambia Ground Nuts			$120,081		$120,081
25	Zimbabwe Telecommunications				$345,692	$345,692
26	Guatemala Highways	$50,338				$50,338
27	Poland			$1,415,430		$1,415,430
28	Philippines Mining Companies			$71,408		$71,408
29	Burundi			$367,590		$367,590
30	Mongolia			$362,740		$362,740
31	Tunisia—Air Tunis			$165,232		$165,232
32	Bolivia Pensions Fund		$602,412		$200,000	$802,412
34	East Europe Priv of Child Care	$63,549				$63,549
35	East Europe Privatization Review	$314,776				$314,776
36	NIS Republics	$1,215,885		$150,000		$1,365,885
37	Africa ONE	$392,096		$62,157		$454,253
38	Cape Verde Priv Assistance	$75,779		$70,000		$145,779
39	Morocco II	$481,778	$560,044	$651,933		$1,693,755
40	Zambia Priv Assistance		$505,002			$505,002
41	Phil Privatization Seminar				$106,789	$106,789
42	Philippines National Railway			$151,812		$151,812
43	Grenada			$424,471		$424,471
44	Uzbekistan		$693,782			$693,782
45	Russian Auction			$2,116,142		$2,116,142
46	Kyrghyzstan		$742,387			$742,387
47	Honduras			$380,515		$380,515
48	Poland			$116,383		$116,383
49	Haiti	$5,727				$5,727
50	Nepal			$65,183		$65,183
51	Nepal II			$89,503		$89,503
52	Zambia II		$130,330			$130,330
53	Mozambique	$122				$122
54	Ethipia				$36,674	$36,674
55	Zambia Telecom		$195,172			$195,172
56	Nicaragua Telecom			$213,596		$213,596
57	NIS Health Care		$177,760			$177,760
58	Senegal					
TOTAL		$3,887,042	$5,965,961	$14,821,979	$1,795,390	$26,470,392

TABLE 5

LIST OF APPLIED RESEARCH STUDIES

1.	*Financial Determinants for Selecting BOO versus BOT in Infrastructure Project Financing*, Price Waterhouse Publications, July 1992.
2.	*An Analytical Framework for Impact Evaluation and Monitoring Post-Privatization*, United Nations Development Programmer, Annual Meeting of Experts in Privatization Proceedings, September 1992.
3.	*Privatization and International Economic Competitiveness, North American Free Trade Agreement*, Annual Conference Proceedings, October 1992.
4.	*Experiences in Privatization & Lessons Learned*, Price Waterhouse Publications, February 1993.
5.	*Privatization and Infrastructure Project Financing in Latin America*, Latin Finance Journal, March 1993.
6.	Privatization in Vietnam, Chapter in *Privatization - A Global Perspective*, Oxford University Press, 1993.
7.	*Privatization in Africa*, Price Waterhouse Publications, June 1993.

Information Dissemination

A specific requirement of the PAD project is to gather and distill experience on key aspects of privatization. These analyses are to integrate the lessons learned into useful guidance, for wide dissemination to privatization practitioners, government officials, and the donor community, including USAID. To fulfill this requirement, Price Waterhouse proposed to do the following:

- Identify a target audience;
- Develop privatization training activities;
- Expand, update, and maintain the Center for Privatization's database;
- Develop brochures and other promotional materials;
- Explore the possibilities of establishing a relationship to serve as a depository for privatization information developed under the project;
- Establish a newsletter; and
- Publish selected studies and research articles.

Beginning in July 1991, regular issues of the *Press Clippings on Privatization* have appeared. These are abstracts of notes and articles taken from the press and privatization newsletters. The purpose of *Press Clippings* is to inform consortium members, USAID Missions, and practitioners about the latest developments in privatization worldwide.

Another publication, an annual newsletter called *The IPG Report*, was issued once, in February 1992, and covered privatization activities during 1991. A second newsletter for 1992 was drafted and submitted to PRE for comments during the summer of 1993. This newsletter focused on countries in which IPG was involved directly and gave more thorough descriptions of buy-in projects. This was not published and none have appeared since that time.

PW/IPG also produced and distributed, first in 1991 and then again in September 1993, a publication called *Trends in Privatization and Development*. This publication replaces *The IPG Report*; its objective is to compare trends in privatization across all developing countries. The publication provides a standard format that can in principle be used for cross-country analysis. Each country section is broken down into such categories as government commitment to privatization, country privatization strategy, investment environment, impacts, and prospects for the following year. Case study research has recently been launched.

At present, subcontractors are conducting eight studies on transactions or markets in which PW/IPG/USAID are or have been involved. There are several reasons for this approach: the subcontractor possesses the neutrality and expertise on the subject matter addressed in the studies; accessibility to PW/IPG principals involved in the projects provides stronger data and stronger conclusions; and the analysis of PW/IPG's transactions, decision processes, and overall performance provides keen insight into the challenges faced during the privatization process.

The studies cover Africa, Poland, Latin America, the Pacific Rim, and the newly independent states (NIS). Topics include mass privatization projects, small-scale privatization, pension fund privatization, housing, agricultural and industrial sector analyses, and hotel privatizations in the Caribbean Basin. The studies address such issues as social safety nets and pre- and post-privatization problems and successes. The data extracted from the studies will provide both a blueprint of the process and examples of lessons learned. The studies will be released in late-1994.

Training

Sixteen training operations were completed between 1991 and 1993 (see Table 6). The five year target in the IPG early implementation plan called for 15 operations, so they have surpassed this internally set goal. Nine of the programs were in Central and Eastern Europe and the former Soviet Union.

CHAPTER FOUR

RESPONSIVENESS TO USAID

The abundance of buy-ins provides strong prima facie evidence of PW/IPG's responsiveness to USAID requirements; even the most effective marketing campaigns could not by themselves produce this kind of extensive use of the contractor's services. PW/IPG's close and cordial relations with USAID/PRE is another indication of flexibility and responsiveness.

Firmer information on the responsiveness question is contained in the replies to the worldwide cable-questionnaire sent to all USAID Missions in the fall of 1993. Details are given below, in the section on project effectiveness. The replies confirm the findings of the country studies and the opinion of USAID/Washington staff — that PW/IPG has been attentive to USAID needs and wishes, has responded promptly to buy-in requests, and has provided competent and experienced technical assistance.

High marks are not universal however, as one might expect. Several shortcomings were reported, especially in face-to-face discussions during field visits, but also — more delicately — in some of the replies to the questionnaire:

- PW/IPG did a poor job in some cases of informing local Missions of the results of their buy-in work. Sometimes, even often, reports of these buy-ins or mission reports of consultants are not sent to the Missions;

- Staff in some Missions feel left out of the loop when buy-in missions are in-country; Mission staff are too often ignored by the consultants;

- In several cases USAID/Mission staff felt that resident advisors were not keeping USAID well-enough informed about the evolution of their work; and

- In some countries, relationships were out-and-out poor; USAID staffs found their PW/IPG advisors and consultants unresponsive. This was true in Bolivia, Tunisia, Zambia, and, to a lesser extent, Zimbabwe. One Mission (Zambia) had the sense that their program was receiving short shrift because PW had so much demand for its services; they had other fish to fry.

Other grievances are aired in the country studies and in the Mission responses to the questionnaire. These are presented in Annex B. But, overall, the level of Mission satisfaction with PW services is high.

TABLE 6

Summary of PAD Training Programs (1991 - 1993)

Program Title/Topic	Date	Location
Privatization Transactions Seminar	July 1991	Philippines
Privatization Roundtable - Keynote Address	July 1991	Bolivia
Privatization Teleconference	October 1991	Zambia
Infrastructure Financing	October 1991	Pakistan
BOO/BOT Approaches to Privatization	February 1992 and May 1992	Indonesia
Evaluating Privatization Plans	February - April, 1992	Czech Republic
Evaluating Privatization Proposals	March - April 1992	Slovak Republic
Negotiating Privatization Transactions	April - November 1992	Poland
Negotiating Privatization Transactions	June - July 1992	Czech Republic
Negotiating Privatization Transactions	June 1992	Slovak Republic
Crisis Management & Corporate Restructuring: The Role of Boards	December 1992 - April 1993	Czech Republic
Southern African Telecommunications Seminar	February 1993	Namibia
Private Provision of Public Services Seminar	March 1993	Philippines
Basic Business Skills	August 1993 & December 1993	Poland
Privatization Seminar	October 1993	Uzbeckistan
Introduction to Corporate Governance	November - December 1993	Russia

Total Annual Training Programs: 1991 - 4; 1992 - 6; 1993 - 6
PAD Total Training Programs to Date: 16

CHAPTER FIVE

EFFECTIVENESS AND IMPACT

Two levels of assessment are involved. The first is: Did the contractor's agents do satisfactory work, recruit competent people appropriate to the task, define tasks and problems properly, coordinate well with other actors, write good reports, and provide sound advice or effective operational help in transaction-related activities? Did they build local capacity: are local staffs able to carry on privatization programs with little or less help? Did they produce good research and disseminate useful information in an expeditious manner? This is the effectiveness issue.

The second level involves outcomes or results. Did the technical assistance and other inputs provided by the project increase the number and quality of privatization transactions, bring about more suitable strategies or approaches, strengthen local capacity — by providing pertinent training (formal or on the job) and by improving organizational effectiveness? This is the impact issue.

EFFECTIVENESS

General Effectiveness

With respect to general effectiveness, the country studies and the Mission responses to the questionnaire give generally high marks to PW/IPG. Some aspects of the PW/IPG approach are debateable or challengeable; these are discussed later. But management of the project has been competent and responsive to Mission and host country needs and flexible in the face of the changing world environment for privatization. Supervision from PW/IPG in Washington seems to have succeeded in maintaining a high level of quality in the written outputs of the project. The quality of consultants and advisors has been good or very good.

PW/IPG has done noteworthy work in new areas and deepened its involvement in others. In Poland, it was one of the leaders in developing sectoral approaches to privatization, and in Russia its work on voucher auctions has been widely applauded. In Bolivia, the Philippines, and Morocco, among other countries, the contractor has pushed forward awareness of the potential of private provision of public services. It has also advanced interest in and knowledge about telecommunications privatization potentials, especially in Southern and East Africa. One of its subcontractors, Abt Associates, undertook innovative work in Mozambique on privatization of the trucking sector; another, SRI, produced a much-appreciated report for the Zambia Mission — a review of lessons of experience useful for Zambia.

Specific Responses to the Questionnaire

The views of USAID field Missions on the effectiveness of the PAD-financed services bear out the generally positive opinion the project. In connection with this evaluation, a questionnaire was sent to all USAID Missions to determine why PW services were not used. If they were used, the Missions were asked:

- Was the technical assistance provided by Price Waterhouse or one of its subcontractors satisfactory and cost-effective, and did it have significant impact on the privatization process in the host country?

- Was the information disseminated on privatization received and found to be useful?

- Did the Mission expect to seek additional assistance under PAD between now and December 20, 1995?

When services were not performed, the questionnaire sought to identify alternatives or barriers to PAD utilization and determine future requests for privatization assistance. A copy of the cable questionnaire and details of the Mission responses are included in Annex B.

Utilization of PAD

Of the 26 Missions that responded to the questionnaire, 13 had sought assistance. In one case (El Salvador), assistance was requested but not used; government authorities changed their mind. Among the 13 that made no call on PAD, the main reason was that many of the countries in question were not pursuing privatization programs aggressively and had few USAID-funded private sector-oriented activities. Non-utilization by Mexico, however, had another explanation; as one of the leaders in privatization, it had no need. Mexico has in fact served as host to Latin American privatization agency representatives seeking successful cases of privatization programming. In other cases (like Swaziland), the main reason for not using PAD was lack of money. In several countries, privatization activities have been financed from other sources. For example, USAID/Uganda's privatization activities have been funded under the Rehabilitation of Productive Enterprises project (RPE), and Jamaica has been receiving privatization support under the USAID Export Development and Investment Promotion Project (EDIP).

Mission General Assessments

In those countries where PAD projects exist, most of the work performed by PW and its subcontractors was given high marks. Ratings given were "above average" and "excellent" with numerous compliments on PW's flexibility and responsiveness. The work in Indonesia received a rating of average but it was noted that many factors were outside PW's control such as a change in leadership of the assisted agency. In Tunisia, USAID's difficulties with the predecessor project and its high level of anticipated activity led USAID/Tunisia to decide that it needed its own source of privatization services; it arranged for a contractor to implement its privatization and financial markets development project (Private Enterprise Promotion Project). The Zambia Mission found PW/Washington management unresponsive in several important respects. Both Zambia and Bolivia decided to try other providers of privatization services.

A brief summary of the responses by Missions that used PAD is in Table 7.

TABLE 7

RESPONSES BY MISSIONS THAT USED PAD

COUNTRY	ACTIVITY	EVALUATION
Bolivia	1. Technical assistance 2. Technical assistance 3. Development of PR campaign for privatization of pension funds system.	Excellent, excelled in prompt and responsive service.
Gambia	Privatization of the Gambia Produce Marketing Board.	Above average. PW was both responsive and flexible.
Guatemala	Technical assistance to the Ministry of Communications, Transportation and Public Works on the feasibility of the concession operation of a portion of Guatemala's road network.	Above average/excellent. PW was prompt, responsive, and flexible enough to take into account the changing needs of the ministry. Consultants were knowledgeable, with a broad background of road concession issues.
Honduras	Technical assistance for privatization of telecommunications system.	Performance excellent: prompt, responsible, flexible, and sensitive to capacity-building needs.
Indonesia	Under the Financial Management Project, four objectives are improvement of the policy framework for privatization, institutional strengthening, assisting in transactions, and training and expanding public awareness.	Average. Performance and client satisfaction have only been average because of a lack of substantial progress toward desired achievements. Much of the reason for this, however, has been outside PW's control, such as institutional reorganization.
Nepal	Privatization of 14 enterprises during one year.	Thus far, PW subcontractor, Intrados, has been doing all the work. Assistance has been excellent.
Nicaragua	Privatization of two sugar estates, two large hotels, and pending privatization of another hotel and of TELCOR, the telecommunications monopoly.	Response was to see country report.

TABLE 7 — Continued

Philippines	1. #12 Technical assistance to PNOC 2. #19 Technical assistance to light-rail transit authority 3. #21 Technical assistance to OEA 4. #28 Technical assistance to Bagacay Mines 5. #41 Technical assistance for seminar/design of supplement 6. #42 Technical assistance to National Railways.	1. Excellent 2. Above average 3. Above average 4. Above average 5. Excellent 6. Excellent
Senegal	Privatization of SONACOS	Excellent
Tunisia	1. a brief 16-day level of effort diagnostic on two SOEs (SAKMO and SOTAC) proposed by the GOT for privatization 2. A privatization action plan for Tunis Air	1. Above average 2. Average
Zambia	Technical assistance to the Zambia Privatization Agency.	Performance of two PW consultants was superior. One consultant was replaced. Relationship with PW/IPG was found to be spotty, with difficulties in justifying some arbitrary responses to the Mission. Kenya regional office of PW was very effective in smoothing things out and being very supportive.
Zimbabwe	PW and subcontractor, Intrados, organized a workshop on Southern Africa telecommunications policy, under SADC auspices. Also did other work in the region on telecommunications.	Quality of services above average to excellent, though expensive and there were some delays in sending reports. Mission notes some difficulty in getting top-flight technical people when needed.

Cost-Effectiveness

On the question of cost-effectiveness, the responses were much more varied. Some Missions felt that they could not comment as they had no basis to compare the cost-effectiveness of PW/IPG services with other sources. Other Missions commented on the benefit of using contract mechanisms such as the PAD buy-in. Several noted that PW prices were higher than the average USAID contractor, although at the same time recognizing the high quality of their work. In Zimbabwe, the Mission noted the high multiplier, and ascribed it to the high level of oversight from the PW office for quality control. But they nonetheless complained that the PW/IPG home office's lack of information slowed responsiveness to regional policy needs.

Future Use of PAD

The positive answers to the question of whether Missions would want PAD services in the future is a confirmation of the project's generally good image. Of the Missions that responded to the questionnaire, 10 Missions are likely and three Missions very likely to request assistance under PAD. Two Missions had projects in progress that would carry them close to the end of PAD. There were three Missions that did not respond to the question. Eight Missions did not expect to request assistance. A summary of Mission responses is listed in Table 8.

Information Dissemination

A specific requirement of the PAD project is to gather and distill experience with key aspects of privatization. As noted earlier (Chapter Three), PW/IPG has done all this. The implementation of 16 training workshops and preparation of 7 research papers have been noted. The *Press Clippings on Privatization*, which monitors privatization activity in countries throughout the world, is distributed to 880 entities: consortium members, USAID Missions, the World Bank, the International Monetary Fund, and other institutions. PW/IPG's Research and Training Unit in Washington has continued to update its privatization database and published "Trends in Privatization and Development" in September 1993.

We comment first on information dissemination narrowly perceived. Training and research will be considered subsequently.

Benefits and Costs

The staff of IPG's Research and Training unit assembles privatization information for its publications with great ingenuity and enthusiasm. One wonders, however, about the utility of the exercise. The publication of privatization events dates from the early and middle 1980s, when the idea was new, very little was known about what was taking place, and every incident seemed to be a happening. IPG involvement in this activity is in fact a carryover from the Center for Privatization.

In the mid-1990s, there are not only many more incidents of privatization but there is much better coverage. So questions have to be raised about this activity: Is it making a significant contribution to information dissemination; is it cost-effective?

It is not apparent that the exercise yields incremental benefits of any scale. The unified organization of PW/IPG's *Trends* makes it easy for the reader to compare country events, but the descriptions are brief and only major points are summarized. Two competing publications are more

TABLE 8

MISSION RESPONSES TO QUESTION: WANT PAD SERVICES IN FUTURE?

Bangladesh	**maybe** - Mission is in the process of recasting its private sector development strategy.
Bolivia	**maybe** - PW work performed under the Bolivian pension reform initiative will undoubtedly set the stage for unprecedented macroeconomic change, the cornerstone of a structural adjustment program which we anticipate will go into effect in early 1995.
Botswana	**maybe** - the Mission may request privatization services through the PAD during FY94 and FY95 to assist in the development and implementation of a medium-term privatization strategy for SOEs in Botswana.
Chad	**no** - to date, USAID/Chad efforts have not included a privatization program nor do program projections envision such a program.
Côte d'Ivoire	did not respond to this question.
El Salvador	**maybe**
The Gambia	**maybe** - it is most likely, given budget projections, that additional PAD services would not be required prior to December 20, 1995.
Ghana	**no** - Mission does not anticipate working in the privatization area during the next year or more. So its unlikely that the Mission will need assistance from PAD during that time frame.
Guatemala	**yes** - the concept of privatization in Guatemala has recently surged in popularity with the recent change in government. We plan on continuing to work on privatization issues through an agreement with the Guatemalan enterprise chamber. Given our positive experience with the PAD project, it would certainly be high on our list of technical assistance options.
Guinea	**no** - the Mission does not anticipate participation to this program in the foreseeable future.
Honduras	**no** - we expect that by the end of the PAD mandate, most of the SOEs in Honduras would have been privatized and the privatization project will end. Therefore, we do not envision any further needs beyond 1995.
Indonesia	**ongoing**
Jamaica	**no** - does not have any current plans to do so because we expect that Jamaica will continue to need basically the same type of ongoing general and specific privatization support that is has been receiving under the EDIP project.
Jordan	**maybe** - currently privatization is not on the Mission's priority list. However, there are indications that in the aftermath of recent parliamentary elections, the GOJ may make a major push on privatization and may request USAID assistance. If they do, we will endeavor to be as responsive as our human and financial resources permit.
Mexico	**no** - no future requests under this project are planned for USAID/Mexico.
Nepal	**ongoing**
Nicaragua	**yes** - the nature of assistance utilized will be similar to that employed to date, i.e. a mix of technical assistance supervised by a task manager familiar with the political and economic situation in Nicaragua. We expect the PAD project will be the principal, but not exclusive, source of technical assistance. The proposed December 20, 1995 conclusion of PAD could cause difficulties in continuity with more complex and time-consuming privatizations. We hope the project is extended.

TABLE 8 — Continued

Nigeria	did not respond to this question.
Philippines	maybe - USAID/Manila will complete the privatization project by December 31, 1993, thus it will no longer be able to access PAD activities under this project. There will be other opportunities for the Mission through its other current/future project to be linked with PAD in the period up to December 20, 1995 and beyond, since the Mission considers the partnership of the private sector with the public sector in the provision of goods and services and infrastructure a program outcome of its Mission strategy. The subject could be an area that PAD should look into in its future design.
Senegal	maybe - Mission believes that the continued utilization of the same key personnel in privatization is of utmost importance. During the past 6 months, the Mission, the government, and the contractor have built an information base that will be an invaluable data source for making future policy decisions. It will take some time before the Mission, the other donors, and the GOS can decide if we will continue this activity with a 3rd phase. However, in the event we do proceed to phase 3, we will strongly consider using the PAD project's privatization services to fill this need.
Swaziland	maybe - Mission believes longer-term future requirements (over next 5 years) for technical support should include training of mid-level government employees (technicians and undersecretaries) in nuts and bolts of restructuring public companies. Also needed for privatization are functioning financial markets. GOS will probably need more assistance in this field re-drafting updated legislation and regulatory responsibilities.
Thailand	did not respond to this question.
Tunisia	no - given the difficulties the Mission experienced with meeting its privatization needs through buy-ins and the anticipated level of activities in Tunisia, we decided over a year ago to compete a Mission contract for the implementation of our privatization and financial markets development project (Private Enterprise Promotion Project). A $4-9 million, three-year contract with Abt associates was executed in August of this year. PW is a major subcontractor.
Uganda	maybe - our privatization activities have been funded under one of our bilateral projects, the Rehabilitation of Productive Enterprises. While Uganda will require technical assistance and training over the next half decade to support its privatization efforts, Mission has not yet determined what USAID's level of involvement should be. Privatization has not been an area of direct involvement to date. While USAID may well wish to tap into PAD to address targets of opportunity as they arise, Mission is not in a position to forecast specific services to be requested between now and December 1995.
Zambia	no - needs under the privatization support project will diminish with the advent of the institutional contract. At this time, Mission does not anticipate future use of PAD.
Zimbabwe	yes - USAID/Zimbabwe estimates approximately 12-24 person-months of STTA will be requested from the PAD project before 20 December 1995, largely to continue the privatization consciousness-raising and institutional development activities in the telecommunications sector.

comprehensive and more detailed: "The Privatization Yearbook" and "International Privatization Update."[4] Readers of either of these will find little that is new in the PW/IPG *Trends*.

The cost of running the research and training program in 1993 was $194,000. Most of this is for information dissemination, of which *Trends* is a big part. This seems like a lot of money for the yield. Moreover, the competitive information gatherers and distributors are selling their publications, not giving them away, and are presumably making money from them. There is no justification for spending public money to subsidize this activity through the PAD project.

Questionnaire Responses

Responses from Missions on the usefulness of the information disseminated indicate little knowledge of or interest in this service. Three Missions responded that they had not received information, a few just acknowledged receiving the information; more detailed evaluations included:

- The Mission has benefited from PW's information dissemination activities by being on the project's mailing list and therefore receiving monthly summaries of worldwide privatization actions excerpted from newspapers and other publications. A more useful unclassified service would have been a short analysis of what approaches were working in other countries and what problems were being encountered based on the project's own experiences. (Guatemala)

- The information disseminated on privatization under PAD is very good and will be used locally in privatization conferences/seminars that are planned by the chamber of commerce and other private sector institutions for next year. (Honduras)

- We are aware that PW publishes press clippings on privatization. We are not familiar with other information dissemination activities. (Indonesia)

- We have received some materials, but without knowing what has been prepared for dissemination, it is difficult to know if we have received everything. (Mexico)

- We have not received any information from PW on privatization. (Nepal)

- The Mission did not receive information about PAD. The host government did not benefit from information disseminated under that project. (Jordan)

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[4] The "Yearbook" is published by Privatization International, a London-based private organization. It includes detailed descriptions of selected countries' privatization programs. Each country description is written by a privatization specialist familiar with the country. Many of the authors have hands-on experience in the country they write about. The 1993 "Yearbook" is a 309-page document covering 59 countries. It sells for $165. Its weaknesses are sparse coverage of Latin America and Africa and highly uneven country treatment.

The "International Privatization Update" is published by FinMark Research, Inc, of Boston, Massachusetts. This is the most comprehensive overview of privatization activity worldwide. It reports privatization activities by region, industry and dollar proceeds from sales. It is well put together, with helpful graphs and charts. It includes bibliographical references, feature articles, a list of upcoming conferences, and a list of activities of professional firms engaged in privatization work. It is a proprietary publication distributed to international investment banks, law firms, and institutional investors. It costs $397 a year ($197 for nonprofit organizations).

- The monthly digest and the readings which were widely disseminated in USAID and in the implementing entity were sources of updated information. The materials especially on the subject of private provision of public services were sources of new knowledge on the subject. The framework developed for conducting a privatization action plan and implementing privatization actions became standard guidance for developing consultants' scopes of work. (Philippines)

- The Mission has no knowledge of any other information disseminated under PAD other than through PW contract. Mission and host country have been satisfied with the information disseminated. (Senegal)

- Mission receives substantial information on privatization activities and conferences. It is difficult to say which info generates from PAD and which does not. Information is shared with Ministry of Finance/Public Enterprise Unit. (Swaziland)

- The only information we are aware of is the periodic privatization news clippings circulated by PW. While informative for the Mission, they are not very helpful to the GOT personnel, most of whom do not speak English. (Tunisia)

- The news clippings were mildly informative, mainly being announcements rather than anything with much detail. We regretted not seeing Zambia clippings, considering that their own staff were here and could forward them. (Zambia)

- Articles clipped and circulated by PW have been useful to the Mission and to some of our counterparts. (Zambia)

Training

The effectiveness of training is hard to judge in the absence of detailed knowledge of the material covered, instructor's assessments, participant evaluations, and other information. The subject areas of PW/IPG training are obviously high priority from valuation techniques to corporate governance (see Table 6). Scanning of available material suggests several observations:

- The least-developed regions have benefited least from training, the transition economies the most. Given the relative intensities of concern with privatization, this is probably an accurate reflection of relative needs. But greater efforts should be made in the poorer countries;

- The training material for the valuation courses seems mechanical. It also does not hit hard enough on the point that value is market-determined, which means that the value of the assets in question is what somebody is willing to pay. This is a point that is emphasized in several of the country studies;

- The occurrence of some missteps suggests that training strategies may not be receiving sufficient attention. The Ethiopia training episode, which was marked by inadequate planning, is an illustrative case; and

- Formal or semiformal on-the-job training does not seem to have received much attention. This is part of the general neglect of capacity building in PAD work. Scopes of work found in Delivery Orders rarely say anything about this kind of training or about institutional development in general.

Research

The final evaluation of the PAD predecessor project lamented the fact that none of the research generated by that project had found its way into the writing and thinking of the analytic community concerned with privatization issues. Nowhere in recently published articles of university researchers or World Bank writers was a footnote or other reference to project-supported research found.

The same lament can be made about the PW/IPG research output. Quick reviews of recent writing find no references to it, nor do analysts — World Bank staff working in public sector management, for example — know much about it. This is not surprising. Little of the research effort of the project was aimed at frontier issues. The paper on private sector financing of infrastructure is perhaps an exception, but this focused on a few aspects of the problem and passed over major analytic issues.

It's not surprising either because the research component was given modest priority in personnel and budget support from the outset, and, as the project evolved and the focus moved more and more strongly to implementation of transactions, its relevance to PW/IPG operations diminished.

The seven papers produced in a relatively short time (around two years) by the Research and Training Unit (really by its director) represent a respectable effort. But they don't break new ground. Nor do they provide systematic overviews or state-of-the-art analysis on key problems in the privatization area. The Neal Murdock paper presented at the recent UNCTAD conference in Geneva is an excellent brief overview of how to do privatization, but its marginal contribution has to be judged modest. The review of experience put together by subcontractor SRI on request of the Zambia Mission is also an excellent piece of work, but the World Bank's 1992 booklet by Sunita Kikeri et al. ("Privatization: Lessons of Experience") and similar publications covers much the same ground.

In the country studies, questions are raised about one form of applied research — industry studies, such as the ones listed in the activities breakdown in Table 4 (Polish glass industry studies). These may be too detailed and expensive and of uncertain relevance to transactions. The sectoral approach to privatizing the glass industry did not require that much industrial background, and the industry studies were not in the end much linked to the actual sectoral privatization effort, which proceeded case by case. Similar questions can be raised about some of the Moroccan studies.

As noted earlier, the project has in effect given up on research, with the departure of the research director and the downgrading of the post. This reflects the declining priority for research and is explicit recognition of the fact that research activity never was able to find a significant role in the project.

IMPACT

The distinction between effectiveness and impact is made here for analytic convenience. But impact and effectiveness commingle at numerous points. For example, by almost all the qualitative indicators drawn from rapid reconnaissance field studies, USAID evaluations, host country client opinions, and review of written outputs, the project has in many instances led to better evaluations, more thorough company privatization plans, and stronger negotiating positions, for example. These can be regarded as proximate impacts, as well as measures of effectiveness.

There is a strong presumption that the ultimate impacts have also been positive in many of PAD's subprojects. These ultimate impacts would have to be found in improvements in the pace and quality of privatization and in strengthening of local institutions and capabilities.

The qualitative evidence is clear in numerous cases. To take some at random:

- In the Philippines, the PW/IPG presence surely strengthened the operating capacities of the Asset Privatization Trust, the main agency implementing that country's privatization program. PW/IPG is also in part responsible for the spread of interest and activity in private provision of public services and Build-Operate-Transfer (BOT) schemes;

- In Nicaragua, PW/IPG was the principal source of technical assistance in the implementation of that country's very successful program;

- In Zambia, the Mission notes that PW/IPG advisors made a significant difference in the speed and quality of the privatization agency's output. In particular it helped meet World Bank conditionality and hence assured continuing inflows of program aid;

- In The Gambia, the PW/IPG assistance brought the former Gambia Produce Marketing Board privatization to the final point of sale, and its professionalism created new confidence among Gambians engaged in the program. (See The Gambia country study);

- In Morocco, PW/IPG has provided sustained analytic support for the privatization program over a long period of hesitancy and inaction. Also, a resident adviser created a comprehensive management information system for the parastatal sector, which proved useful in transactions;

- In Poland, PW/IPG was partly responsible for the experimentation with sectoral approaches to privatization, which has yielded useful if partial results in sales; and

- In Russia, the spread of the voucher auction idea and its effective management surely owes something to PW/IPG efforts on the ground.

The impact problem is principally one of measurement — how to find quantitative indicators of success. However, it also has a definitional dimension. The question is: Should the most basic measure of impact be success in transactions, in sales of SOEs? This is what numerous USAID directives have said: that the bottom line in privatization programs should be sales, their number, and their economic importance. It is apparently also what the leadership of PW/IPG believes, because the focus of the PAD activity has moved so strongly toward transactions as the highest priority.

The problem with using successful sales as the measure of impact is that it is misleading. It downplays the positive proximate impacts of the project. It makes the outcome of any evaluation of impact captive to the environmental factors that have overwhelming weight in explaining the speed of privatization transactions in all countries. After all, the best-designed and most exquisitely implemented assistance program will have little or no effect on sales if government is unready or unwilling to sell its assets.[5]

All this said, it is nonetheless important to also note that measured by sales, the impact of the PAD project has been slight — between 25 and 30 sales have been associated with direct PW/IPG assistance. If the rhetoric about transactions being the bottom line is taken seriously, the PAD project comes out looking wan. But as noted frequently already, this outcome has little to do with PAD or PW/IPG. It comes about mainly because in the countries where PAD has been active, as in the great majority of countries in the world, divestiture programs have been slow to mature, and actual asset sales have been few except in a few places.[6] In the countries visited, only in the Philippines and Nicaragua has divestiture activity been substantial.

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[5] In the cable-questionnaire, Missions were asked to respond to the question of whether the technical assistance had significant impact in the host country. Two patterns of response are apparent. One was that the most impact appears to be in countries just starting privatization. The high-quality work performed by Price Waterhouse early on appeared to have set the stage for future privatizations. The second response was that it was too early to determine the impact because many privatizations are still in process.

[6] For example, according to Privatization International, during the five-year period 1988-1992, about $200 billion in public offerings and private sales of going concerns took place. But three quarters of these transactions (about $150 billion) took place in developed countries, and this was further concentrated in a few countries: the UK ($45 billion), Germany ($28 billion), and Japan ($23 billion). Of the $50 billion in privatization proceeds in developing countries, about three quarters took place in three Latin American countries: Mexico ($20 billion), Argentina ($10 billion), and Brazil (about $5 billion). Chile was an earlier privatizer, Nicaragua a later one. The remainder are scattered in some 35 countries.

A recent survey of African privatizations found that more than 20 (mostly small) transactions had occurred in only six countries: Ghana, Guinea, Mozambique, Nigeria, Senegal, and Togo. (Elliot Berg, *Privatization in Sub-Saharan Africa: Results, Prospects and New Approaches*, Report prepared for the World Bank, DAI, February 1994.)

CHAPTER SIX

RELATIONSHIP WITH SUBCONTRACTORS

The Price Waterhouse consortium consists of two main subcontractors and six associated firms. The two main subcontractors are Morgan Stanley and SRI International. The associated firms are Abt Associates, Baker & McKenzie, Carana Corporation, The Intrados Group, International Executive Services Corps (IESC), and Eccles Associates. The expertise that each subcontractor and associated firm offers is summarized in Table 9. More detailed information on each firm's specific projects, listed by country, appears in Annex C.

TABLE 9

AREAS OF EXPERTISE FOR SUBCONTRACTORS AND ASSOCIATED FIRMS

FIRM	AREA OF EXPERTISE
Morgan Stanley	Investment banking.
SRI International	Macroeconomic research and management consulting.
Abt Associates	Policy analysis, particularly in agriculture; financial sector development; and private sector strengthening.
Baker & McKenzie	International law and legal advisory services.
Carana Corporation	Management consulting with special expertise in Latin America.
The Intrados Group	Privatization seminars, conferences, and public information programs.
IESC	Broad network of retired American executives.
Eccles Associates	Management consulting with special expertise in the privatization of telecommunications industries.

As part of this midterm evaluation, a survey was sent to all subcontractors to determine the extent to which subcontractors were being used and the relationship Price Waterhouse has with these firms. The questionnaire asked the following questions:

- Have you done any work under this project? If so, which countries and which tasks?
- For each country and task, was the request by Price Waterhouse given with sufficient time for you to respond? Was/were the scope(s) of work well defined? Were the briefings adequate?
- Do you feel that your assignment(s) drew upon your areas of strength?
- Was the relationship between you and Price Waterhouse fully cooperative?

- Recognizing that relations with subcontractors are rarely without tensions, have your relations with Price Waterhouse under this contract been:

Significantly Below Average	About Average	Significantly Above Average
(more tension than average)		(less tension than average)

Of the eight sub or associated firms, six responded to the questionnaire. One of the respondents, IESC, has not done any work under PAD. Morgan Stanley did not respond and also has not done any work. This apparently has been the sole decision of Morgan Stanley, and not because PW hasn't requested their assistance. Baker & McKenzie has been involved in the work in Zambia and Honduras, but did not respond to the questionnaire.

Morgan Stanley and Baker and McKenzie not only failed to reply to the questionnaire, they refused to call back after several phone calls. This gives a strong presumption of real resentment and alienation among the relevant managers in these firms.

Of the firms that answered, most said they were generally satisfied with their relationship with PW. Two firms rated their relationship as being significantly above average. Two others said their relations were average, and only one firm gave a rating of significantly below average. Several firms, including the one that gave the rating of significantly below average, commented that relations had shown improvement, particularly with the change in management at PW in 1992.[7] On working relationships, most firms also felt that scopes of work were well defined, adequate response time was given, and briefings were sufficient.

The responses and subcontractor interviews nonetheless do signal some troubled aspects of the relationship between subcontractors and PW. Concerns that were expressed include:

- No team building was attempted. PW has never had a meeting with all its subcontractors. Representatives of one firm had met the PW Project Director only once.
- Little or no information exchange took place between the partners. Subcontractors seem to have been kept almost completely in the dark about the evolution of the project. One spokesman explained wistfully that he had no idea about the PW approach to privatization. Another noted that their firm had not been informed about the present evaluation.
- One of the subcontractors said with some bitterness that PW had assigned work to companies outside the consortium with a similar corporate profile without first checking with them to see if they could fill that slot.
- The major grievance is that PW used its subcontractors sparingly, and left the impression with some that it was not interested in using them. For example, in one case, USAID asked PW if they had a subcontractor with a particular subsectoral experience. PW said

[7] Project Manager Peggy Norgren is credited in several responses as being particularly instrumental in bringing about this improvement.

no and had to be reminded by USAID that the competence existed in one of its subcontractors. Cases are cited where good people were proposed by subcontractors, but PW chose someone from their own staff with no experience. On one buy-in, PW also insisted that it retain the team leader position, although their candidate did not have the experience; the project did badly.

Along the same lines, one firm said that all their buy-ins had been generated by themselves. PW shared work only a little. When the contractor was asked by PW to submit resumes for a prospective buy-in, none were accepted. And for the work that this firm had generated through its marketing efforts, PW requested a share of the work. PW, however, did not reciprocate on its own assignments.

Such tensions are hard to avoid. The small amount of core funding may have been a factor in the lack of team-building activities. PW's breadth and depth of human resources makes it easy for them to look in-house for needed staff. But there is great competence out there, largely untapped in this project. More attention to team building and more attention to information flow from prime to subcontractors seems essential for the next phase of the project.

This experience highlights a general problem. All bidders, when preparing their proposals, assemble partners and display their strengths and key personnel. The selection of the winning bid frequently depends on the scope and quality of the team. In practice, however, the prime often does most of the work. That is the norm. In this project, the lack of appeal to the range of skills represented among other consortium members is particularly striking.[8]

Another truth-in-packaging kind of problem exists. USAID often gives heavy weight to the qualifications of key staff when proposals are evaluated. However, changes in key staff occur frequently, usually for justifiable reasons. This occurred soon after the start-up of the PAD project.

It's not clear what to do about it. One step might be to give more weight to the corporate experience and track record of the bidder and less to the key personnel he proposes. A competent and experienced contractor is likely to be able to find good substitutes when proposed key personnel are not available. This was the case with PW/IPG. This is not a problem specific to this project, of course, but concerns all USAID projects.

[8] One possible long-term solution is for USAID to ask that responses to RFPs indicate specified shares for each major sub. This is not without its risks, however. It could impinge on project flexibility and penalize efficient performance. But these would not be large risks if bidders specified indicative or target shares of work to be done by subcontractors in their proposals. USAID would then at least have some idea of the mix of competencies it is buying. The USAID Project Officer could monitor the evolution of the work, and the prime would be responsible for explaining gross departures from targeted shares.

CHAPTER SEVEN

LESSONS LEARNED AND RECOMMENDATIONS

The evaluation team had the opportunity to not only review documents and talk to Washington-based practitioners, but also to benefit from on-the-ground visits to nine countries. The following recommendations are based on that exposure. Because of the diversity of conditions, the brevity of our field studies, and other limits to our knowledge of the state of the art, these recommendations are put forward with modesty. Many of them are based on generalizations about problems and shortcomings in present approaches to privatization that are tentative because of their uncertain generality.

HIGHER PRIORITY TO PRE- AND POST-PRIVATIZATION ACTIVITIES

Higher priority should be given to pre- and post-privatization activities.

One critically important set of lessons evident in the experience of past privatization efforts is that:

- Privatization, in the sense of trade sales (sales of going concerns), is extremely difficult;
- Except in a handful of countries, trade sales are relatively few in number and economic weight;
- Divestiture in general invariably takes much longer than anticipated, and one basic reason for this is the inadequacy of pre-transaction preparation ("readying"); and
- Post-divestiture problems can dilute positive, efficiency-enhancing impacts, or even negate the sales themselves (for example, via the process of state reacquisition of sold assets).

It follows that more attention should be given to pre- and post-divestiture aspects of the privatization process. Sale of SOE assets is the central event in the privatization process, and assistance in implementation of transactions should therefore remain a component of USAID-financed privatization programs. However, the divestiture transaction — actual transfer of ownership to private hands — is only one element in the continuum of actions that make up the privatization process. One of the chief lessons of experience during the past five years is that the pre- and post-privatization activities are frequently crucial to successful divestiture and yet are often neglected. Their neglect is a basic reason for slow privatization progress in many countries. An increase in the relative attention given to these nontransaction implementation elements of the privatization process should be considered for the next phase of the PAD project.

On the pre-transaction side, for example, there should be more attention to reforming company and commercial codes, creating joint stock companies, undertaking extensive financial and management audits of SOEs, doing better company plans, and introducing performance contracts or related schemes for defining company objectives and government-SOE relations. Core studies should be undertaken routinely: inventories of company debt structures and cross debt, the prevalence and magnitude of direct and indirect subsidies, and the costs and benefits of alternative methods for cushioning disemployment effects. Fragmentation (spinoffs or internal divestiture) should become a systematic element early in all programs, whether formal privatization programs exist or not. Assistance in public information efforts, based on serious (credible) policy analysis, should be offered to target countries even before much privatization has taken place.

On the post-transaction side, many of these efforts should continue. Improvement of regulatory and legal environments and studies and strengthened capacity to do them will continue to be critical — impact assessments, for example, and analysis of institutional and policy blockages to competition and better economic performance. Help with problems of corporate governance will we important in many instances.

A shift in the relative attention given to these non-transaction implementation elements of the privatization process should be considered for the next phase of the PAD project.

MORE RESEARCH

Intellectual commitment to privatization is still hesitant, so more policy research is essential.

PW/IPG's research capacity has just been effectively dismantled. It may seem perverse to raise the question of giving greater priority to research. But, except perhaps for the transition economies, policy-focused research on privatization remains sparse and not much seems to be in the pipeline — at the World Bank, for example, the main source of such research in the past.

Such research is not a luxury, superfluous to the main tasks at hand. Events of the past five years have made clear that pro-privatization forces have not yet won the analytic battle to shift opinion among developing country intellectuals and policy makers in favor of privatization. Unless it is more decisively won, privatization progress will continue to lag in most of the world. The extent of the political willingness to privatize, and the degree of conviction that it is truly beneficial has been overestimated. This is one reason for the slow pace of privatization worldwide.

Some research needs have been suggested above. Perhaps most urgently needed are technically sound and clearly written analyses of the costs of inaction on privatization. Also, post-privatization impacts are almost entirely unstudied, except for the recent book by Galal et al., which dealt mainly with industrial country experiences.[9] Policy research on social safety nets in connection with divestiture policies is also not plentiful yet urgent.

Resuscitating the research function doesn't necessarily mean costly reinforcement of the IPG Research and Training Unit. It could be done by creating a kind of small grants facility, which would finance small research awards for local researchers or civil servants to undertake policy studies on privatization-related issues. The facility could be administered by PW/IPG or by USAID field Missions with implementation assistance from IPG. In any event, IPG management and

[9] A. Galal, L. Jones, P. Tandon, and I. Vogelsang, *The Welfare Consequences of Selling Public Enterprises*, World Bank, 1992.

USAID/Washington staff concerned with private sector development should review the research question and reconsider its place in the next phase.

PHASE OUT INFORMATION DISSEMINATION ACTIVITIES

Alternative supplies of information about privatization events have expanded, so some PW/IPG information dissemination activities should be dropped.

The information dissemination activities within the Training and Research Unit — and especially the centerpiece, which is the publication and distribution of *Trends in Privatization* does not appear to be cost-effective, as argued earlier. Nor is it clear why the provision of this information should be subsidized when competitive private publishers make available more comprehensive information for which they charge market rates. For these reasons PW/IPG should consider phasing out these activities, including the data collection operations on which they rest.

MORE CAPACITY BUILDING

Because capacity building is neglected unless it is given explicit priority, it should receive such priority in future.

The issue of whether greater emphasis should be given to capacity building raises two main questions. First, is it necessary, given the inherently ephemeral nature of privatization agencies? Why not just get on with it, divest, and let privatization agencies fade away?

The answer is that these agencies will be around a long time, and that in any case there is a great deal of valuable on-the-job learning that is presently being absorbed mainly by foreign consultants and advisors. Diagnosing and valuing corporations and negotiating sales develops general analytic and managerial muscle that should accrue to locals, for use when privatization programs are finished.

Second, once agreed that capacity building should receive higher priority, how do you do it? The answer is not always simple, varies a lot from country to country, and in any case can't be elaborated here. But scopes of work should emphasize that building of local capability is an important objective of privatization-related technical assistance. Teaming between advisors or consultants and local counterparts, which is already done in many cases, should be better and more systematically done. Internships in home offices might be tried. In-service training courses could be made a more frequent part of consultant or advisor missions. Use of local consultants could be more extensive, even in countries with embryonic consulting capacities. Just talking about capability enhancement would increase sensitivity to it and encourage its more energetic pursuit.

MORE WORK TO SUBCONTRACTORS

When the prime contractor has depth and diversity in its staff, subcontractors tend to be underused, and clients feel they are not being given access to the full range of competence represented in the consortium. To avoid reducing the impact of the project and affecting its image, greater attention should be given to subcontractor relations.

The prime contractor for the PAD project has allocated relatively little work to the other members of the consortium it heads. Failure to draw more extensively on contractor competence denies PW/IPG access to a wide array of needed skills and experience. PW/IPG management should be urged to re-energize the consortium by doing some mid-stream team building, by widening the flow of information on project activities that is made available to subcontractors, and by exploring ways to allocate more of the work to them.

CONSIDER MORE COST-EFFECTIVE WAYS TO SELL SOEs

Upfront costs of preparing SOEs for sale often seem excessive. More cost-effective approaches should be explored.

A standard approach to privatizing SOEs seems to have evolved over the recent past. It is observable in PW/IPG's experience. It entails extensive upfront diagnosis and analysis, and valuation exercises that estimate adjusted book value, physical asset value, and present market value by discounted cash flow methods, using two or three rates of discount. Confidential Information Memoranda are prepared, and other documentation. Sometimes present values are estimated with the inclusion of investments that the consultants believe will raise the profitability of the company.

There's a lot that's right about this method of operation. It assures transparency. It protects the privatization agency and politicians by its openness and by the fact that it reflects best international practice implemented by internationally respected consulting firms. It equips government negotiators with a set of well-defined price guidelines and floor prices.

But there's a lot wrong with it too. It's expensive. Even small companies can't be sold this way for less than $120,000-200,000. In one of our country studies the cost was closer to $400,000 — for a company worth between $1 and $2 million. It gives false impressions of solidity to numbers that often vary by a factor of three for small differences in discount rates. More important, it can miseducate politicians and others who are often persuaded that book value is what counts. And it risks misleading everybody by giving the impression that SOEs are worth what consultants project their market value to be; they are of course worth only what somebody out there is willing to pay for them. It can be intrusive, when consultants base analyses on their perception of investment and market opportunities.

Several modifications may be called for. Upfront inputs could be reduced — for example, less extensive analyses in the valuation exercises; exclusion of investment-demanding profitability enhancements; briefer company memoranda for bidders; and briefer, lighter documents. Serious potential buyers will not base their offers on the analyses in the government's privatization memoranda in any case. They have to be induced to take a look, and that's what memoranda should do. At the same time, marketing should be intensified. The best guarantee of a good price is the presence of many bidders.

Alternative approaches to selling enterprises might also be envisaged. There is no obvious reason why companies couldn't be turned over to consulting firms or other qualified agencies, to be sold on a pure fee basis. Government's privatization agency would select qualified bidders and review the terms of proposed sales. This privatization of the sales process might attract new sellers and give them incentives to market "their" SOEs. Such an approach has been tried in Hungary and Rumania, and perhaps elsewhere; review of these experiences could provide guidelines for adoption of this method elsewhere (or reasons for its rejection).

MORE ECONOMIC ANALYSIS

Financial considerations sometimes seem to dominate pre-sale analyses. More attention should be given to economic analysis.

A sampling of studies and company memoranda in several countries suggests that economic issues are usually not given adequate attention. In some cases basic questions may exist concerning the economic viability of enterprises being privatized, or the policy implications of their privatization. Yet these are hardly addressed. This seems to have happened in Senegal, Burundi, and perhaps The Gambia.

The general point is that the profitability of an SOE may depend on implicit and explicit subsidies of various kinds: provision of capital investment on a grant basis or at highly concessional interest rates, preferential rates of interest and guaranteed access to credit, preferential access to foreign exchange, or shelter from foreign competition by tariff policy. Future profitability of such enterprises may be highly dependent on the continuation of these subsidies. Such firms may not be able to survive in a liberalized economy — that is, in more competitive markets. To privatize them may be giving hostages to policies that have to be changed if faster growth through more efficient use of national resources is to come about.

It's not clear how relevant these preoccupations are in most countries. But it is true that economic issues are not much discussed in the documentation surrounding privatization transactions. A review of this issue would be worthwhile.

MORE EMPHASIS ON PRIVATE PROVISION OF PUBLIC SERVICES

There is unexploited scope for new, nondivestiture initiatives in privatization, among them private provision of public services; these should receive greater attention in the next phase.

PW/IPG has pioneered in this area — in designing a solid waste disposal program for La Paz and in its Philippines work, for example, where it contributed to the spread of BOT activity and where it proposed a private provision orientation in a planned new privatization program.[10] Related work was done on trucking services in Mozambique.

These are promising areas for future expansion of private sector activities and should be moved closer to the center of USAID and IPG concerns in this program area. Joint venture and management contract arrangements can be effective transitional devices to full privatization, as can peripheral privatization (for example, ancillary asset sales in Poland); leasing (for example, concessions); and contracting-out of specific services.

REVIEW APPROPRIATENESS OF SECTORAL ANALYSES

The sectoral approach has not proved cost-effective in transition economies, and sectoral analytic studies elsewhere have not always been appropriately budgeted and planned. The appropriateness of sectoral activities under PAD should be reviewed.

Sectoral approaches, which IPG/PW pioneered in Poland (the glass industry in particular), represented an innovative effort in transition economies. The original idea was to rehabilitate a sector as a whole — studying all the firms, merging some, arranging initial public offerings (IPOs) for others, liquidating the least competitive, arranging trade sales for some. This never got off the ground, either in Poland or — apparently — in other transition economies. It was too vast a task for the consultants and for the administrative capacity of government. The approach ended up by focusing on trade sales, and most of the effort given to industry studies was superfluous. The approach may have led a few enterprises to agree to nationalization (prelude to privatization), but it is an open question whether any sales resulted that would not have taken place anyway.

The PAD buy-in, like the standard IQC mechanism it closely resembles, is most appropriate for time-bounded, focused, and largely technical tasks. It normally involves mobilization of a limited number of specialists for a job that is well defined and doable in a reasonably short period. It is a perfectly good format for privatization assessments, valuations, preparation of company privatization plans, and other tasks normally performed under this contract. The consultants must have skill and good judgment, but they follow a well-travelled road.

Some privatization tasks do not fit easily within this format. The most important is sector analysis — for example, the study of privatization options and issues in the Philippines power sector. Such studies are complex and take a long time. Technical issues are less homogeneous between countries, which means longer and more arduous inquiries are needed. Unsettled issues of sectoral policy and conflicts over priorities are commonplace. Stakeholders in the sector are numerous and have clashing interests. In these circumstances it is rarely possible to produce a technically and politically acceptable sectoral analysis using the usual buy-in model — three or four people working for four or so weeks, with little time for upfront study and consultations and little time also for reconciliation of stakeholder interests and divergent technical positions.

Sectoral reports done under these constraints run the risk of being superficial, and such reports can do more harm than good. They may divert policy makers' attention, and may also confuse

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[10] For extraneous reasons, neither the La Paz experiment nor the extension of USAID's privatization program in the Philippines came to pass. (See the Bolivia and Philippines country studies.)

donors who may attribute non-implementation of the recommendations in such reports to lack of will within government.

PAD buy-ins should not be used for these broader kinds of studies, or they should be given what is needed to do the job right: a longer time frame, much heavier financing, greater planning, and much more intense collaboration with other donors than is the case with the more conventional privatization tasks.

MORE SUPPORT FOR USAID/WASHINGTON OVERSIGHT

A complex project like PAD cannot be effectively monitored unless the Project Officer can check project activities on the ground. More budget support for USAID/Washington is therefore required for oversight.

The issue here is general. The USAID officer responsible for management of PAD in Washington cannot track all the project's buy-ins in an effective manner unless she is able to see how they are working on the ground. Resources for travel are of course severely limited. And while in many countries USAID private sector officers maintain good communications on project implementation, and PW/IPG is cooperative, there's no substitute for field visits. Privatization is a relatively new, difficult, and evolving task, and circumstances change fast in many countries. USAID/Washington needs the independent assessments and timely insights that field visits usually yield.

PART TWO

COUNTRY STUDIES

I. BOLIVIA

The Bolivian government began to move its economy to a free market system in 1985, with assistance from USAID/Bolivia. Although other economic reform measures had been taken, not until 1990 did privatization become a serious goal. At that time, USAID/Bolivia increased its efforts to support the government's move to privatization.

The government issued a decree in 1990 establishing a privatization technical and operating unit, the Commission for Evaluation of State Enterprises, CEEP,[1] and began to formulate plans to create a legal framework. However, it was not until April 1992 that the National Congress approved a privatization law. Ministerial oversight of the privatization program was assigned to the National Council of the Economy and Planning, CONEPLAN,[2] with CEEP providing technical and operational support. CEEP, in turn, looks to the Executing Unit for the Reordering of the Public Sector, UEREP,[3] for the actual carrying out of the privatization process with respect to state-owned industrial, agro-industrial and tourism enterprises.

Although the government initially targeted 60 SOEs for privatization, later expanded to about 100 SOEs, only a limited number of small- to moderate-size enterprises have actually been privatized. One of the most significant actions of the government was to undertake in 1992 a strong attempt to privatize the Bolivian pension funds system. Substantial preparatory work was completed before the elections of 1993 intervened, at which time their efforts along these lines were suspended. The Paz Zamora government did not want to see this reform scuttled because it was associated with their party.

The new government is reactivating the privatization program and has given the responsibility for its implementation to the Ministry of the Economy and Planning, a reorganized ministry that consolidates all the ministries that deal with the economy. A Secretariat for Capitalization has been created to handle the privatization of public services, such as telecommunications, electricity, oil and gas, and transportation, as well as a Secretariat for Pension Funds in charge of pension fund reforms. The new government's plans for privatization are ambitious and far-reaching. There is talk of distributing shares of the larger SOEs to all adult Bolivians through pension funds. A high priority has been given to the reform, including some form of privatization, of the pension funds system. The general privatization program for industrial, agro-industrial and tourism entities, mostly held by

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[1] Comisión de Evaluación de la Empresa Pública.

[2] Consejo Nacional de Economia y Planificación.

[3] Unidad Ejecutora del Reordenamiento de la Empresa Pública.

regional development corporations, continues to target more than 100 SOEs; the largest SOEs that provide public services are being seriously addressed for the first time.

USAID/BOLIVIA's USE OF PW/IPG IN THE PRIVATIZATION PROGRAM

USAID/Bolivia had been encouraging the Bolivian government to establish a privatization program for several years through various assistance programs. USAID/Bolivia began to use the services of PW/IPG in 1991 and entered into three buy-ins under the PAD project covering distinct areas of activity: privatization of La Paz municipal solid waste removal services, assistance to the government for its general privatization program, and assistance in privatizing Bolivia's pension fund system. These three buy-ins had expired by the end of 1993. USAID/Bolivia is no longer contemplating further contracting of PW/IPG and has entered into alternative arrangements for providing continuing assistance to the Bolivian government.

La Paz Municipal Solid Waste Removal Services

While the previous government's privatization program was still in the planning stage, the Mayor of La Paz decided to proceed on his own with the privatization of municipal solid waste removal services. USAID/Bolivia contracted PW/IPG in May 1991 through a $149,316 buy-in into the PAD project to assist with the development of options for privatization of the La Paz municipal solid waste removal services. The scope of work included:

- Phase I

  — Diagnostic of the current generation of solid waste;
  — Technical analysis of current waste removal and urban cleaning services;
  — Review of a World Bank diagnostic on dump sites and landfills; and
  — Assessment of citizens' current waste removal behavior.

- Phase II

  — An analysis of private options for the delivery of waste removal services.

PW/IPG completed the diagnostic work and all technical assistance to the executing agency, EMA,[4] and submitted its final report during the first quarter of 1992. The mayor of La Paz and USAID/Bolivia were reportedly very pleased with the quality of the work of the PW/IPG team and were also appreciative of PW/IPG's special effort to accelerate the project to complete it before the mayor had to resign to run for reelection at the end of September 1992. USAID/Bolivia then included a component in a separate buy-in to permit PW/IPG to continue assisting EMA with the preparation of contract documents, evaluation of proposals, and assistance to the municipality in the negotiations with bidders. Contracts with private companies to deliver solid waste management

[4] Empresa Municipal de Aceo.

services were drafted, negotiated, and signed. A second component was included in another buy-in to continue with the work. In the interim, however, the mayoral elections were held and the individual who had pushed this privatization forward lost his bid for reelection. The new mayor of La Paz disagreed with what had been done, annulled the contracts that had been negotiated, and awarded a single contract to one firm. The PW/IPG team felt that the selected firm did not have the technical experience or the financial resources to execute the contract and, at the request of USAID/Bolivia, issued a formal statement on the risks involved. USAID/Bolivia put all technical assistance to EMA on hold and eventually canceled this program when it became clear that a satisfactory arrangement could not be reached with the new mayor.

Bolivia's General Privatization Program

In November 1991, USAID/Bolivia gave PW/IPG a second buy-in for $1,149,984 to provide the government with ongoing support for the implementation of its general privatization program, which includes the industrial, agro-industrial, and tourism entities held by the regional development corporations and through a prefectural system. PW/IPG's scope of work called for providing advisory services to the executing unit, UEREP, in:

- Establishing guidelines and procedures for privatization;
- Designing and establishing a system for the targeting and selection of industries and enterprises to be privatized;
- Providing technical training for the staff responsible for implementing privatization;
- Establishing a database and information gathering system for SOEs;
- Assisting in the assessment of the impact on labor; and
- Providing technical assistance in the design and implementation of a public relations campaign.

The scope of work initially included transaction-related technical assistance, but this part was eliminated to comply with legal requirements and the government's decision to use a competitive bidding process to carry out transaction-related assistance. The government eventually contracted UNDP to manage the open bidding process for transaction-related advisory services. Finally, the scope of work included the component mentioned earlier to allow PW/IPG to continue with the final stages of its assistance to the municipality of La Paz for the privatization of solid waste removal services. Technical assistance for pension fund reform was also included.

PW/IPG assisted CEEP in preparing the framework for privatization, setting up the unit, and establishing procedures for the privatization program. PW/IPG also arranged for senior privatization advisors from Mexico and Venezuela, who had held high level positions related to privatization in their respective countries, to brief CEEP officials on their practical experience. Price Waterhouse was awarded transaction contracts for the privatization of two sugar mills and a milk plant under the competitive bidding process (which is outside their scope of work for the PAD project).

With respect to the general advisory services, government officials in the technical and operating unit who worked most closely with PW/IPG report that they feel that PW/IPG's contribution was somewhat marginal compared with the input of other consultants involved. The officials' most negative comments, however, were related to the transaction work that was handled by PW under separate contracts. Although these kind of comments are undoubtedly subject to dispute, it seems that PW/IPG did not manage to establish a good working relationship with its Bolivian counterparts. PW/IPG's view was that their relationship with Planning Ministry counterparts remained cordial and professional throughout the project, but the government used PW/IPG's general and nonsector services less and less. Funds for these services were diverted to the PAD pension reform activity. The contract was allowed to expire in September 1993, with USAID/Bolivia's concurrence.

Other factors also explain the reduced use and 1993 termination of the PAD contract. According to Regis Cunningham, the PW project director between March 1992 and June 1993, the following factors entered:

- The outgoing GOB administration decided not to present the proposed pension reform law to congress during the politically charged presidential election campaign, which motivated the Mission to reduce PW's level of effort under PAD to preserve funds for implementation tasks with the new government;

- The Secretary of Pensions in the new Sanchez de Lozada government decided as a matter of policy not to contract foreign consultants (no foreign consultants have worked on the pension reform project in the new government); and

- Throughout the life of the three PW PAD task orders in Bolivia, the Mission expressed a high level of satisfaction with PW's performance but great discontent with the cost structure of the PAD contract, and opted to channel PAD monies through the World Bank, in large part to obtain lower-cost technical assistance.

Cunningham argues that it is "not quite accurate" to portray the GOB as the promoter of the reduced use of PW/IPG:

> The Mission's increasing disillusionment with the GOB's privatization program and its decreasing interest in supporting this program, the increasing roles of the World Bank and the IADB in the Bolivia privatization program, and the decision by the GOB not to present the pension reform to Congress until after the elections were the primary reasons that the Mission reduced PW's level of effort in privatization and later pension reform.

The termination of PW's services under PAD was a function of policy decisions made by the new government, unrelated to PW's past performance, and the Mission's desire to seek lower-cost contracting mechanisms.[5]

Reform and Privatization of Bolivia's Pension Fund System

The impetus for the privatization of the pension fund system came from the Ministry of Finance in 1991. Although the Ministry for Health has the primary responsibility for managing the system, the Ministry of Finance is responsible for the budget and was concerned about the viability of the existing system while, at the same time, attracted by the success of the Chilean experiment. The government asked USAID/Bolivia to provide assistance and USAID/Bolivia signed a third buy-in with PW/IPG in August 1992 for $1,523,911 to provide technical assistance to the government. PW/IPG's scope of work covered institutional and legal reforms and technical studies and a public information campaign.

PW/IPG submitted a draft pension fund law in the first quarter of 1993 along with various technical studies, including a financial model for analyzing pension fund administration commissions, a model estimating the technical premium for survivorship and disability benefits, a study on the National Treasury cash flow impact, recommendations on investment policy, a position paper on the long-term disability fund, a position paper on capital requirements, and a technical study on recognition bonds that identified ways to compensate pension fund participants who transfer to the new system. Their work was discussed with the government, USAID/Bolivia, the World Bank, and IADB (the Inter-American Development Bank).

Although PW/IPG accelerated their work on the public information campaign, despite having had to change the contracted local public relations firm to launch the campaign before the 1993 elections, the government decided in the second quarter of 1993 to postpone presentation of the pension fund reform law and suspend the public information campaign until after the elections and leave the decision to continue with the work to the new administration. Project work was then reduced while waiting for the new administration's endorsement; only work on the legal and regulatory framework was continued.

The new administration eventually decided to proceed with pension fund reform, and created a new Secretariat of Pension Funds in the reorganized Ministry of Economy and Planning.

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[5] Cunningham elaborates as follows: "The inference made in the report that PW's relationship with the Bolivian Planning Ministry counterparts on separate privatization contracts resulted in the GOB utilizing the PW PAD contract less, with Mission concurrence, is inaccurate. Regardless of how the Planning Ministry counterparts may have perceived the relationship with PW, there was no linkage between this relationship and the reduced usage of the PW PAD contract by the Ministry of Planning. Although problems developed on the dairies project in the *Spring of 1993*, the Planning Ministry had stopped utilizing the PAD contract for general and transaction services by the *Spring of 1992*, a year earlier [emphasis his]. . . . Transaction services to the Ministry of Planning were eliminated from PAD in late 1991/early 1992 because the GOB decided to bid out these services, as noted in the evaluation report. General advisory services were reduced in early 1992 when it was determined that a potential conflict of interest existed by the advisor provided under PAD, PW difficulty in staffing this position, dwindling Mission support for the GOB's privatization program, and increased demand for funding of the pension reform activity."

However, in the meantime, USAID/Bolivia had decided to channel its assistance through the World Bank. USAID/Bolivia negotiated with the World Bank to establish a special trust fund for channeling USAID assistance to the government for pension fund privatization. USAID/Bolivia agreed to abide by the World Bank's procurement rules and to pay a 10 percent fee for management services, which they felt was a far more efficient use of funds than paying fees and overhead to PW/IPG. Furthermore, USAID/Bolivia felt that they were gaining more flexibility in choosing consultants acceptable to the Bolivian government, while at the same time pension fund reform would be linked to World Bank conditionality. PW/IPG's contract will be allowed to lapse at the end of 1993 and the balance of funds available will be reallocated to the World Bank fund. The trust fund will have close to $2 million available and a resident manager is already in place.

Both USAID/Bolivia and government officials involved agree that PW/IPG's upfront work on pension fund reform provided a solid base for moving ahead. Much of the legal and technical work can be updated or modified in line with the new administration's thinking, and the preparatory work on the public information campaign, which represents an investment of about $500,000, left an inventory of TV spots and other campaign materials that can still be used when the government decides the timing is propitious.

IMPACT OF PW/IPG's WORK ON THE BOLIVIA PRIVATIZATION PROGRAM

Much of PW/IPG's work in all three areas of activity was undertaken and accomplished before a clear political consensus on privatization was formed. The Mission clearly had decided early on to take the risk of providing substantial technical assistance before such a consensus had formed, with two apparent goals in mind — first, to build a proper technical base for privatization, and, second, to promote an informed debate that could lead to a political consensus. This approach appears to have paid off. The new Bolivian government has been using PW/IPG technical work as the basis for continuing its effort in pension fund reform and privatization.

PW/IPG contributed positively to meeting the first goal of creating a technical base. But it was unable to secure an ongoing place in the Bolivian Privatization Program. Many factors explain this failure — some internal to the project, others external. The internal factors include potential conflict of interest situations that arose with one PAD-provided advisor, PW/IPG difficulty in staffing this position, and some lack of confidence and mutual respect in working relationships.

The external factors were the changed political environment, reduced use of foreign consultants, the growing role of IBRD and IADB, and USAID disillusionment with the pace of divestiture and the high cost of PW/IPG services. The external factors probably carried most weight in accounting for the outcome.

II. BURUNDI

Privatization came slowly and late to Burundi. In 1987 almost 75 percent of the net assets in the manufacturing sector were held by government, and most marketing and processing of cash crops were in state hands. Public enterprises dominated services as well — the financial sector, for example, and hotels and tourism.

Reform began in the mid-1980s, under the impetus of a 1986 World Bank Structural Adjustment Loan (SAL). The emphasis was on the improvement of public enterprise (PE) efficiency through performance contracting. Privatization efforts were muted: four enterprises were to be closed and privatization-related studies were to be undertaken.

In the event, the performance contracting approach was not successful; only 4 contracts were signed (out of 11 targeted in the SAL) and the positive outcomes flowing from these were modest. Moreover, the state continued to accumulate shares in PEs and actually created 19 new enterprises: the total number of SOEs rose from 74 in 1986 to 86 in 1991, despite 7 liquidations. The public sector share in GDP was slightly higher in 1990 than in 1983-85 — 28.5 percent compared with 27.3 percent in the "preadjustment" period. Furthermore, transfers (subsidies) doubled between the early 1980s and 1990, from 1.2 percent of GDP to 2.4 percent, most of them going to the PE sector.

Not surprisingly, SAL II (1986-1988) gave more weight to privatization. Its conditionality repeated the unimplemented measures called for in SAL I (for example, preparatory studies and 4 liquidations) and required the development of a privatization program. (It also continued the performance contract approach to rehabilitation, calling for the signing of 13 such contracts.) SAL III, approved in June 1992, pushed much further. The program calls for privatization of management (management contracts) for 55 percent of government holdings, and ownership transfer for more than 30 percent.

The program lags badly. Part of the reason is the changed political environment. Campaigning for the country's first multiparty elections began in January 1993. This stalled many government activities, including privatization. The elections, which were held in early summer, brought the first Hutu government to power. This in itself was enormously unsettling. Then the assassination of President Ndaydaye brought chaos. In any event, as of October 1993, just before the political curtain descended, 8 enterprises had been sold, in 3 of which government was a minority shareholder (Table II-1). The total receipts from these sales were about 750 million Burundi Francs, or $US 3.25 million at the October 1993 exchange rate. This is slightly more than 1 percent of the estimated net asset value of the state portfolio.

Another 16 SOEs are said to be in process of privatization; however, some of the more important of these have been offered for sale, with generally disastrous results. This was the case with FADI, an insecticide producer; OPHAVET, a maker of veterinary supplies, which the technical committee recommended liquidating after its request for bids attracted no bidders; and COTEBU, which makes textiles, and which found virtually no takers for the 10 percent of its shares offered for sale.

TABLE II-1

LIST OF BURUNDI'S PRIVATIZED SOEs, AS OF OCTOBER 1993

N°	Enterprise	Book Value (Burundi Francs)	Share Publicly Owned	Sale Proceeds (Burundi Francs)	Date of Sale
1	LAITERIE CENTRALE DE BUJUMBURA (LCB) (Milk Processing)	39,620,370	100%	123,935,362	21 January 1992
2	ARMEMENT NORD LAC (Arnolac) (Shipping)	128,000,000	10%	36,125,880	20 August 1992
3	ASSOCIATION MOMENTANEE SAFRICAS-RUVIR (AMSAR) (Trade)	187,000,000	19.34%	66,000,000	August 1992
4	SOCIETE D'IMPORTATION ET DE COMMERCIALISATION DE PRODUITS PETROLIERS (SICOPP) (Petroleum Product Distribution)	100,000,000	20%	82,852,454	24 October 1992
5	CENTRE DE PROMOTION INDUSTRIELLE (CPI) (Industrial Promotion)	15,000,000	100%	10,843,311	November 1992
6	ENTREPRISE DE COMMERCE ET DE DISTRIBUTION (ECODI) (Trade)	200,000,000	100%	392,538,640	15 February 1993
7	SIRUCO	30,000,000	51%	81,855,000	April 1993
8	CENTRE NATIONAL D'INFORMATIQUE (CNI) (Computer Center)	200,000,000	100%	233,474,000	28 December 1992

Liquidations have been more numerous: about 20 have occurred. Management contracting, however, also seems to be lagging. Only COTEBU and the sugar company (SOSUMO) are recorded as having concluded such contracts. SOSUMO has met its conditionality by repeatedly extending (since November 1991) three-month arrangements with a Belgian aid-financed contractor.

PRIVATIZATION AND DEVELOPMENT PROJECT ACTIVITIES

The PAD project-financed activities of PW/IPG in Burundi were concentrated on one operation: assistance for the sale of one SOE, the Office National Pharmaceutique (ONAPHA). It was not the only PW/IPG activity in the country; they also did a general study of the privatization environment and a preliminary assessment of COTEBU, a textile company. But the sale of ONAPHA was the flagship effort, an original experiment that attracted considerable interest.

In late 1991, USAID/Burundi received a letter from VERRUNDI (a bottle manufacturer), sent through the Minister of Commerce, asking for help in privatizing its assets. USAID's reply described the principles and conditions that would be followed if USAID did become involved, and suggested a broader assessment to define an assistance program in privatization.

The dialogue was then taken over by the state privatization agency (Service Chargé d'Entreprises Publiques, or SCEP), which asked for help with privatization of four enterprises — VERRUNDI, plus ONAPHA, COTEBU, and OTB (tea). USAID countered with a proposal to have PW/IPG assess the potential candidates for privatization, and select one firm that would be brought to the point of sale and marketed.

A PAD Project Delivery Order was signed in July 1992 and extended in March 1993. The general assessment was carried out and the target firm, ONAPHA, was quickly identified. A valuation memorandum was completed by PW/IPG in November 1992. The request for bids was issued by SCEP at the end of May 1993, and bids were opened July 31. PW/IPG was involved all along the way, with the support of the USAID private sector office in Bujumbura. The direct cost of the PAD-financed PW/IPG participation was $250,000.[1]

THE ONAPHA PRIVATIZATION EXPERIENCE

The ONAPHA effort was important to the privatization program in Burundi. The Burundi privatization program was stuck on dead center, with little on the horizon to move it forward. If there could be even one genuinely well-prepared privatization transaction with a successful outcome, it might change the climate for the whole program. Also, the privatization agency was weak; it had not been able to prepare all the necessary documentation and analysis for the firms to be privatized; no professional Confidential Information Memorandum had yet been done in Burundi, for example, and valuation exercises were thin.

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[1] Total project costs were $46,000. The ONAPHA transaction budget was $295,000, but about $50,000 will be deobligated. (Preliminary reviews and assessments were $103,000; the COTEBU study cost $71,000.)

So the idea — concentrating on the sale of one attractive prospect and preparing its sale properly — was good. It promised demonstration effects in two directions. It would introduce more professional privatization methods, which could be replicated. And it could reinvigorate the whole privatization program by bringing about an efficiency-raising privatization.

The environment also looked right. Government had taken the initiative in requesting assistance, and had agreed to USAID conditions about transparency and other aspects of the approach. USAID attached ONAPHA-related conditionality to its enterprise development credit, to encourage expeditious implementation of the transaction.

The people involved were another plus. PW/IPG provided a financial analyst, an investment banker, and an industry specialist with wide experience. They made up the team primarily responsible for the company analysis and for assistance to SCEP and ONAPHA on implementation. An experienced USAID private sector officer knowledgeable about privatization issues and especially well informed about the Burundi situation, provided general support and guidance to PW/IPG.

Finally, the approach was methodical and implementation professional. A broad overview of the environment was done. The local knowledge of USAID private sector staff was drawn on. The privatizable SOEs were judiciously sifted. ONAPHA was selected as a prime candidate, the most promising of the lot. It is a small business, with annual sales of a little more than a million dollars, producing a limited range of generic products. It is profitable and reasonably well managed, and new market opportunities were visible. The PW/IPG team produced a full array of company documentation and detailed market analysis.

Despite all this, the experiment faltered badly. When bids were opened on July 31, 1993, private sector buyers wanted less than 5,000 — about 12 percent — of the 35,000 shares reserved for them (out of 100,000 total shares offered for sale). The average price of all bidders was 4,245 Burundi Francs or a little less than $20 at October 1993 exchange rates. The total value of the private sector bids was thus about $100,000.

In total, bids came in for 30,000 shares, of which 20,000 from the government insurance fund (Mutuelle de la Fonction Publique). No serious bid came from a potential technical partner, for whom 25 percent was reserved. ONAPHA employees came in for 5,000 shares, for which the PTA bank promised to provide financing.

On top of this bad news, the tax authorities delivered another blow. They presented ONAPHA with a sizeable bill for overdue taxes. Government decided that capital grants made to ONAPHA 10 years ago should be treated as loans, and repaid. But ONAPHA had not provided for amortization of those investments. The tax claim may be negotiable. In any case, this turn of events increased uncertainty; it raised doubts about the validity of previous profitability calculations, about the financial robustness of the enterprise, and about treatment of residual liabilities.

LESSONS LEARNED

Bad Timing

According to SCEP management and others, the timing was unfortunate. The elections had just been held and a major political transformation had occurred. Strong political malaise prevailed. It was not a time for Tutsi buying, had there been any interest in that group. Moreover (though much less significant), the summer was not the best time for response among potential foreign buyers, or even many locals. And the time between offer and bid opening was too short — only two months.

The reasons for the timing choice are not clear. Actually, the GOB was supposed to issue the tender in December. SCEP and its PW/IPG advisors had urged action well before the elections. But government let the timing slip, perhaps because political support was waning.

Overoptimism and Undermarketing

Selling state enterprises is not a science and the art is still undeveloped. There's evidently room for different interpretations of reality in this case, even though there is no doubt about the professionalism of the consultants and other actors. There are several reasons to believe that many of the parties may have been carried away by overenthusiasm and excessive optimism in their assessment of the salability of ONAPHA.

Pertinent economic issues are not adequately treated in the available documentation. One example is the distinction between economic and financial profitability. The valuation memoranda and related documents say little or nothing about this. But ONAPHA's past profitability may depend on the fact that it received its capital stock free of charge, that it is a simple assembly-packaging operation with very little domestic value added (less than 15 percent of total value of sales), and that it sells in sheltered markets protected by exclusive contracts with other government entities and by quantitative restrictions on imports.[2] To the extent that this is true, ONAPHA can be financially profitable, but its economic (or social) profitability may be negative.

Among other implications, this means that ONAPHA's future profitability might depend on continuing preferential treatment — that is, that it could not survive in a competitive market environment. This may not be true; it would take closer and deeper analysis to be sure. If it is true, it is certainly relevant to ONAPHA's salability. Yet it does not seem to have been considered in the analysis surrounding the transaction.

[2] Only 20 percent of its output is sold in competitive markets. The rest is bought by the Mutuelle (33 percent), the Ministry of Health (18 percent), and others including donors (29 percent). ONAPHA's market share fell between 1989 and 1991, from 17 percent to 14 percent. While the nominal value of its output increased by 24 percent over this period, the value of imports increased by 39 percent. Direct donor imports rose from a 3 percent share in 1987 to a 24 percent share in 1991.

In one study the economic viability of ONAPHA is strongly questioned. The Industrial Sector study of the World Bank, issued in December 1991, stated without much hesitation that ONAPHA was not a healthy enterprise. The report (pp. 8-9) said: "ONAPHA . . . has been shown to be of doubtful viability, even on a sunk-cost basis, because of (a) poor quality; (b) lack of cost competitiveness in the face of imported generics; (c) insufficient demand and inability to export . . . ."

This may have been superficial and all wrong. There was certainly no detailed back-up analysis provided in the report. But the issues it raises cannot be dismissed by reference to ONAPHA's past performance or future projections.

Past performance, as noted earlier, is a dubious indicator because ONAPHA's capital investment was a grant (this is what the tax authorities have now questioned), and because its markets are captive. As for future growth, these are optimistic projections based on management estimates. They are in any case dependent on the presence of a strengthened management and on the adoption of the intravenous fluid project.[3] But the company had tried twice before to find a foreign partner, without success. It had also twice failed to expand its product line into the intravenous fluid market.

Although it doesn't significantly affect projected profitability and company value, the optimism with respect to changes in reimbursement policies of the Mutuelle is striking. There are numerous references in the company documentation to the idea that the ONAPHA was unable to compete with imports in part because the Mutuelle policy is to reimburse members for 80 percent of the cost of their prescriptions, regardless of price. Many of these references also suggest that Mutuelle was ready to change that policy and pay only for generics. The valuation projections (Base Case Scenario 1) assume that the change will be introduced "early in 1993." However, interviews with Mutuelle management revealed no knowledge of such changes. The General Manager, it should be noted, is newly appointed.[4]

With respect to marketing, it's not clear how much was done. It appears that some advertisements were placed in newspapers and journals, and other channels were also used. But it seems that systematic efforts to contact pharmaceutical associations abroad were limited. An indirect (possibly misleading) indicator of insufficient marketing is the fact that only two foreign firms showed any interest, one French the other Egyptian, and neither displayed serious interest.[5]

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[3] The intravenous project is predicted to add strongly to revenues, profits, and equity value of the company. It would raise the firm's value by 30-60 percent, depending on discount rate used. On the other hand, the policy change regarding remuneration by the Mutuelle for nongenerics, which is much emphasized in the company valuation documents, would have little impact. The revenue projections with this change in policy (Base Case Scenario 1) do not show much impact on revenues and profits compared with no change in policy (Base Case Scenario 2). In fact, the discounted cash flow analysis shows almost no difference in company valuation with and without the change in generics policy. It is not clear why this should be so.

[4] According to PW/IPG staff, the policy change had been approved in December 1993 by the cabinet. It's a mystery why the senior management of the Mutuelle said in our interview in October 1993 that they had never heard of this change.

[5] According to PW/IPG staff, a large French pharmaceutical entity, UPSA, expressed keen interest, and requested a delay in bid due dates to do its own due diligence — a delay that SCEP could not legally grant. This information was not mentioned during the evaluator's interviews in Bujumbura.

Possible Overemphasis on New Investment and Resulting Overestimate of Minimum Selling Price

The author doesn't know what standard practice is in these matters, but it doesn't seem right to present a company for sale — in other words, do a company privatization analysis and a confidential information memorandum — in a package that rests heavily on new investment. What we have in effect is a company plan as seen by consultants and present management. This is of interest to potential buyers, but no private investor would ever make a decision without doing his own analysis — one that incorporates his own vision of the firm's potential, his own insight into the political environment, and his own risk assessment. This means that detailed projections of earnings, cash flow, and so forth, based on new investment and penetration of new markets (intravenous fluids in this case), which was done in the PW/IPG analysis, can easily be overdone. This is especially so because all valuations are highly sensitive to discount rate assumptions.[6] What is needed is enough of an analysis to convince potential buyers that promising new earnings possibilities exist, and that they should come look.

The valuation memorandum concludes that the minimum equity value of ONAPHA is 400-420 million Burundi Francs, or about $1.7 million. But this is higher than the highest present value estimate without the intravenous project. It is twice as high as the estimate based on a 22 percent discount rate (200 million Burundi Francs) and 10 percent higher than ONAPHA's without-project present value under the most optimistic discount rate (18 percent). The proposed minimum offering price is thus meaningful only if the bidder accepts the analysis on the intravenous fluid project and assesses risk (discounts future earnings) very optimistically.

A Doubtful Approach to Acquiring a Technical Partner

The treatment of the technical partner question is another indication of excessive optimism, but more fundamental than that. The Government of Burundi and its implementing agency SCEP decided to break the offer into five segments: 5,000 shares or 5 percent of the total to employees, 20,000 shares for the Mutuelle, 15,000 for IFC, 35,000 for private Burundians, and 25,000 or 25 percent for a technical partner. The question immediately arises: Why would any private buyer want to acquire such a share? It would not give him management control, though the proposal contains some references to places on the Board of Directors. A buyer would want majority ownership, not a minority share of a company in which state entities owned the biggest bloc of shares — which is what the outcome would have been.

This point was raised by one private pharmacy owner who was interviewed. He has given serious thought to starting a production facility on his premises. He also raised the question — as any buyer would — as to why government did the offer this way, restricting the technical partner's share? His answer was that it shows that government doesn't really want to divest this enterprise. He's probably right. ONAPHA management and SCEP officials and others make frequent references to the "strategic" nature of ONAPHA.

[6] ONAPHA's present value varies between $940,000 (22 percent discount rate) and $1.9 million (18 percent discount rate), without the intravenous fluid project and between $1.3 million and $30 million with it (valuation memorandum, p. 57).

This issue should have been confronted more directly by the PW/IPG technical assistance team, and by USAID. There was a great deal of concern within USAID about whether the 20 percent of ownership by Mutuelle would mean government control, and PW/IPG provided some useful guidance based on U.S. accounting rules. But the real questions were why the government didn't want to offer majority ownership to a private technical partner and whether anybody would buy without majority ownership in Burundian circumstances. USAID might have made a bigger share for the technical partner a part of its conditionality, though it was probably evident that the government wouldn't accept that.[7]

In the circumstances, it is hard to understand how a technical partner could be found. Without a technical partner, the necessary changes in management efficiency could not occur.

Nonreplicability Because of Cost

The direct cost of the assistance provided to SCEP and to ONAPHA for the privatization study is in the neighborhood of $200,000. The total sales volume of the company in recent years has been about $1 million. The book value of the firm is a little more than $1 million, its replacement value about $1.6 million. The ratio of costs of the transaction to size of the SOE to be sold is disproportionate. The effort can be (and was) justified on the basis of demonstration effects. But this kind of intensive technical assistance effort is too expensive to be a model for small SOEs.

RESPONSIVENESS TO USAID REQUIREMENTS

Relations between the Mission and the PW/IPG consultants were excellent. Mission private sector staff were more than satisfied with the quality of the consultants involved in the ONAPHA privatization effort. The chief of party and the industry specialist received high marks for their technical skill and political savvy. The consultants drew on the accumulated expertise of USAID staff and kept the Mission informed on the evolution of events.

This smooth and collaborative relationship suffered one hiccup. According to the first Delivery Order for the Burundi work, PW/IPG proposed to do a preliminary assessment of privatization in Burundi — what they call an environment study. The Mission project officer responded negatively to this part of the Delivery Order. He said this study was unnecessary because other studies existed and also because USAID private sector staff were available with a broad understanding of the local situation, accumulated in four years of presence on the ground. He observed, without rancor, that it was unlikely that a team of consultants working 2-3 weeks in the country could add much new knowledge of a general kind.

[7] The fear is widely expressed that a foreign buyer might simply use ONAPHA as a distribution agency for imported pharmaceuticals.

For various reasons the Mission agreed in the end to conduct the preliminary assessment.[8] The draft report was submitted in September 1992. The USAID project officer found it unacceptable — so bad that he prohibited its circulation in-country on grounds that it might damage the credibility of the project. PW/IPG undertook an extensive redrafting of the assessment. USAID found the revision satisfactory.

A general problem is suggested by this incident. When USAID private sector staff have been in-country for a reasonably long period, preliminary privatization assessments are likely to be unnecessary. Indeed, private sector officers should be encouraged or required to make such an assessment early in their tenure, perhaps jointly with a consultant.

CONCLUDING REMARKS

The ONAPHA privatization experiment was an innovative effort, aimed at dynamizing — by bringing about a successful, carefully prepared transaction — the Burundian privatization program, which was clearly stalled. It may yet come to pass, and bring its anticipated benefits. But the USAID-sponsored effort, with PW/IPG as technical leaders, seems to have run ahead of local political capacity or commitment. The six-month delay in issuing the ONAPHA tender and the unwillingness of government to push for sale of majority ownership to a foreign private technical partner are indicative.

Three possible weaknesses in this project's approach should be considered. First, too little attention was given to economic (as against financial) aspects of the transaction. This not only risked giving the impression of favoring privatization for privatization's sake, but contributed to overly optimistic expectations about salability. Also, import substitution arguments were not adequate justification for support to privatizable enterprises.

Second, the minimum offering price recommended in the valuation memorandum was (perhaps arguably) based too much on inclusion of new investment in the intravenous fluid project. No potential buyer who had doubts about the economic or marketing aspects of that project would offer the recommended minimum price.

The cost of the effort also raises the related issues of cost-effectiveness and replicability for other small SOEs.

[8] The reasons were to update findings from earlier studies, provide needed background information for the PW/IPG transaction team, and produce an updated document on the policy environment for USAID/W consumption.

III. ECUADOR

Privatization has long been debated in Ecuador, but the country has been one of the slowest in Latin America to undertake a serious program. As far back as the mid-1980s, the Febres Cordero government attempted to implement a wide-ranging privatization program; however, the administration and the Congress become locked in conflict and it proved impossible to move ahead with privatization and most other proposed economic reforms. Privatization again became a national issue in the 1992 presidential election campaign. Although both of the two most important political parties supported privatization, Sixto Duran Ballen, who was elected, was the most forceful in advocating its implementation and he proposed a broad privatization program encompassing industrial, agricultural, infrastructure, and public services investments. The government had holdings in 166 entities, including the traditional monopoly holdings in oil, electric supply, water and sewerage, telecommunications, and transportation.

After the new administration took office in August 1992, President Duran Ballen's statements on privatization became decidedly more cautious, and, in his public speeches, he began to talk about "modernization" of SOEs and improvements in operating efficiency. For example, he now felt that EMETEL, considered by some as the worst telecommunications company in the region, should be given a "second chance," despite his campaign promises to privatize it. Nevertheless, in September 1992, a presidential decree was issued by the Vice President of the country (the President was abroad travelling) establishing a privatization unit, the Council for Modernization of the State, CONAM[1] (the word privatization was dropped from the official vocabulary in favor of "modernization"). CONAM was charged with the responsibility for planning and developing the privatization process.

CONAM concentrated its efforts during the first 14 months of its existence on creating a legal framework for privatization, with substantial technical assistance from USAID/Ecuador. A general privatization law (Ley de Modernización del Estado) was passed by Congress after four months of preparation and discussion within the administration and an additional 10 months of debate in Congress. Further, special laws on hydrocarbons, electricity, and telecommunications were drafted and submitted for consideration by Congress.

Although CONAM has been hesitant to become involved in privatization preparation activities without a legal framework, several state entities have been moving ahead, in particular, the national industrial development bank, CFN;[2] the national agricultural bank, BNF;[3] and the Ministry of Agriculture. These three have completed or have under way diagnostic, valuation, and marketing strategy work on several of their larger holdings, and have already sold shares in some of their smaller holdings. USAID/Ecuador has assisted all three, mostly through the services of PW/IPG. The World Bank and the Inter-American Development Bank (IDB) have also provided technical assistance for potential reforms and possible privatization in the telecommunications, hydrocarbons, electricity, and transportation sectors.

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[1] Consejo Nacional de Modernización del Estado.

[2] Corporación de Fomento Nacional.

[3] Banco Nacional de Fomento.

USAID/ECUADOR ROLE IN THE ECUADOR PRIVATIZATION PROGRAM

USAID/Ecuador anticipated the opening to privatization in Ecuador and undertook a series of initiatives at the beginning of 1992, before the presidential campaign was in full swing. In early 1992, USAID/Ecuador began conversations with CFN, BNF, and various ministries, in particular Agriculture, with the objective of identifying 4 or 5 potential privatization transactions that would require international assistance because of their size and complexity. The Mission played a constructive role in helping Ecuador to mobilize and coordinate donor assistance for privatization from the World Bank, IDB, and the Corporación Andino de Fomento (CAF). USAID/Ecuador also worked closely with the Fundación Ecuador, a private sector association with strong links to the government that USAID/Ecuador helped to establish. The Fundación Ecuador proved to be a useful vehicle for promoting economic reform by the government and in particular, in providing objective input into the national debate on privatization.

Finally, USAID/Ecuador brought in PW/IPG through a buy-in for $359,339 into the PAD project in March 1992. PW/IPG was to help provide government officials with exposure to the privatization experiences of other countries, provide training on privatization, including financial and marketing techniques, and provide technical assistance in transactions. Further, USAID/Ecuador immediately began to use PW/IPG to assist in its public awareness campaign to address labor issues and social security privatization, and to publicize the privatization experience of other countries.

The final elections were held in July 1992 and President Duran Ballen was inaugurated in August 1992. USAID/Ecuador was already well positioned to offer immediate assistance to the new government in the formulation of a privatization strategy and its implementation, and had by then identified several prospective privatization transactions. The Duran Ballen administration welcomed USAID/Ecuador's offer of assistance and, ever since, USAID/Ecuador has played an active and constructive supporting role in Ecuador's privatization program.

PW/IPG ROLE IN THE ECUADOR PRIVATIZATION PROGRAM

As soon as the buy-in was signed in March 1992, PW/IPG assigned Ed Harrell as project manager. Jorge Segura, a PW/IPG consultant, visited Ecuador (June 1992) to begin working with officials being considered for cabinet positions in the forthcoming new administration. Segura played an instrumental role in the administration's discussions on their privatization strategy and in familiarizing them with the techniques of the privatization process. However, in August 1992, Segura was assigned full-time to the Nicaragua privatization project and PW/IPG contracted Roberto Toso, a Chilean consultant, to continue the work. Toso quickly earned the respect of his Ecuadorian counterparts and intended to allocate two weeks per month to the Ecuadorian project. In September and October, CONAM was created and Toso guided the efforts to develop an organizational structure and operating policies, and most importantly in the drafting of the new privatization law, the responsibility for which had been given to CONAM. He also worked closely with BNF in the appraisal of companies in its portfolio and the development of a marketing strategy, and advised BNF and the Ministry of Agriculture on privatization techniques, policy, and legal issues. By December 1992, Toso was running into time conflicts because of developments in his own business and he had to advise PW/IPG that he could not continue with the Ecuador project. In January 1993, PW/IPG contracted Robert Garvey to continue with the Toso work.

These frequent changes of the senior advisor assigned by PW/IPG have worked against the development of the kind of close working relationship with government counterparts that is needed as Ecuador tries to sort out the political implications of an effective privatization program. Just as the Ecuadorians get comfortable with one senior advisor, another is on the scene. To improve the effectiveness of PW/IPG assistance, USAID/Ecuador requested that Robert Garvey be assigned as resident senior advisor in Ecuador under a new contract with PW/IPG, effective June 1993. PW/IPG agreed and Garvey moved to Ecuador in January 1994. This move should contribute significantly to USAID/Ecuador and PW/IPG's efforts to encourage the government to accelerate the pace of privatization implementation. Garvey is well qualified, speaks Spanish fluently, and has already demonstrated an ability to relate well with his Ecuadorian counterparts.

Institutional Relationships

USAID/Ecuador and PW/IPG provide privatization assistance through several institutions, given the diffusion of responsibility for privatization that characterizes the Ecuadorian program.

Fundación Ecuador

USAID/Ecuador was instrumental in the founding of the Fundación Ecuador, a broad-based private sector organization. The members of Fundación Ecuador represent all sectors of the economy and many of the most active individuals have also served in high-level government positions at some time or are likely candidates for future public service assignments. The Fundación Ecuador has three major areas of activity — a continuing dialogue with the government on economic issues, in which privatization has been a major theme; promotion of the concept of "concessions" for infrastructure investment (in other words, the build-operate-transfer model and variations); and investment promotion. USAID/Ecuador has found the Fundación Ecuador to be an effective vehicle for promoting privatization in the broadest sense, namely, as increased private sector participation in the economy.

PW/IPG has worked closely and effectively with the Fundación Ecuador. PW/IPG helped the foundation to arrange a telecommunications seminar with a high-level Argentine official and additional seminars on labor issues and social security reform. Ecuadorian representatives were sponsored for attendance at a telecommunications seminar in Washington held by INTRADOS, a member of the PW/IPG consortium. PW/IPG also arranged through the Fundación Ecuador for two groups of four high-level Ecuadorians to visit other Latin American countries for a first-hand review of their privatization experience. These visits were headed by senior PW/IPG officials and have received highly favorable comments from the participants. Finally, PW/IPG arranged for a visit to Mexico for one of the government's candidates to head the privatization unit.

When the PW/IPG buy-in expired in mid-1993, USAID/Ecuador wanted to continue using PW/IPG's services, but they wanted to channel PW/IPG assistance through the Fundación Ecuador, with which both USAID/Ecuador and PW/IPG had established a highly effective working relationship. Because the funding available for this purpose had already been allocated to the foundation, the Mission's only option under PAD contracting rules was to give up the funds to Washington and risk having them reallocated to Ecuador for the PAD project. The mission wasn't willing to take this risk, and eventually they found a way to use the Fundación Ecuador through a direct contract between USAID/Ecuador and PW/IPG, that is, outside the PAD project. Therefore although PW/IPG will be able to continue with the work it has under way, this work will no longer be part of the PAD project.

CONAM

As mentioned earlier, CONAM elected to concentrate its efforts on creating the legal framework for privatization. PW/IPG played a key role in helping CONAM to put together a legislative package and developing an organizational structure and operating policies. The head of CONAM considers PW/IPG's assistance to have been essential and of the highest quality. He singled out Mr. Toso as having been exceptionally helpful in formulating strategy when CONAM was created in organizational matters, in developing privatization operational procedures, and generally in getting CONAM off to a good start. No transaction-related assistance was provided to CONAM, because CONAM so far seems to have avoided any substantive involvement in transactions.

BNF

BNF looks to PW/IPG primarily for diagnostic and valuation work on the larger and more complex privatization candidates in their holdings. PW/IPG has worked for BNF on a fertilizer company, a cement company, a merchant shipping line, and two other small firms. Once the privatization case passes the valuation stage, BNF tends to turn it over to CFN for marketing. BNF reports that PW/IPG's work was professional, entirely satisfactory, and exactly what they expected. The specialists that PW/IPG brought in were considered good choices. BNF believes that PW/IPG's involvement has helped to accelerate the privatization process, and that the process would not have worked as well without them.

Ministry of Agriculture (MINAG)

MINAG reports that PW/IPG has worked on three cases that fall within their jurisdiction — the fertilizer company (shares held by BNF), a seed company, and a food processing project. MINAG considers PW/IPG's work to be generally satisfactory, although they mentioned that in one case the PW/IPG report was not completed by the deadline because the entity had difficulty in preparing the requisite information. In another case, PW/IPG was unable to continue with its work because the ministry encountered a disagreement with the European bilateral agency involved. MINAG seems inclined to pass on each privatization case to CFN or BNF at the earliest possible stage.

CFN

At an early stage, PW/IPG worked closely with CFN to appraise the companies in their portfolio and identify candidates for privatization. PW/IPG also meets with CFN to discuss marketing issues on individual privatization cases.

PW/IPG Transaction-Related Assistance

FERTISA[4]

MINAG, CFN, and BNF are all shareholders of FERTISA, a fertilizer company. By the end of 1992, PW/IPG had completed its diagnostic and valuation work and had formulated recommendations on a proposed marketing strategy and had presented its findings to a committee of MINAG, CFN, and BNF. PW/IPG recommended that the company's assets be sold rather than selling the shares of the company because of the company's large debt and other difficult problems, but the committee was not able to reach a decision. Senior PW/IPG staff were brought in to subsequent meetings and eventually CFN and BNF agreed with the PW/IPG recommendation, but not MINAG. The issue was then taken to the office of the Vice President of Ecuador where it first seemed that the PW/IPG approach would be adapted, though in the end the government decided to go for a public share offering. The Quito stock exchange refused to handle the transaction; however, the Guayaquil stock exchange did agree but found no buyers. A major factor in the lack of interest was that a large private Ecuadorian investor group had earlier bought FERTISA's debt (in other words, government foreign debt) at a discount in the international market and was asking that the debt be recognized at full value. This investor group has other strong linkages to the fertilizer business and would appear to be a logical buyer of the shares; however, there is political opposition to having this group gain control of FERTISA and the transaction remains stalled.

Cementos Chimborazo

PW/IPG performed the diagnostic and valuation work for the cement company and prepared a proposed marketing strategy. Although one cement company is held by BNF and another by CFN, both will be marketed by CFN. PW/IPG recommended a coordinated approach to the market to avoid interference between the two issues; however, CFN again appears not to be following this advice.

PLANHOFA

PLANHOFA (a food processing project) is a government-to-government project with several components that was financed with grant funds by the Italian government. PW/IPG completed and submitted a valuation study to MINAG for one food processing plant, but apparently the Italian

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[4] Fertilizantes Ecuatorianos, S.A.

government has now taken the position that a grant-financed project should not be a candidate for privatization.

Flota Mercante Grancolombiana

Flota Mercante, a merchant shipping line, is owned 80 percent by Colombian interests and 20 percent by Ecuadorian interests (BNF). Ecuador reached preliminary agreement with Colombia that it would make its shares available to Colombian coffee growers. Colombia contracted a Colombian consulting firm to perform a valuation study and PW/IPG was contracted by Ecuador to review this study.

EMSEMILLAS

PW/IPG was requested by MINAG in June 1993 to perform a diagnostic and valuation study on EMSEMILLAS, which is a seed company. The study was due in mid-October 1993, but was not delivered primarily because EMSEMILLAS was slow in providing PW/IPG with the necessary background information. The study was expected to be submitted by the end of 1993.

IV. GAMBIA

PUBLIC ENTERPRISES IN THE GAMBIA

In recent economic history in The Gambia, public enterprises were regarded as a necessary catalyst in developing the economy and diversifying the narrow productivity base of the country. In the 1970s, the number of public enterprises in the country was relatively small, but in the 1980s the Government of The Gambia decided to establish enterprises in areas such as livestock marketing, transport, fish processing, tourism, and the financial sector. From 1975 to 1985, the number of public enterprises doubled to 25, contributing about 15 percent of GDP, and accounting for at least 25 percent of total wages earned in the country. Over 40 percent of the total public investment portfolio of the First Five Year Plan (1975-1980) was channeled through public enterprises. Most of The Gambia's public enterprises were wholly owned by the government, creating significant monopolies in public utilities, transport, livestock marketing, and telecommunications. The government also exercised considerable influence, due to minority share positions and preferential funding schemes, in tourism, trading, fishing, and the financial sector.

The aggregate performance of public enterprises was dominated by the groundnut marketing monopoly. The Gambia Produce Marketing Board (GPMB) was the largest public enterprise in the country, with a turnover greater than all other public enterprises combined.

By 1985, the financial performance of public enterprises had deteriorated seriously. Accumulated operating losses were recorded at GPMB, Gambia Utilities Corporation, Gambia Public Transport Corporation, the Atlantic Hotel, and the Senegambia Beach Hotel. These losses were financed by the government, and placed a considerable strain on the current budget. As an example, GPMB in 1984 had accumulated current liabilities to the banking system in excess of Dalasis 100 million (approximately $35 million) as a result of subsidizing the producer price of groundnuts during successive poor harvests and world market price fluctuations.

Typically, these types of deficits were financed by inadequate provisions for maintenance and depreciation, and accumulated arrears and bank overdrafts. The pattern of poor performance by the public enterprises produced a highly unstable situation of interlocking arrears between public enterprises and the government, as public enterprises failed to make payments to each other and accumulated serious arrears in insurance and social security payments. Moreover, the pricing and tariff structures of public enterprises were controlled by the government, with revenues insufficient to cover operating costs.

GPMB was the public enterprise most affected by the financial and management problems afflicting the public sector. Within a period of 10 years, the GPMB stabilization fund was depleted, as continuous operating losses were incurred. Further strains developed as GPMB provided direct transfers to the development budgets of the government, providing loans and purchasing shares in other public enterprises, subsidizing the importation and handling of fertilizers and rice and engaging in the local sale of groundnut oil, subsidizing the deteriorating producer price for groundnuts, and providing external bridge financing for the Central Bank of The Gambia, among others. Furthermore, GPMB had accumulated arrears in payment of taxes on exports, imports, and payroll. The irregular financial relationship with the government placed inevitable pressure and constraints on GPMB management, leaving little or no incentive for increased productivity, efficiency, or financial discipline.

During the Economic Recovery Programme (ERP) period of 1985-1990, the Government of The Gambia decided to make a systematic effort to clarify government-public enterprise relations and to establish an environment of clear financial and managerial accountability. The primary instrument used to increase efficiency in the major public enterprises, including GPMB, was the introduction of Performance Contracts. The contracts were prepared by the National Investment Board with technical assistance of the World Bank, and were operational by 1987. These contracts were designed to ensure full autonomy to the management including staff decisions, salary structures, and price setting, theoretically allowing the public enterprises to perform on a commercial basis.

A second feature of the ERP was to declare a moratorium on the creation of new public enterprises, concurrent with a program to divest the government's holdings in existing public enterprises, with initial priority given to the tourism and fisheries sector. The third salient feature of the ERP was that the National Investment Board (NIB) was given the authority to monitor the performance of all public enterprises, provide technical assistance in financial and production management, review investment proposals requiring budgetary intervention, and develop key indicators of financial performance.

In general, the public enterprises in The Gambia failed to meet the expectations that accompanied their establishment. Investment in public enterprises was expected to stimulate growth and provide revenue to the government, but instead the public enterprises became a net drain of budget resources. Additionally, the allocation of talent throughout the Gambian economy became artificial, as skilled personnel gravitated toward the security of the wage base of the public enterprise sector, devaluing the role of entrepreneurship in the economy. As a result of the economic and human resource distortions produced by the public enterprise sector, a privatization program was sought as a means of reducing the drain of public enterprises maintenance.

PRIVATIZATION IN THE GAMBIA

The privatization program of The Gambia became operational in late 1986. The NIB was given the mandate by the Cabinet to supply the Chairman and provide support services to the Task Force that was established to implement the program. The Task Force functioned like an interministerial committee comprised of officials from various parts of the government, including the president's office, the Ministry of Justice, the Ministry of Trade, and the Ministry of Finance and Economic Affairs.

The Task Force was empowered to execute the following duties:

- Sole responsibility for the disposal of all government assets and shareholdings;
- Formulation of a detailed strategy for the divestiture and liquidation of public enterprises;
- Selection of enterprises to be divested;

- Development of ownership criteria for enterprises to be divested; and

- Negotiation of sale arrangements with buyers and the monitoring of post-sale activities of buyers to ensure compliance with sales and trade agreements.

The Task Force, after a review of government-owned assets, designated GPMB as a "strategic corporation," noting the monopolistic position of GPMB, and its importance to a wide range of farmers, processors, transportation links, and agricultural input providers. In characterizing GPMB as a strategic corporation (along with several other Gambian public enterprises), the government was recognizing that the privatization of these corporations could prove difficult, and that restructuring and rationalization, as well as the divestiture prior to sale of noncore assets, might be required.

The status of divestiture of public enterprises in The Gambia, as of September 30, 1993, follows this country report.

PROJECT DESCRIPTION

USAID Gambia has been an active participant in the Gambian privatization process since 1986, focusing on public divestiture as a central facet of its overall program. A brief history of the involvement of USAID Gambia with GPMB (one of the last entities to be privatized in Gambia) highlights the Mission's commitment to the privatization program, and underscores the government's strategy of executing the ERP.

Since 1986, a primary objective of the Mission's privatization plan was to assist the government to develop and implement a schedule for the privatization of GPMB. The early history does not read like a privatization story, yet forms the basis of how the Mission intervened to bring the enterprise to the point of sale.

Under a PL 480 Title II agreement signed in 1986, an approach to the privatization of GPMB was outlined, agreeing that GPMB would first divest its peripheral activities and associated assets, followed by privatization of its core activities and facilities by 1994.

Over the ensuing five years, GPMB, in conjunction with the NIB, made considerable progress toward offering the enterprise as a stripped-down version of its former self — for example, during this period, the government offered for public sale the cotton gin and two rice mills; entered into a donor bi-lateral agreement for the rehabilitation of the Gambia River Transport Company, a GPMB subsidiary; and liquidated a Dalasis 60 million nonperforming loan on the books of the Central Bank. Concurrent with these enterprise-specific activities, the government made considerable progress in the liberalization of the groundnut industry, including repeal of the export tax on groundnuts, abolition of preferential pricing schemes favoring government-sponsored groundnut intermediaries, and an opening of domestic groundnut trading that permitted producers to sell directly to GPMB. This last change, the opening of trading arrangements, was a crucial step in the privatization process of GPMB, permitting both domestic and export trade to be handled by private traders in a competitive environment. The stage was now set for the privatization of GPMB.

The Financial and Private Enterprise Program

A brief explanation of the Financial and Private Enterprise Program (FAPE) is necessary here to understand one of the driving forces behind the timely privatization of GPMB.

FAPE is a five-year $17.35 million bilateral economic development program that combines $9.0 million in nonproject assistance (direct funding to the Government of The Gambia) with $8.35 million in project assistance. The overall goal of the FAPE program is to induce private investment and accelerated growth of private enterprises in The Gambia, using privatization as one of the methods of achieving this goal.

Nonproject assistance under FAPE was designed to be disbursed over the five-year life of the program in three tranches of $3 million each upon satisfactory fulfillment of certain conditions precedent. Among the major conditions precedent was the complete privatization of GPMB by August 1992. It was recognized that external consultant resources would be necessary to meet this target date to:

- Value GPMB's assets;
- Determine a fair market value for asset sales;
- Develop an appropriate privatization strategy;
- Provide options on specific terms and conditions of sale to ensure continued competition in the groundnut sector and ensure wide distribution of newly created shares;
- Prepare a prospectus for public sale of various facilities;
- Assist in the negotiations of transactions which may arise from an offer of sale; and
- Identify potential buyers from off-source locations.

Initial Phase

In January 1992 the services of the PW/IPG group were contracted through a buy-in mechanism to the PAD contract, in the amount of $36,000, for a two-month period. The purpose of this buy-in was to:

- Analyze all relevant government, USAID, and Government of Gambia documentation related to the privatization of GPMB and full liberalization of the groundnut industry in Gambia, setting the stage for privatization;
- Develop a consensus among Gambian and enterprise officials on the objectives of the privatization of GPMB, and identify principal governmental concerns and possible obstacles to such privatization;
- Undertake a brief financial and technical review of GPMB's status;

- Develop a phased action plan for completing the sale of GPMB. The action plan was designed to include scopes of work for follow-on activities including preparation of a GPMB prospectus and promulgation of information about the sale of GPMB; and

- Provide a preliminary structure of terms and conditions for a potential sale of GPMB's assets.

A two-person team was named, including a privatization specialist and a financial analyst, and the deliverables were specified: a briefing report addressing the issues facing the privatization of GPMB, and preliminary sales strategy and action plans.

PW/IPG's performance in this initial phase was satisfactory, with all deliverable schedules met. More importantly, the appearance of the consultant team during these months set in motion serious thinking about the actual privatization of GPMB, a notion that had been discussed for many years, but without result. The preliminary strategy incorporated a history of government policy and objectives in privatization and sector liberalization, key government organizational charts and a delineation of responsibilities vis-a-vis GPMB, and an explanation of the role of GPMB in the Gambian economy.

PW/IPG services during these months were important in that they provided an outside look at the difficulties of privatizing the enterprise; transparency in the process (given the size and importance of GPMB, many in Gambia feared a political test of wills over its ultimate divestiture); and fresh insight into the divestiture of noncore assets. During the course of the exercise, several Gambian officials, including those at NIB who were overseeing the process, said that PW/IPG's work permitted them to think about GPMB as a viable, ongoing, "bankable" entity, stripped of nonessential assets and services, and committed to technical upgrades and productivity. General satisfaction was found in this phase of the services provided by PW/IPG.

Phase Two

Effective April 23, 1992 through August 31, 1992, in the amount of $120 thousand, this subsequent buy-in was designed to facilitate the actual bid process for GPMB. The following services were requested:

- Preparation of an updated valuation to establish a range of acceptable values for GPMB, including going concern analysis on a discounted cash flow basis, asset sales, and liquidation basis;

- Provide a full discussion of the applicable valuation methods and how values were determined;

- Prepare an assessment of barriers to entry for potential competitors, including the costs to be incurred for start-up operations;

- Identify potential buyers, both domestic and foreign, in order to compile a shortlist of qualified bidders in a clear, transparent, explainable fashion;

- Prepare an offering memorandum, including parameters for the terms of bidding and sale conditions acceptable to the Government of The Gambia; and

- Identify procedures for soliciting bids, methods of evaluation of bids, and ranking of bids.

The arrival of the PW/IPG team was welcomed as the solution to the long-stagnant, though constantly discussed, possibility of privatizing GPMB. The team embarked upon further extensive data collection, including interviews with individual farmers and managers as well as ancillary staff involved in the harvesting and production of groundnuts. These activities permitted the development of the offering terms and memorandum, and the ability to offer the company for sale, including international advertising, on various markets.

It was generally observed and agreed that the services provided by PS/IPG during this phase of the project were valuable, for two reasons: the prospectus that was prepared was up to international standards, and enhanced the credibility of the GPMB as an ongoing, viable entity; and the valuation work provided transparency, an arms-length view of the company and its prospects, which would have been difficult to achieve if the valuation had relied solely on Gambian experts. The valuation used, which did not set a minimum price, was considered appropriate by NIB and other parties to the transaction, because it permitted a wide range of negotiation options for the government.

PW/IPG included in its offer of services assistance in the negotiation of a final price with interested parties. This offer was refused by NIB, saying that they would be able to organize and manage this part of the transaction process themselves. PW/IPG, however, did play a fundamental role in screening, targeting, and meeting with potential investors, commenting on those thought to be valid, giving NIB the bid evaluation criteria that it eventually used in helping to select the winning bid.

PW/IPG's contribution to the privatization process in The Gambia went somewhat beyond the transactional nature of the scope of work of the Delivery Order. Numerous sources provided the opinion, during the course of this evaluation, that the presence of PW opened up the privatization process to scrutiny from the outside, in effect removing the heretofore perceived mystery about state divestiture. One interviewee went so far as to state that his faith in the privatization process had been restored by the use of outside consultants in the privatization of GPMB.

Contributing to the privatization of GPMB were two factors: everyone following government events knew that GPMB had to be privatized for the government to qualify for the nontechnical assistance portion of USAID funding; the firm deadline of mid-1993 was to be disregarded only with grave financial consequences. Also, the winner of the bid, Alimenta, S.A., a leading multinational in the groundnut industry, was well known to GPMB, having had a buyer relationship with the company for many years. Alimenta knew the problems and issues surrounding GPMB and the worth of the assets to be sold. Further, the sale was aided by post-privatization donor funding from the European Community, which provided rehabilitation funding for the improvement of the processing facilities of GPMB.

Public Enterprises in The Gambia, as of September 1993

	Name:	Status:	Year of Last Status Change:
1	Gambia Utilities Corp. (GUC)	10 year LEASE to private operators	1993
2	Gambia Ports Authority (GPA)	100% GOTG owned, under a performance contract	1993 – 1996
3	Gambia Prod. Mkt. Board (GPMB)	SOLD to private investors	1993
4	sub: GAMCOT	GOTG has a 49% minority share	1992
5	National Trading Corp (NTC)	SOLD to private investors	1991
6	Gambia Public Transport Corp. (GPTC)	100% GOTG owned, under a performance contract	1991 – 1994
7	Livestock Mkt. Board (LMB)	Act repealed, now a ltd. liab. co., FOR SALE	1993
8	sub: GAMTAN	40% GOTG owned	on–going
9	Old Atlantic Hotel	100% GOTG owned	on–going
10	Citroproducts	UNDER LIQUIDATION	1993
11	GAMTEL	100% GOTG owned, under a performance contract	1993 – 1996
12	Kotu Workshop	20 year LEASE to private operators	1992
13	Brikama Ice Plant	SOLD by installment to private investors	1990
14	Pakalinding Ice Plant	Leased in '89, repossessed in '92, FOR SALE	1992
15	Fish Process. & Mkt. Corp. (FPMC)	Sold and repossesed by NIB, FOR SALE	1990
16	Kanifing Brick Plant	SOLD to private investors	1990
17	Abuko Feedmill & Hatchery	SOLD to private investors	1990
18	New Atlantic Hotel	10 year LEASE to private operators	1988
19	Nyambai Sawmill	SOLD to private investors	1989
20	CFAO	SOLD to private investors	1987
21	Gambia Airways	60% GOTG ownership	on–going
22	African Hotels, Ltd.	SOLD to private investors	1989
23	Seagull Coldstores	LIQUIDATED	1991
24	Banjul Breweries	2.4% GOTG ownership	on–going
25	Senegambia Hotel	51.7% GOTG ownership	on–going
26	Kairaba Hotel	12.5% GOTG ownership	in receivership
27	Kombo Beach (Novotel) Hotel	37% GOTG ownership	on–going
28	Scangambia	7.4% GOTG ownership, UNDER LIQUIDATION	on–going
29	Gambia Comm. & Devel. Bank (GCDB)	SOLD to private investors	1992
30	Gambia National Insur. Corp. (GNIC)	SOLD to private investors	1991
31	Social Security Housing & Fin. Corp. (SSHFC)	100% GOTG owned, under a performance contract	1993 – 1996
32	Agricultural Savings Bank	LIQUIDATED	1989
33	Post Office and Postal Savings Bank	100% GOTG owned	on–going

4	Standard Chartered Bank	15% GOTG ownership	on-going
5	Friendship Hostel	100% GOTG owned and operated	on-going
6	Assert Mgmt. Recovery Co. (AMRC)	100% GOTG owned and operated	on-going
7	Govt. Printing Office	100% GOTG owned and operated	on-going
8	Civil Aviation Authority	100 GOTG owner and operated	on-going
9	Carpenter's Workshop	Liquidated????	?
0			

V. INDONESIA

Indonesia was slated to be one of the country studies in this evaluation; it has been the scene of a PAD project buy-in since August 1991. The planned evaluation field visit to Jakarta was dropped, however, because of scheduling problems in Jakarta, budget constraints, and, most important, because a recently completed midterm evaluation of the PW/IPG privatization effort in Indonesia was on hand. This evaluation, completed in October 1993, provides enough information about the privatization component to allow reasonable assessment of the scope, achievements, and problems of the PAD project.

This note draws on the October evaluation to describe the main points in the evolution of the PAD project.[1] It draws also on World Bank background documents.[2] The note is much less comprehensive than the other country studies, and less analytic. Little time was available for detailed study and, because no field visit was done, the note reflects no access to primary documents and no groundtruthing by interviews with concerned parties.

THE INDONESIAN PRIVATIZATION PROGRAM

The SOE sector is large in Indonesia. Some 184 enterprises, a majority of them in industry, agriculture, and finance, generate over a quarter of GDP. The book value of the SOEs is estimated to be $125 billion and their annual budgets combined are greater than that of central government. But they contribute little to employment creation (together they employ less than 2 percent of the labor force), and they pay dividends of only $1.5 billion a year to the national budget. Recent private sector growth has reduced their relative weight in the economy.

The Government of Indonesia (GOI) has focused much more on public enterprise reform than on privatization and more on private provision of public services than on divestiture. Commercialization is the goal: management on a sound business basis, with no or minimal subsidization and with autonomy of supervisory agencies. Performance evaluation systems have been introduced or are in process, and relations between the government and the SOEs have been clarified.

Results in improved performance appear to be substantial. According to one classification of SOEs by efficiency status, between 1987 and 1991 the number of "very healthy enterprises" increased from 40 to 54; unhealthy SOEs fell from 88 to 52; and moneylosers dropped from 43 to 24.[3] More than 85 percent of SOEs were profitable in 1992, though returns on assets were 4-5 percent a year, or less than half the returns to private investment.

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[1] Chemonics International (Peter Gajewski et al.), *Midterm Evaluation, Financial Markets Project*, submitted to USAID/Jakarta, October 1993.

[2] World Bank, *Indonesia: Growth, Infrastructure and Human Resources*, Report 10470-IND, May 26, 1992; and World Bank, *Performance Audit Report. Indonesia: Private Sector Development Loans I and II*, Operations Evaluation Department, July 30, 1993.

[3] Chemonics International, *Midterm Evaluation* . . . , 1993, pp. IV-28.

The exact extent of privatization by divestiture is not clear. The Chemonics evaluation indicates that 25 enterprises have been divested since 1989: 5 liquidated, 16 sold, and 4 put under management contract. Of the 16 sales, 8 were trade sales and 6 were sold through public offerings. (Another 8 were merged or consolidated, and 31 were legally commercialized.)

World Bank documents give slightly bigger numbers. Through 1991, they say, about 25 SOEs were fully or partially privatized and 14 others liquidated.

It is clear in any case that not much privatization through divestiture has occurred. The few sales involved smaller paper manufacturers, a tire manufacturing operation, and similar, mostly very small, units. Effects on the economy are not visible. Effects in shrinking the state sector are not only small, but were counterbalanced by the creation of 9 new SOEs during these years. Original plans to offer shares of 52 SOEs to the public were abandoned.[4]

More privatization activity is under way in private provision of public services. Strategies for private provision of urban services have been under study for several years, and considerable attention has been given to infrastructure investment via build-own-operate/build-operate-transfer (BOO/BOT) schemes. The biggest investment under consideration is the approximately $2 billion Paiton Private Power project. As might be expected, the project has gone slowly. Negotiations have involved ad hoc resolution of each of the thorny policy and regulatory issues that arise in private infrastructure investment. Government has also emphasized the introduction of greater competition into sectors dominated by public sector entities.

THE PAD BUY-IN

The PW/IPG presence in Indonesia is under the umbrella of a larger USAID project — the Financial Management Project (FMP). This project, authorized in August 1988, originally had two components. The capital markets component was intended to help the government encourage investment by helping improve investment regulations and strengthening securities trading capacity. The money market component aimed at strengthening monetary system administration and banking capacity. Price Waterhouse is the implementing contractor of FMP.

In August 1991, the privatization component was added via a buy-in to the PAD project. The underlying rationale was that divestiture was needed to speed up the development of the local securities market. Training was a part of all three components. Funding of all three components amounted to $14 million, in the form of a USAID grant plus host country contributions of $4.7 million The project got under way in January 1992 and is scheduled to end on March 1, 1995.

The PAD buy-in (or privatization component of FMP) has four main objectives: improvement of the policy framework for privatization, institutional strengthening, assisting in

[4] According to the Chemonics evaluation report, only one firm (PT Semen Gresik) offered shares (a minority) on the Jakarta Stock Exchange. The sale went badly. The investment bank involved overpriced the shares, and the stock exchange took very long (15 months) to work through the transaction. The day after Gresik went public its share price fell by 20 percent.

transactions, and training and expanding public awareness. The inputs made available to achieve these objectives are technical assistance, training, and equipment. Table V-1 shows the planned budget and expenditures up to October 1993.

TABLE V-1

PRIVATIZATION PROJECT BUDGET

Item	USAID	GOI	Total	Expended
Technical Assistance	3.5*	.65	4.15	1.3
Training	1.0	1.05	2.05	0.1
Equipment	0.25	—	0.25	0.0
Other	0.25	—	0.25	negligible
Total	5.0	1.7	6.7	1.4

*Only $2.5 million was actually committed for long-term and short-term technical assistance.

Outputs or achievements of the PAD buy-in include:

- **Privatization policy framework.** The PW/IPG-supplied technical assistance completed a classification exercise during their first year; this defined the type of technical assistance required by each SOE. The team also completed two reports (September 1992 and April 1993) on pension policy, and a report on the performance of the Collective Marketing Office (KBP);

- **Institutional strengthening.** Restructuring the Directorate-General of State-Owned Enterprises (DG/SOEs) absorbed major attention from the beginning of 1992. But in August 1992 a change occurred in the management of the agency, and this work was left hanging. The contractor did a report on management information needs of the DG/SOEs. The contractor set out a database structure that would facilitate performance evaluation of SOEs. It defined performance indicators for SOEs and proposed to develop a pilot program to introduce the system;

- **Assisting in transactions.** No actual transactions occurred under the auspices of the project. One study was done, analyzing leasing possibilities for P.T. Pann Multifinance — a government shipping and leasing company. This was regarded as a preprivatization or readying activity that would smooth the way for privatization of the two state airlines; and

- **Training and public awareness.** A preliminary training needs assessment for the DG/SOE was initiated, then shelved, and is now under way again. Two BOO/BOT workshops were held and some officials participated in international seminars.

ASSESSMENT

The results of the privatization project (component) have been disappointing, although this judgment should be tempered by the fact that the project has been active for less than two years. The level of activity has been much lower than called for in the project budget, as is evident in Table V-1. The only significant spending has been for technical assistance personnel. No equipment has been provided. And, most striking, very little training has taken place.

The initial priorities for the project have not been followed. Transactions were at the head of the list, in part because this was USAID policy, in part because divestiture was the tie-in with the capital market objectives of FMP. But little divestiture activity has taken place. The policy and institutional components have received most attention. Capacity building through training was neglected and nothing was done on increasing public awareness of privatization benefits.

Those outputs that were produced were generally of high quality, according to the midterm evaluation. But at least one of them was off the mark in terms of the project's objectives. The work on aircraft leasing is criticized because it strengthened enterprises that would probably remain in the public sector, which is against USAID guidelines for the project.

The focus of the project was intended to be on transactions. There have been no resulting transactions. IPG project staff have been advising on the Paiton Power project, but here there has apparently been some crossing of lines with the World Bank staff also working on this project. The work on the PTP estates marketing system (the Collective Marketing Office [KBP]) has considerable policy importance, but — according to the midterm evaluators — was more likely to strengthen the existing SOEs than lead to a privatization transaction. In any case the DG/SOEs has taken no action on the report.

It seems that the DG/SOEs has taken no action on most of the reports and recommendations produced by the project. The Chemonics evaluation report notes as "put on hold by the DG/SOEs" the classification exercise, the proposals for new management information systems initiatives, the training needs assessment, as well as the KBP report.

WHAT WENT WRONG?

The PW/IPG team in Indonesia did lots of things right. It provided good people. Its reports were apparently of uniformly high quality. Its staff maintained close and cordial working relations with Indonesian staff. Responsiveness to the USAID Mission was excellent.

Looked at from a distance, three factors seem to have limited the team's impact. The first was the August 1992 change in management of the team's host agency, the Directorate-General of State-Owned Enterprises. The new management saw privatization priorities somewhat differently, which changed the project momentum. It is hard to know whether the PW/IPG technical assistance has been sufficiently flexible in the face of these changes. The midterm evaluation condemned it as being excessively passive; the evaluators thought the IPG technical assistance ought to have been more proactive and less reactive. Maybe. But when local leadership changes, in a policy situation where transaction-oriented activities were apparently not in favor, and in a general environment where proactive expatriates run serious risks, aggressive approaches can backfire.[5]

The second factor was that the principal mandate given the project — to push transactions — was premature. GOI was apparently not ready to engage in significant divestiture activity during these years. Other phases in the privatization continuum might have been given higher priority. Examples would be analytic studies demonstrating the costs of present patterns of asset ownership; analyses of needs in the regulatory system, including studies of experience in comparable countries — such as the Philippines on BOT regulations; or studies of possible nondivestiture approaches such as lease contracting and broader use of management contracts.

Finally, too little coordination with other players seems to have taken place. The PW/IPG project is one of many centers of interest in privatization in Indonesia. The World Bank is a major player; through sector studies and otherwise the Bank has made clear its engagement in infrastructure investment and policy formulation. Other USAID-financed programs were also interested (the Harvard Institute for International Development, for example). So coordination is critical for effectiveness, which was perhaps not sufficiently recognized at the outset.

An external factor also intervened to complicate the affairs of this project. The interim evaluation, which put much emphasis on the GOI's "lack of commitment" to privatization, especially after the change in leadership in the privatization agency, had a number of negative side effects. The PW/IPG team believes that the evaluators' underlying analytic premise (the importance of ownership change as a short-term, stand-alone objective) conflicted with the premises and objectives as originally agreed on between USAID and the Ministry of Finance — with regard in particular to the issue of the relationship between efficiency and privatization.

The team discovered in putting together a revised work plan that the fallout from the evaluation caused the objectives of the GOI and USAID to appear inconsistent, or even at odds. It has cast some suspicion on GOI policy intentions; the idea that the GOI lacks "commitment" has gained ground when in fact the original policies are still in place. USAID has cut original funding levels in a negative context of policy differences that are exaggerated and USAID's assistance has become fragmented; it focuses on "desirable elements in the GOI program," diminishing the integrated nature of the original design.

[5] The evaluation report also cites inadequate monitoring by USAID as a factor explaining the departure of the project from initial priorities. It should be noted that the GOI rejected many of the evaluation's conclusions, arguing that the definition of privatization used in the report was excessively narrow.

VI. MOROCCO

PRIVATIZATION IN THE KINGDOM OF MOROCCO

Morocco's state-owned enterprise sector is made up of some 700 firms, contributing 18-20 percent of GDP annually. These state enterprises first originated during the years of French colonial rule, but proliferated during the 1970s, following the Moroccanization of foreign-owned firms and the government's decision to ensure that certain import substitution industries were established. Some government portfolio divestitures, liquidations, and demonopolizations were achieved during the 1980s; however, privatization as a nationwide program was not incorporated into the overall economic policy efforts of the Kingdom until 1988.

In 1988, frustrated by the lack of a formal privatization policy, the King of Morocco dedicated his opening speech to Parliament to the need for sweeping economic reform, based upon privatization of SOEs. A formal Privatization Law was passed in late 1989, specifying 112 state-owned holdings to be privatized. The law set forth the procedures to be followed for privatization, and was followed by implementing decrees that established the Ministry of Economic Affairs and Privatization (since renamed and reorganized) as the implementing authority for privatization activities. Further legislation empowered the Evaluation Authority to set the minimum price for which an SOE could be sold, and established the various methods by which state holdings could be divested.

The 112 enterprises named in the list of privatization candidates accounted for about 6 percent of GDP, had an estimated net worth of some $1.8 billion, with employment rolls of approximately 36,000 persons. The list included Morocco's largest commercial banks and other financial institutions; major firms in the cement, paper pulp, automobile assembly, and textile industries; parastatals engaged in agricultural inputs and marketing; seven sugar mils; and 37 hotel properties.

The costs of implementing the Kingdom's privatization program were estimated at some $100 million, including restructuring costs. Most of the enterprises to be privatized were sound, with the potential of significant revenue, from the sale of enterprises, to be gained by the Government of Morocco. In addition, it was estimated that state budget transfers to SOEs, upon completion of the privatization program, would be reduced by DH 4.1 billion per annum.

U.S. GOVERNMENT INVOLVEMENT IN MOROCCAN PRIVATIZATION

USAID Morocco conceived a plan to assist the government in its privatization efforts, in effect becoming the largest donor program in the field. The program was designed to encourage and support the government's efforts to reduce its involvement in economic affairs, and stimulate private ownership and entrepreneurship. It contained technical assistance to implement the privatization program, as well as local currency payments based upon completion targets:

- $20 million was provided in nonproject assistance to be disbursed in three tranches: a first trance of $4 million, a second tranche of $6 million, and a third tranche of $10 million; and

- $5 million in funding was provided to fund a long-term advisor, short-term transaction-related assistance, other short-term technical assistance and training, and evaluation and audit services.

The nonproject assistance disbursements were designed to provide local currency equivalents for industrial restructuring, privatization support at the ministerial level, and an increased awareness throughout the Moroccan populace on the benefits of diversified share ownership.

PROJECT DESCRIPTION

The PAD project with PW/IPG as the prime provider of technical services funded $3.2 million for privatization services in Morocco from May 1991 through September 1994. The assistance was provided in three tranches, beginning with $894 million in 1991. To assist the then Ministry of Economic Affairs and Privatization to carry out its mandated responsibilities in the Moroccan privatization process, PW/IPG agreed to provide:

- A long-term resident advisor for 18 months;

- 15 person-months of expatriate short-term technical assistance and 15 person-months of Moroccan short-term technical assistance;

- Local training; and

- Limited home office technical support.

The work of the long-term advisor began with a complete overview of the privatization process in Morocco. The advisor was charged with translating government legislation and articulated initiatives into concrete activities, and was responsible for studies of the Moroccan context for privatization, including industry studies, analyses of market conditions, and review of government policies affecting the industries to be privatized. The advisor was also responsible for producing the necessary internal documents for the facilitation of procedures for privatization related to specific transactions, including prospecti, bid materials, and diffusion of information about privatization and investment opportunities in the Kingdom.

A significant portion of the advisor's time came to be concentrated on the creation of an effective management information system (MIS) for establishing and tracking the data on privatization candidates. This system was designed to track the status of privatization bids, provide company profiles for easy investor access, and monitor the privatization efforts in broadening share ownership and the benefits of privatization throughout the country.

Short-term technical assistance was designed to incorporate individual assignments that were required for transaction assistance, reporting to the long-term advisor; this assistance was composed of:

- Financial and operational appraisals of enterprises;
- Enterprise valuations;
- Sector economic analysis;
- Industry-specific regulatory analysis;
- Business planning for enterprises;
- Financing and sales techniques;
- Investor identification, selection, and negotiations;
- Capital markets development; and
- Employee share participation programs.

The use of this short-term technical assistance was directed at completing initial model privatizations to serve as a means of transferring experience and know-how on specific privatization topics. PW/IPG was selected, given its experience in financial markets, because the means of privatization was envisioned to be through public share offerings in the developing financial markets of Casablanca and Rabat.

The training component of the initial contract focussed on an assessment of the training requirements of the ministry, to include the design and implementation of privatization workshops on such topics as enterprise valuation or requirements of the capital markets for investment in SOEs.

Specific deliverables under this delivery order included a valuation and sales strategy for CTM, the transport company, and an analysis of the use of employee stock ownership plans (ESOPs) in the Moroccan context.

The second delivery order described above was signed on September 30, 1992, for $1.6 million, covering the period October 1, 1992 through September 30, 1993, and extended on that date to September 30, 1994, with an additional $772 million. In this addition to the original delivery order, PW/IPG was provided supplementary funding for the activities outlined above, with a particular emphasis, under the direction of the long-term advisor, to bring several transactions to market through the mechanism of initial public offerings. This delivery permitted valuations on two companies, CADEM and ASMAR, incorporating enterprise value and sales strategies for each. This delivery order envisioned that certain companies would be brought to market through the public offering of shares. Companies selected for initial privatization in this phase were to be chosen according to the following criteria as defined in the Project Approval Document:

- Profitability;
- Public awareness of the company;
- Ability to compete in a deregulated environment;
- Importance to the economy, particularly in bringing certain products and services to the public;
- No major overstaffing issues; and
- Diversified over various regions, and marketing and sales bases.

Furthermore, the initial candidates were to be legally established Sociétés Anonymes, requiring no further legal reorganization.

During the course of the second phase of the PW/IPG engagement, a second long-term advisor, an experienced investment banker familiar with capital markets vehicles and participants in world financial capitals, was added to the assistance team at the ministry.

SPECIFIC PROJECT ACHIEVEMENTS

Management Information System

The MIS was established during the early months of the project, and included a database covering all of the 112 enterprises to be privatized, incorporating company-specific information on financial performance, employment, state ownership stake, and profitability information. This database represents the first attempt at quantifying the scope of the privatization task, its value to the Moroccan economy and Kingdom's treasury, and a means to prioritize the candidates for privatization. The information system is a significant accomplishment, not only in the depth of understanding its brings to the Moroccan privatization process but also in its application. The long-term resident advisor made a painstaking effort to instruct the staff in the database's uses, providing privatization staff members with an interactive tool with which they, for the most part, felt comfortable. The information system also represents the first time that a Moroccan ministry has used an electronic tool in its daily work routines, and it has proved to be an effective management and marketing device.

Valuations

A wide variety of valuations were performed during the course of the engagements, notably CTM, CADEM, and ASMAR. The CTM and CIOR valuations played an integral part in bringing those privatization offerings to the public; the valuations were submitted to the Moroccan Valuation Authority (which is legally empowered to set offer prices) as the basis of the Authority's deliberations on determining the value of the shares to be offered. In addition, ministry staff report that, although they would have been appreciative of more in-depth explanations from PW/IPG short-term consultants on valuations methods, they gained substantial insight into the valuation process through the valuation exercises performed by PW.

Long-Term Resident Advisor Presentations, Papers, and Analysis

The development of the climate for privatization in Morocco, as well as the ministry's ability to manage the privatization process, was enhanced significantly by the presence of the first-arrived, senior long-term advisor. The advisor developed not only the MIS framework for approaching the universe of privatization candidates, but prepared Moroccan officials and ministry staff members for acceptance of the process by becoming a proactive advocate on the benefits of privatization to the Moroccan economy.

For example, through a series of papers, some of which were presented at international privatization fora, the long-term advisor was able to argue, from various angles, that the privatization of SOEs in Morocco would bring substantial long-term benefits to the Moroccan economy and the citizens of the Kingdom. Through such publications as "The Public Enterprise Setting for Privatization in Morocco" and "Conséquences Economiques Anticipées du Programme de Privatisation au Maroc," PW/IPG technical assistance gained a wide audience, adding statistical and analytical credibility to the then-recently implemented decrees mandating privatization of certain SOEs.

Simultaneously, the advisor was not hesitant to point out some of the pitfalls inherent in economic decentralization, and provided a warning voice on the social and economic dislocations that can result from large-scale state divestiture. Creating the environment for receptivity to privatization was one of the early accomplishments of the long-term technical assistance provided, permitting the privatization process to develop relatively smoothly into the transaction phase of privatization.

Second Long-Term Advisor

The second long-term advisor began working with the ministry in February 1993, at PW/IPG's initiative. The ministry at that time was gearing up to do transactions, and it became apparent that assistance could be provided by a transaction advisor who would work side-by-side with ministry staff, providing on-the-job training in the transaction process. As a transaction advisor, the second advisor works with ministry staff responsible for selected enterprises to analyze valuations completed, develop pricing strategies and sales strategy and transaction structure, and help in identifying and negotiating with potential investors. This advisor played a key role in the two initial public offerings — CTM and CIOR — both of which were highly visible transactions and many times oversubscribed.

Industry and Sector Studies

One industry and sector study was carried out, aimed at ascertaining the salient features of the tourism sector, and highlighting characteristics of the sector that might be attractive to outside investors. This study of the hotel industry provided profiles of the 37 hotels on the privatization list.

The merit of this kind of study remains in doubt. Although certainly helpful in coming to an understanding of industry segments, its usefulness in the investment process is unclear. Attracting local and foreign investment to projects is a case-by-case process, set within the context of broad economic and sector indicators. New investment in emerging markets does not require an in-depth analysis of all aspects of a particular segment of the economy, as flotation of shares and the movement of capital to the emerging economies of Central and Eastern Europe has proved.

Public Offerings

The successful completion of the CTM public offering, supported by the extensive valuation, due diligence, and general transaction facilitation supplied by PW/IPG, stands out as the major transaction achievement (followed by the offering of CIOR on various financial markets) of the USAID-supported privatization program. The transaction was a highly visible one, with financial results that exceeded expectations. The transaction placed the entire privatization process in Morocco on an accelerated course toward completion, proving that the tools and procedures of capital market instruments were applicable and achievable in the Kingdom. PW/IPG was the "honest broker" of this transaction, and responded to any and all requests that arose to facilitate the public offering.

IMPACT ON SOE SALES

The ambitious privatization targets that have emerged from the King's 1988 speech to Parliament required the establishment of a centralized focal point for the Kingdom's privatization activities. USAID/Morocco's dedication of significant resources to Moroccan privatization was an early boost to the privatization program. Through the intervention of PW/IPG and prior projects, the benchmarks, working parameters, and privatization targets necessary for a successful program were established, specifically:

- Formulation of Privatization Policy, including input on implementing legislation following the 1988 royal speech;
- Establishment and designation of privatization procedures at the ministry, including clear and transparent guidelines for the establishment of valuations and offer prices;
- Examination of privatization experience in other decentralizing economies, with emphasis on lesson learned that would be applicable in the Moroccan context;
- Promulgation of the benefits of share ownership;
- Establishment of a MIS to enhance the efficiency and transparency of the privatization process;
- Establishment of privatization program priorities; and
- First public offerings of Moroccan companies.

The above-named accomplishments stem directly from the intervention of both long-term advisors in the first phase and early second phase of the USAID/Morocco-funded privatization commitment to the Kingdom of Morocco.

The impact on SOE sales in Morocco has been significant, paving the way for further divestiture according to standard operating procedures, and with clear objectives. The work that now lies before the ministry and its staff, as well as the PW/IPG advisors, is transactional — in other words, completing the sale of those enterprises named on the list of privatization candidates.

CAPACITY-BUILDING IMPACT

There is little doubt that the capacity of the privatization staff at the ministry has been greatly enhanced by the presence of both short- and long-term advisors as provided by USAID/Morocco. Some often-heard criticisms of the capacity-building aspects of this project are worth mentioning here, however.

Aside from a frequently mentioned criticism of translation problems for certain early documents (and the occasional lack of French language capacity among short-term technical consultants), ministry staff are not convinced that the short-term advisors, though present in Morocco for only brief, defined periods per assignment, were effective in transmitting to local staff their knowledge and expertise. Ministry staff mentioned frequently that although they had no difficult in accepting PW/IPG conclusions and recommendations at the end of a specific short-term assignment, they were not incorporated into the process in which the short-term consultants developed these recommendations. As a result, local staff gained little except the actual results of short-term consultancies, leaving them unable to replicate the consultants' procedures in method and analysis after the consultants' departures. (This criticism is applicable to much PW/IPG activity during the project, but the valuation exercises stand out as the example most often cited by Moroccan counterparts.)

It became clear during the course of this evaluation that the transfer of technology, always a time-consuming and difficult process in the privatization arena, has not yet taken place as much as one would hope, and that significant care should be exercised during the remaining months of the contract to assure that local staff feel that they are incorporated into the visiting teams provided by PW/IPG. Indeed, the second advisor understands and is committed to his role in capacity building.

EMERGING NATURE OF PRIVATIZATION ASSISTANCE REQUIREMENTS

Significant satisfaction exists with PW/IPG's overall performance, both at the USAID/Morocco Mission and with Moroccan counterparts. Sound, professional work, as exemplified by the CTM valuation and transaction, support this assessment. The two long-term advisors currently in-country provided complementary skills and services: the more senior advisor, with an extensive background in public enterprise issues, has been instrumental in preparing for privatization, providing exposure of the Moroccan privatization program to the international community, and educating staff members on the operational and procedural aspects of managing the privatization from the Ministerial standpoint; the second advisor is a transaction specialist with extensive banking contacts, and is adept at deal structuring and negotiations.

But an observation is in order here: the privatization process in Morocco is in its transaction phase at present, meaning that the nature of the assistance required now demands a transaction orientation, with a full range of investment banking services at the disposal of the ministry. These services should include financial analysts, industry specialists as needed, legal services as needed, and deal structuring specialists, all of whom could provide efficient deal-specific consulting services for upcoming transactions. The one transaction person in service at present — the second long-term advisor — is simply not sufficient for the long list of transactions that lie ahead.

In addition, as noted above, technology transfer has suffered during the project, most likely due to a lack of attention to this important requirement of the PW/IPG engagement. It would be wise to consider a more formal training component in the remaining months of the engagement, on such topics as capital markets, financial sector instruments, and the relationship of prudential regulations and commercial lending to the placement of investment offerings. The training aspect of the engagement has been overlooked up to the present. The contractor has, however, made serious attempts at incorporating ministry personnel into training activities and has been frustrated by lack of ministry enthusiasm for such efforts.

The shift to transactions and the need for further training point to a fundamental flaw in the role of the senior long-term advisor in the present execution of his duties. The Project Approval Document specifically states that the long-term privatization advisor is responsible for the "coordination of inputs" of the project, and that the project should supply "substantial and diverse amounts of short-term technical assistance" for specific transactions and other tasks. In other words, the long-term advisor now needs to exercise his responsibilities according to the evolving needs of privatization in Morocco, which has shifted from the policy and regulatory phase to the sale and divestiture phase. These responsibilities include not only strong technical input in the transaction phase but anticipating client needs in this area, mobilizing resources, and closely managing each activity, ensuring its effective integration into the program, and ensuring that the objective of capacity building is realized. Until this shift in execution of responsibilities occurs, program objectives may be compromised.

RESPONSIVENESS TO USAID REQUIREMENTS

The shift in the nature of the program, and the shift that must occur in advisor duties, is intertwined with the requirements of the privatization objectives of the local USAID Mission. The focus on transactions that has emerged is not only a force of the Moroccan marketplace; as noted earlier, the technical assistance funding provided to the Moroccan privatization program by USAID includes nonproject assistance that will be disbursed in tranches, with the second and third tranches, totalling $16 million, dependent, among other things, upon the completion of 28 SOE sales. Thus, the program, as broadly conceived by USAID and agreed to by the Kingdom of Morocco, requires an accelerating pace of divestiture to meet its targets.

These targets are attainable, though attaining them requires effort. An immediate effort that can be made is more focus on developing the pace of transactions (fully recognizing that the first few are the most difficult and time-consuming), with the requisite supporting consultants called in as needed.

In this respect, mention can be made that there is little evidence in Morocco to suggest that the consortium's members have worked in concert to achieve project goals. Perhaps the evolving nature of the project will now require, or at least lead the prime contractor to think about, the involvement of other consortium members and the services and expertise they may be able to provide.

VII. NICARAGUA

HISTORY

Nicaragua is in the final stage of implementing one of the more successful privatization programs of any country its size. The success of the program is all the more remarkable considering the highly adverse economic situation and sensitive political environment that existed at the time the program was initiated. PW/IPG has made a substantial and positive contribution to this success.

In April 1990, a newly elected government headed by Sra. Violeta Barrios de Chamorro took office and confronted an economy in shambles and a highly politicized and divided populace. Ten years of economic mismanagement, war, and economic embargo resulted in a decline of nearly 40 percent in GDP; the standard of living for the average Nicaraguan had dropped by almost 60 percent. Hyperinflation, which peaked at 30,000 percent in 1988, still raged, while devaluations, bank nationalizations, credit controls, and preferential loans to grossly mismanaged state entities left a decimated financial sector. External debt had skyrocketed to almost US$10 billion for an economy with an estimated GDP of US$1.6 billion and a population of only 4 million, and arrears alone surpassed US$3 billion. On the political front, the Chamorro administration had to govern through a broad-based but contentious coalition, while the Sandinista party,[1] which it had defeated in the elections, retained a powerful base in Congress, the national army, and the labor unions, and through high-level positions in the new government.

The Chamorro government immediately instituted an ambitious economic stabilization program financed through generous amounts of external assistance including high levels of balance of payments assistance from the United States. Within a year, stringent fiscal and monetary policy measures brought inflation down to single-digit levels and increased central government revenues beyond target levels. The government was also largely able to end much of the fighting in the countryside and put in place a series of economic and political reforms. A central tenet of the government's economic program was that major increases in investment and exports were prerequisites to economic growth and that these goals could only be achieved through revitalization of the private sector.

The Government's Private Sector Strategy

The 40-year old Somoza regime was overthrown in 1979 by a coalition of opposition forces. The new government was led by a junta, but soon came to be dominated by the Sandinista party, which aggressively pursued a socialist doctrine in governing the country. Beginning with the confiscation of Somoza and Somoza-related properties, the government continued to extend its dominance of the economy through various forms of intervention, confiscations, and the expropriation of hundreds of private sector businesses and agricultural holdings. State ownership reached far beyond key agricultural and industrial enterprises down to small grocery and hardware stores and restaurants.

[1] Frente Sandino de Liberacion Nacional — FSLN.

After 10 years of these actions and generally anti-private sector policies, what was left of the private sector was highly politicized, divided, and without resources. Nonetheless, the new Chamorro government quickly and firmly decided to confront the formidable task of re-creating a dynamic private sector by taking the state out of the production of goods and services and returning these activities to the private sector through an aggressive privatization program. The door was opened to all forms of privatization, including the return of confiscated and expropriated properties to previous owners, the sale or leasing of companies or assets, management contracts, employee buy-outs, or any other method that would work in the Nicaraguan context. In short, the government set a clear goal and allowed for a high degree of pragmatism to govern the process.

Institutional and Legal Structure

Within a month of taking office, the Chamorro government established a non-incorporated privatization unit, the National Public Sector Corporations (Corporaciones Nacionales del Sector Público — CORNAP), and nominated a President, Vice-President, and Secretary, who in turn comprised the General Board (Junta General) of CORNAP. The General Board of CORNAP reports directly to the office of the President of the Republic. Because it proved impossible to enact a privatization law due to political differences in the Congress, CORNAP was established through a Presidential Decree (Decreto Ley No. 7-90). However, a de facto political consensus on the principles of privatization to be followed was achieved in a special summit meeting in October 1990 of representatives of the administration, labor unions, and the private sector, at which an agreement was signed that recognized the need for giving a strong push to the process of privatization, the right of organized labor to an option to participate in privatized enterprises up to 25 percent on average, the need to return properties to previous owners whenever justified, and procedures for compensating previous owners of properties that could not be returned and that were unjustly confiscated or expropriated. These principles were reconfirmed at a second similar summit in 1992. The privatization program continues to be implemented under presidential decree.

Immediately upon establishing CORNAP, the government transferred 22 state holding companies and 11 separate corporations to its control. The holding companies had been formed by the previous government more or less along sectoral lines and represented a conglomeration of about 340 corporations, which in turn had been put together from at least 800 previous operating entities. Financial and operational records were of dubious value and often nonexistent, and legal procedures had often been ignored in the creation of this state apparatus. Plant and equipment were often poorly maintained or obsolete. CORNAP's holdings ran the gamut of hotels; restaurants; shops; car dealers; car rental and tourist agencies; manufacturing entities, including a cement plant and a large paper carton producer; transport, including the national airline and railroad; agricultural sector, including large sugar mills; forestry; and mining. Thus, CORNAP inherited a massive, inefficient, and messy structure that accounted for about 31 percent of GDP and included 78,000 employees or 9 percent of total national employment.

USAID and Other Donor Assistance

USAID/Nicaragua played a key role in helping the government and CORNAP to conceptualize the approach to privatization and put together a package of donor assistance to finance its implementation. USAID, the Inter-American Development Bank (IDB), UNDP, and Norwegian and Swedish bilateral development agencies cooperated closely from the outset to create a coherent and coordinated package of financial assistance for CORNAP and to finance other activities necessary to improve the environment for the private sector. USAID funds were used to support specific transactions.

CORNAP used this assistance effectively. A decision was made not to build up a large permanent staff; instead, a small core of competent privatization managers and a legal specialist (plus support and administrative staff) were brought in to manage the process, while the bulk of work related to information gathering, diagnostics, technical and market analysis, and to a certain extent marketing was contracted out to domestic and foreign consultants. CORNAP's managers were therefore able to focus their attention on quality control, coordination, and maintenance of the pace of the process. Most important, they used key decisions along the way on a case-by-case basis taking into account difficult subjective factors such as the antecedents of the case (usually unrecorded), conflicting claims and interests, and differing political perspectives.

Results of Program

CORNAP had managed and executed the divestiture of 259 corporations (Table VII-1), or nearly three-fourths of the 351 holding corporations assigned to it by September 1993. In achieving this number of corporate privatizations, CORNAP had to complete 1,563 individual divesture actions, because in many cases, if not most, assets belonging to a particular holding corporation were divided and divested separately. Approximately another 75 corporations are in some stage of the privatization process, making it highly likely that CORNAP will have completed as much as 95 percent of its assigned task by the end of 1993. In the process, CORNAP has or will have reduced state participation in many productive sectors and subsectors from as much as 100 to 0 percent. Overall, CORNAP estimates that the share of SOEs assigned to it in the country's GDP has declined from 31 percent to less than 10 percent.

PW/IPG ROLE IN THE NICARAGUA PRIVATIZATION PROGRAM

History of PW/IPG Involvement

USAID/Nicaragua initiated a broad-based Private Sector Support (PSS) Project in April 1992. The PSS project is designed to promote economic growth through a reinvigorated private sector. The project has three closely related components — trade and investment, privatization, and financial services; US$5.5 million had been obligated through March 1994, including US$1.4 million for privatization. The Mission brought in PW/IPG through a buy-in, signed in March 1992, into the PAD project. In August 1993, a second buy-in was signed with PW/IPG to provide assistance in the privatization of TELCOR, the national telecommunications company.

TABLE VII-1

DISPOSITION OF THE 259 STATE CORPORATIONS DIVESTED BY CORNAP

Disposition	No. of Corporations
Returned to previous owner	64
Sold or leased to previous owners	50
Sold or leased to third parties	56
Restructured and retained by government	22
Liquidated	67
Total Divestitures	259
Individual Divestiture Actions	**No. of Actions**
Returned to previous owners	495
Sold or leased to previous owners	175
Sold or leased to workers	429
Sold or leased to ex-combatants	240
Other sales or leases	94
Restructured and retained by government	62
Liquidated	68
Total Divestiture Actions	1,563

The trade and investment component was independently awarded to CARANA Corporation as prime contractor (CARANA is also a member of the PW/IPG consortium), and International Management Consulting Corporation was brought in as a subcontractor of CARANA to handle the financial services component.

PW/IPG Scope of Work

Because the CORNAP privatization program was already well under way by the time PW/IPG was contracted, their scope of work was focused on privatization transactions, particularly of the larger, more complex state holding corporations in CORNAP's portfolio in tourism, sugar production, and cement. Ports were an initial target for PW/IPG, but responsibility for privatization was transferred for internal reasons to the Ministry of Construction and Transportation, while telecommunications was recently brought into the PW/IPG scope of work. The PW/IPG scope of work calls for the preparation of a diagnostic study and business valuation in each case and for assistance with the promotion and final divestiture of the companies or assets. Specific cases to be handled by PW/IPG are selected by USAID/Nicaragua, in consultation with the Nicaraguan government and with technical advice provided by PW/IPG.

Actual Work Performed by PW/IPG

PW/IPG is involved in each of its assigned cases from the initial preliminary diagnostic work to the signing of the final sales contract. Table VII-2 provides a brief overview of PW/IPG's accomplishments.

TABLE VII-2

PW/IPG's ACCOMPLISHMENTS

Entity	Status of Privatization	Sale Price	Additional Investment	Time to Complete
Hotel Inter-Continental	Sales contract signed 5/93	$5.1 million	0	11 months
Hotel Montelimar	Sales contract signed 5/93	$3.0 million	$16 million	11 months
J. Buitrago Sugarmill	Sales contract signed 8/93	$4.0 million	0	16 months
Victoria de Julio Sugarmill	Sales contract signed 8/93	$20 million	$15 million	16 months
Hotel Las Mercedes	Market stage	—	—	—

EFFECTIVENESS OF PW/IPG PARTICIPATION IN THE NICARAGUA PRIVATIZATION PROGRAM

Country Strategy

When PW/IPG started work on the Nicaragua project, it hired Jorge Segura as Project Manager. Mr. Segura had been working with CORNAP under a contract with Ernst & Young as one of the key consultants in assisting CORNAP with its privatization strategy development, coordinating the activities of the donor agencies involved, preparing a well-designed transaction check-list, and designing an approach to the essential restructuring and cleaning up of legal and other problems inherent in most transactions. Thus, PW/IPG was fully informed and fully involved from the first day on the job. As work progressed and further experience was gained, PW/IPG was able to provide CORNAP with valuable input to continued refinements in its privatization strategy. CORNAP's strategy is documented in a Strategy Paper that is periodically updated; the latest version was issued in September 1993.

PW/IPG Implementation of its Scope of Work

In January 1993, PW/IPG placed a well-qualified consultant resident in the country, who has since amply demonstrated his ability to work effectively with his Nicaraguan counterparts. The PW/IPG Project Manager, who is based in Washington, has closely managed the project, spending on the average about two weeks per month in the field. Further, senior PW/IPG staff have given significant attention to management of the project, and specialized experts have been brought into the picture in a timely fashion whenever required.

The benefits of this style of hands-on management by the contractor is evident in the results produced. Each case reflects a clear pattern of having followed a well-conceived plan in a systematic manner. However, the clockwork-like progress through the numerous and varied steps in the privatization process that appears to be so common to PW/IPG's work in Nicaragua masks the many obstacles and issues that arose along the way. In discussing the PW/IPG cases with the participants, it became clear that whenever an obstacle or issue threatened to delay or even derail the process, PW/IPG was ready with a good analysis of the problem and a list of viable options to present to CORNAP and the Mission. To its credit, CORNAP management regularly responded in a decisive manner, a response that was clearly encouraged by the professionalism of PW/IPG's work and its good rapport with both CORNAP management and the Mission.

As might be expected, each of the cases that PW/IPG addressed reflected a different set of circumstances and problems to be resolved. Nevertheless, PW/IPG's work throughout shows a high degree of consistency. Consequently, a somewhat detailed description of one of their completed privatizations can serve to illustrate the general characteristics of the overall body of their work. The selected case is the Montelimar resort hotel.

The Montelimar Resort Hotel Case

Montelimar was envisaged as a first class resort hotel, but in reality it was never a functioning hotel or resort. Originally, Montelimar was a Somoza family beach property to which they had added over time substantial additional land (mostly sugar cane land) and an airstrip capable of handling jet aircraft. After the Somoza regime was overthrown and the property confiscated, the Sandinista government initiated plans to turn it into an international resort hotel complex. Reportedly, the government invested as much as US$30 million in the scheme, but the design and planning were poor and, in any event, the fighting that was raging between the Sandinistas and the Contra rebels precluded any possibility of opening and operating a successful resort.

- **June 1990.** Montelimar was one of the corporations that the Chamorro government transferred to CORNAP and, in turn, CORNAP and the Mission agreed in 1992 to assign it to PW/IPG.

- **June 1992.** PW/IPG performed on-site diagnostic work and contracted a consulting firm, EDSA, that specializes in hotels and resorts. EDSA's task was to review the situation and suggest what could realistically be done with the property. Several promising ideas were developed, including the possibility of a resort tied to international tours. PW/IPG also contracted two independent consultants to contribute to the diagnostic study, review the market, and prepare a tourist demand analysis. The consultants expanded on the resort proposal and recommended several prospective operators.

- **July 1992.** PW/IPG prepared a company profile and wrote letters asking for an expression of preliminary interest to about 40 selected prospective investors or operators who were identified from the consultants' work and a desk study in Washington.

- **August 1992.** PW/IPG prepared a draft version of the complete diagnostic study. No financial statements were available and it was necessary to reconstruct the books. An initial estimate of the market value was made that, based on several possible operating scenarios, ranged from US$2.6 million to US$4.3 million. In the meantime, CORNAP had contracted a local firm to value the property and installations on the basis of replacement cost. This firm came up with an estimate of US$20.1 million to US$25.5 million (the variation was due to a range of land value estimates).

- **August 1992.** PW/IPG met with the CORNAP General Board and presented its findings, including four possible options for consideration: sell the individual assets; break up the property into units (for example, time-sharing and restaurant concession); management contract; and joint venture with a qualified operator. PW/IPG presented its analysis of each option and its implications. A substantive discussion ensued and CORNAP ultimately decided to request offers to negotiate and allow the bidders to present their preferred option, but to establish a minimum price for negotiations and the criteria for selection.

- **September 1992.** PW/IPG prepared a draft terms of bidding and suggested criteria for selection and obtained the approval of CORNAP. A final version of a prospectus was then prepared, and invitations to offer to negotiate were sent to 12 prospective investor or operator groups who had been identified from the responses to the earlier survey of expressions of interest. Announcements were also made in appropriate newspapers and journals.

- **October/November 1992.** PW/IPG played an active role in marketing Montelimar. Ten investor groups visited Nicaragua. In close coordination with CORNAP, PW/IPG received visitors, provided detailed briefings, conducted site tours, made introductions to appropriate Nicaraguans, and, in one instance, travelled to Mexico to meet with prospective investors.

- **December 1992.** Bids were due December 1, 1992. Four investor groups made offers, but only two fulfilled all the bidding requirements. For example, one well-known investor group, Club Med, refused to submit the required bid bond or to accept a floor price. Their bid was rejected in the interest of fairness to other bidders. The two eligible bids were evaluated using a point system taking into account the present value of the offer price, the manner and term of payment, the proposed investment plan, and the qualifications of the bidder. The Grupo Barcelao Auxiliar, S.A. (Barcelao Group) from Spain won the invitation to negotiate.

- **January/May 1993.** CORNAP, with continuing advice from PW/IPG, conducted the negotiations with the Barcelao Group and eventually reached agreement on a down payment of US$3 million plus two variable annual payments ranging from US$50,000 to US$250,000, depending on the occupancy rate. In addition, the Barcelao Group committed to invest another $10 million in Montelimar plus US$6 million in other Nicaraguan tourism projects, subject to certain conditions. The agreement with the Barcelao Group was signed on May 19, 1993 and the new Montelimar resort hotel was scheduled to open in November 1993.

Quality of IPG Work

The Montelimar case clearly illustrates the systematic approach followed by PW/IPG. The entire process is planned in advance. Each step prepares the ground and leads logically to the next, issues and obstacles are confronted in a coherent manner, and the process is closely managed to ensure that each task is performed expeditiously. Despite superficial appearances, however, the Montelimar case is anything but routine. It easily fit the definition of a developing country "white elephant" — huge expenditures on a project guided largely by wishful thinking. Moreover, serious legal and accounting problems had to be overcome and it is an understatement to say that Nicaragua is neither a haven for new investors nor a mecca for international tourists.

By doing its homework, PW/IPG was able to convince the government and CORNAP to accept the hard fact that sunk costs could not be recovered and to agree to the concept that the property should be sold at a realistic market value to an experienced investor/operator who would commit to additional investment in line with the success of the venture. Second, by conducting a highly targeted marketing campaign, PW/IPG was able to bring a serious and qualified investor to the table in only six months. The successful completion of this privatization in such a timely fashion in the face of adverse circumstances is the best indicator of the high quality of PW/IPG's work.

Although the Montelimar case has its own unique features, the process and the approach followed are characteristic of all the other PW/IPG cases. Over time, an image of PW/IPG competence has been created among the participants in the privatization program. CORNAP management expressed a high degree of satisfaction with their work, the quality of which has helped sustain the credibility of the overall program. The Mission expressed similar sentiments and noted that this has helped them to maintain their focus on the broader issues of private sector development. The IDB representative referred to PW/IPG's work as "impeccable," and even private sector critics of the privatization program expressed positive views.

Other Input of PW/IPG into the Nicaragua Privatization Project

The PW/IPG core contract under the PAD project specifies several broad work requirements that go beyond the handling of individual privatization transactions. In particular, PW/IPG is to "assist . . .countries (with) privatization strategies," ". . . evaluate privatization efforts . . .," ". . . advance interest and knowledge of privatization activities and techniques . . . ," and ". . . gather and distill experience . . . ." None of these requirements are mentioned in the USAID/Nicaragua buy-in contract, which, as noted earlier, is focused entirely on responsibility for specifically assigned privatization transactions. Nonetheless, some comment on these core contract responsibilities would appear to be in order.

PW/IPG's role in the formulation and updating of CORNAP's strategy has already been discussed. CORNAP reports that PW/IPG provided useful input and served as valuable sounding board in their deliberations on privatization strategy.

The other requirements center largely on evaluating the performance of a privatization program and the dissemination of experience and lessons learned to enhance the efforts of decision makers in other countries. In this area, there is little evidence of progress or even of much of an effort to evaluate, quantify, and analyze the performance of the Nicaraguan privatization program, despite the obvious and notable success of the program. In fact, it appears that few people outside those who have been involved in the Nicaraguan effort are aware of its accomplishments.

None of this reflects on the performance of PW/IPG, and there is a credible explanation of why this situation exists. First, CORNAP and the government had few resources for undertaking such a formidable task. They opted to focus the limited donor assistance available on privatizing the vast state structure that they had inherited as rapidly as possible, leaving the costs of related analytical work to a later time, or even to another agency. Second, CORNAP and the government appear to be highly sensitive to the risk of creating a political controversy that might inhibit or block the implementation of the privatization program and, accordingly, there is little enthusiasm for publicizing the program. The Mission, wisely it would seem, has chosen to respect this Nicaraguan viewpoint. Nevertheless, USAID/PRE might keep in mind that at some point in the future attention should be drawn to the Nicaraguan experience. It is an instructive story and one that should be known more widely than it is.

RELATIONS WITH SUBCONTRACTORS

PW/IPG is a consortium of two subcontractors and four associated firms, each of which offers special skills and expertise related to privatization. However, there was little utilization of any of these firms in Nicaragua. This fact might not be worthy of note, except for two situations.

One involves an associated firm, the CARANA Corporation. CARANA is both a member of the PW/IPG consortium and an independent contractor for the USAID/Nicaragua PSS project, having responsibility in the latter case for the trade and investment component and, through a subcontractor, the financial services component. It is reasonable to presume that trade and investment promotion should be closely linked to privatization, since privatization in the Nicaraguan context involves such a large share of the country's productive sector. However, this has not happened as fully as would be desirable.

This has possible implications for the implementation of the project. INCAE,[2] a regional graduate school, also provides assistance to CORNAP in privatization transaction work through consultants financed with funds from IDB. However, INCAE's involvement in privatization transactions is limited by its scope of work to preparing the transaction only through the valuation stage. Therefore, INCAE at this stage turns over each case to CORNAP, which has to carry the full burden of marketing and subsequent work. Unfortunately, CORNAP's staff limitations have

[2] The Central American Institute of Business Administration.

prevented them from keeping up with the pace of INCAE's preparatory work and several cases are stalled at this stage of the process. The prospect of refocusing CARANA's work to address this problem by assisting CORNAP with marketing immediately comes to mind, but this possibility was given little attention either because of the circumstances just described or because of real or perceived rigidities in USAID contracting procedures.[3]

CARANA did do some work under the project — it provided one of the outside consultants for the team that privatized two sugar mills (Julio Buitrago and Victoria de Julio). They were contacted twice for expertise in the aluminum and cement industries. The first did not materialize; they could not provide anyone for the second. For reasons that are contested, CARANA felt PW/IPG failed to exploit their potential expertise. There was one contretemps for which PW/IPG does not appear to have been responsible.[4] In any case, PW/IPG-CARANA relations were not ideal through much of the project, although they have substantially improved now.

The second situation involves Morgan Stanley, a subcontractor in the PW/IPG consortium. In the PW bid for the core contract, Morgan Stanley, a major global investment bank, was presented as having special expertise in the privatization of the telecommunications sector, but Morgan Stanley has not participated in any PW/IPG activities anywhere. In Nicaragua, the Committee for the Privatization of TELCOR (COPRITEL) requested assistance from USAID, and the Mission decided to do it through PW/IPG under a separate buy-in. Morgan Stanley was approached but declined to participate. PW/IPG management has said that one of the problems with Morgan Stanley was that, as an investment bank, they expect a "success" fee. More important is the size of the potential remuneration. With PW/IPG doing the front end of the transaction, Morgan Stanley decided that TELCOR was not a large-enough deal to be of interest.

MISSION OWNERSHIP OF PROJECT

The scope of work for this mid-term evaluation asks for comment on the Mission's sense of ownership of the project. The Nicaragua case goes far beyond a sense of ownership; this is clearly a project inspired by USAID/Nicaragua. The Mission played the leading role among donors in assisting the government in conceptualizing and designing the privatization program, and included it in a broad-based project to address private sector development generally. There are many indications that the Mission has since managed the project in a thoughtful and perceptive manner. They seem to have a fine sense of what guidance to provide, what assistance to make available, when to be flexible, and on which issues to take a strong position. The best indication of the success of the Mission's management of this project is that if there is any sense of ownership, it is most strongly held by the Nicaraguans themselves.

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[3] CARANA consultants were invited by CORNAP to assist in serial efforts ("Ifrugalasa and Valle de Sêbaco).

[4] In one of the main transactions (Montelimar) in which the investors had agreed to pay an initial amount in cash, CARANA consultants suggested to them to make that payment in government bonds; this caused a rather sharp reaction from the government officials that had negotiated the deal, who brought the issue to USAID's attention. As a result, USAID asked CARANA not to go beyond its scope of work. PW/IPG did not request USAID to take this action.

SUSTAINABILITY OF THE NICARAGUA PRIVATIZATION PROGRAM

One of the goals of the PAD project is to create sustainable privatization projects, which is usually judged in the context of institution building. The idea, of course, is that the country's privatization institution will absorb the skills of the external consultants and be able to continue with the program on its own. Nicaragua has adopted a different approach. Their view is that they do not want to create an institution that will exist any longer than the minimum time necessary to complete its assigned immediate task. Therefore, Nicaragua has opted to operate with a limited number of highly qualified managers and to leave most of the technical work to consultants. Plans now exist to change the nature of CORNAP from an implementing agency to one that will concentrate on tying up any loose ends that remain from the rapidly implemented privatization program.

However, this does not mean that the experience of the past three years will be lost. Some of CORNAP's key managers are already being transferred to other government agencies or ministries that will be in charge of the divestiture of utilities and public service entities. More importantly, the systematic and professional approach to privatization transactions that has been used in the program so far, and for which PW/IPG deserves much of the credit, is widely understood and accepted among the decision makers in Nicaragua, and seems to be deeply ingrained in the thinking on privatization. In other words, the process itself has become "institutionalized" and shows much promise of sustainability.

Perhaps the major issue with respect to sustainability is one that was raised by an IDB's senior consultant in a recent review of the program and goes beyond PW/IPG's scope of work.[5] He noted that it was necessary for CORNAP to accept installment payments in many of the privatization cases and that there is some question of privatized firms ending up back in the public sector due to possible defaults by the new owners. Further, this review noted that the financial sector itself is only beginning to recover from past policies and may not be able to provide the required degree of assistance to privatized firms. The General Manager of one of the more successful new private banks confirmed that there were few privatized firms that at the moment could be prudently considered as "bankable." This potential issue should be brought to the attention of the Mission and USAID/Washington. PW/IPG's performance throughout has been of the highest quality and they have undoubtedly made a valuable contribution to the sustainability of the privatization process in Nicaragua, which should not be undermined.

[5] Joseph J. Borgatti, Asesor Ejectivo; Informe Final, Junio 1993.

VIII. PHILIPPINES

This case study is organized in three sections. The first is a description and assessment of the overall Philippine government privatization program. It is more detailed than comparable discussions in the other case studies. The size of the Philippine effort — it is one of the biggest privatization programs in the developing world, if not the biggest — and its pioneering nature justify this extra attention. Also, syntheses of information about the program are rare. Those concerned with privatization experiences may therefore benefit from this presentation, incomplete as it is.

The second part of the case study reviews the historical background and organizational context of the PAD project. The project is a follow-on to an earlier USAID centrally funded privatization project that relied on the Center for Privatization (CFP) as the main contractor. Experience with the CFP phase in the Philippines is noted only in passing here; the experience was itself brief, and not happy.

The CFP phase and the PAD follow-on were themselves part of a larger USAID/Manila effort — the Philippines Privatization Project, begun in 1988. Under this project, USAID/Manila financed five IQC contracts with local consulting firms, and used buy-ins to the PAD project to provide an expatriate technical assistance component. Between 1990 and the fall of 1992, the USAID project financed 80 delivery orders, 74 of them executed by local firms. A September 1992 evaluation of the USAID project is drawn on here for some summary comments on that project.

The third part of the case study focuses on the PAD project and its contractor, PW/IPG. The work performed under the contract is described and achievements and problems are analyzed.

THE PHILIPPINE GOVERNMENT'S PRIVATIZATION PROGRAM

Government interventions in the Philippine economy multiplied in the 1970s. The public enterprise sector grew enormously — from fewer than 50 state-owned enterprises in the early 1970s to almost 300 a decade later. Economic deterioration in the early 1980s led to widespread bankruptcies of state-financed private firms and the accumulation of nonoperating assets by the government's main development finance institutions, the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP); some 400 private enterprises were affected. National government budget transfers to the public enterprise sector grew from well under 2 percent of GDP per annum in the mid-1970s to 3.4 percent in 1980 and 4.3 percent in 1981.[1]

This heavy fiscal drain and the general economic crisis forced the Government of the Philippines (GOP) to give early attention to privatization needs and possibilities. Initial approaches to privatization strategy were sketched out in 1983. They were extended and reformulated in a 1984

[1] World Bank, "Project Completion Report, Reform Program for Government Corporations, Loan 2956-Ph.," Industry and Energy Operations Division Country Dept. I, East Asia and Pacific Regional Office, April 2, 1993, Annex Table I.

World Bank structural adjustment loan. Extensive studies of the public enterprise sector followed, and the institutional and policy framework for disposition of state assets was elaborated.

The Program

In 1986 the privatization program was formalized in a set of decrees spanning the last months of the Marcos regime and the beginning of the Aquino administration. Mrs. Aquino's Proclamation #50 (December 1986) created the two agencies with major responsibility for privatization: the cabinet-level Committee on Privatization, responsible for policy making, and the main implementing entity, the Asset Privatization Trust (APT).

APT was given responsibility for disposing of unpaid loans and equity in nonperforming private companies held by the main development finance institutions, PNB and DBP — so-called transferred assets. APT was also named disposition entity (DE) for 27 SOEs, or, as they are called in the Philippines, GOCCs, for government-owned or -controlled corporations. This responsibility for privatizing SOEs was not APT's alone; 13 other DEs were named, most of them the oversight agencies that administered the GOCCs in question. But APT was the main privatizing agency; the assets transferred to it, including the 27 GOCCs, numbered more than 400.

In 1988 the GOP received a $200 million sectoral adjustment loan from the World Bank (Reform Program for Government Corporations). This included divestiture components and programs for better management of retained SOEs. Other donors participated, mainly by providing technical assistance. Under its 1988 Privatization Project, USAID/Manila made available a $5 million grant for assistance in valuation and marketing of GOCCs.

The program was ambitious. Of the 301 GOCCs recorded in 1988, 122 were to be privatized,[2] 59 were to be "abolished" (presumably liquidated), and another 40 were to undergo changes in status (consolidated with other units, for example) but remain in the public sector. And 39 were to be retained in the public sector as they were — though this number was increased to 79 as the program evolved.[3]

In addition, at the beginning of the program in 1987, 399 nonperforming assets of PNB and DBP were transferred to APT for disposition, along with 27 GOCCs and a few other accounts.

Achievements

By many criteria, and in the judgement of most observers, the government's privatization program has been a great success. This is the conclusion of World Bank's evaluators, as given in the Project Completion Report on the government corporation reform project. The most recent World Bank economic memorandum on the Philippines concludes that the privatization program has been

[2] Actually, four had been privatized prior to review by the Department of Management and Budget — in other words, only 118 were sent to the President for approval.

[3] World Bank, "Project Completion Report . . . ," 1993, Table 5.

"implemented successfully with more than 60 percent of public assets identified for the first stage of privatization having already been offered for sale."[4]

A great many state assets have indeed been divested, and the financial resources generated thereby have been substantial — probably more than in any other developing country until very recently. The total proceeds from privatization between 1986 and mid-1993 amounted to $2.3 billion (conversion rate: 27 pesos = 1 $US). Of this amount, $1.33 billion was generated by APT sales of the transferred assets under its authority, and $926 million from sales by other DEs.[5]

Of the 400-odd assets given to APT in 1987, more than 300 had been sold by September 1993, yielding more than P35 billion. Table VIII-1 shows the details. Of the assets remaining on its books in September 1993, about half were uncollected — in most cases uncollectible — notes. Only 50 were physical assets, the rest being financial and equity items. Only about 40 assets of all kinds were regarded as vendible, most of these probably being financial assets. The divestiture program entrusted to APT can thus be regarded as more or less completed.

Of the 122 GOCCs to be divested, 85 had been offered for sale by June 1993, and 71 had either been sold or approved for liquidation. The 71 consisted of 27 GOCCs that were fully sold, 26 that were partially sold, and 18 that were approved for dissolution (liquidation).[6] The total proceeds from these sales was P22 billion. Most sales were transacted at well above floor prices, and the realized yield from sales was greater than anticipated when the program began. Table VIII-2 shows GOCCs privatized as of January 1994, and those remaining in the state portfolio.

The GOP performed better on privatization than was required in the conditioned policy loans of the 1980s. The World Bank conditionality for example, was complied with more than satisfactorily. This was a factor in keeping program aid flowing during these years.[7]

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[4] World Bank, *The Philippines: An Opening for Sustained Growth*, 1993.

[5] Of this amount, about $600 million was remitted to the Treasury, $600 million was held in escrow due to legal problems, $370 million was held by DEs, and $740 million was remitted to the Agrarian Reform Agency (CARP).

[6] Six months later, at end-December 1993, 37 GOCCs had been fully sold and partial privatizations numbered 25.

[7] The loan conditionality required offer for sale of 60 GOCCs representing at least 50 percent of the book value of the assets of the GOCCs to be privatized. With the Philippines Airline auction, in January 1992, the number of GOCCs offered for sale reached 85, representing 62 percent of the assets of GOCCs to be privatized. Only 37 had actually been fully privatized by mid-1993, and another 25 partially sold; the fate of those "approved for dissolution" is not clear. The share of total publicly owned equity represented by the transactions that actually occurred is unclear.

TABLE VIII-1

SUMMARY OF ASSET DISPOSITIONS
(As of September 30, 1993)

Disposal Mode	No	Settlement Price (P '000)	Transfer Price (P '000)	Appraised Value (P '000)
Fully Disposed	247	31,032,640	71,478,519	21,507,351
1. Bidding	58	4,657,478	20,836,543	4,512,154
2. DDBO-AV	21	1,502,507	2,877,490	1,342,776
3. DDBO-TP	38	3,678,892	4,220,034	4,468,304
4. Retrieval	11	989,158	1,385,130	548,718
5. Negotiated Sale	89	14,927,334	37,224,348	10.603.997
6. Non-APT Sales	19	2,142,498	3,892,673	N.A.
7. Other Modes	11	3,134,772	1,042,301	N.A.
Partially Disposed	62	3,326,931	N.A.	1,822,429
1. Bidding	30	1,348.401	N.A.	1,430,111
2. DDBO-AV	1	1,582	N.A.	1,438
3. DDBO-TP	2	82,051	N.A.	0
4. Retrieval	0	0	N.A.	0
5. Negotiated Sale	25	866,887	N.A.	388,830
6. Non-APT Sales	2	245,595	N.A.	N:A.
7. Other Modes	2	782,415	N.A.	N.A.
Grand Total	309	34,359,571		

Note: Transfer Price includes contingent exposure.

Source: APT, Third Quarter 1993 Report

TABLE VIII-2

GOCCs PRIVATIZED
(As of January 1994)

Fully Sold	
1. Asia Industries, Inc.	20. National Slipways Corporation
2. Associated Bank	21. National Stevedoring & Lighterage Corp.
3. Beta Electric Corporation	22. Philippine Plaza Holdings Inc.
4. Bicolandia Sugar Development Corp.	23. Philippine National Lines
5. Coco-Chemical Philippines Inc.	24. Pilipinas Bank
6. Commercial Bank of Manila	25. PNOC Energy Supply Base Inc.
7. Davao Equipment Manufacturing Corporation	26. PNOC Marine Corporation
8. Gasifier & Equipment Manufacturing Corporation	27. Primary Foods Inc.
9. Hotel Enterprises of the Philippines	28. Republic Planters Bank
10. International Corporate Bank	29. Tacoma Bay Shipping Company
11. Luzon Integrated Services, Inc.	30. Usiphil Inc.
12. Marina Properties Inc.	31. Union Bank of the Philippines
13. Maunlad Savings and Loan Association Inc.	32. Bancom Insurance Brokers Inc.
14. Mindanao Textile Corporation	33. Barcelon Roxas Securities Inc.
15. Mindeva Refrigeration Industries Inc.	34. Argao Resort Development Corp.
16. Monte Maria Poultry Farms Inc.	35. DBP Service Corp.
17. Nadeco Realty	36. PNOC Petroleum Carriers Corp.
18. National Marine Corporation	37. Veterans Manpower & Protective Service, Inc.
19. National Precision Cuttings Tools Inc.	
Partially Sold	
38. Carmona Woodworking Industries Inc.	51. Semirara Coal Corporation
39. Furniture Manufacturing Corp. of the Phils.	52. The Energy Corporation
40. National Sugar Refineries Corp.	53. Wood Waste Utilization & Development Corp.
41. Negros Occidental Copperfield Mines Inc.	54. Century Bank
42. NDC-Guthrie Plantations Inc.	55. Century Holding Corporation
43. NDC-Guthrie Estates Inc.	56. National Realty Development Corporation
44. National Shipping Corp. of the Phils.	57. National Service Corporation
45. Philippine Airlines Inc.	58. National Warehousing Corporation
46. Philippine Cotton Corporation	59. NIDC Oil Mills, Inc.
47. Philippine Dairy Corporation	60. Philippine Exchange Company Inc.
48. Philippine National Bank	61. PNB International Finance Ltd.
49. Petron Corporation	62. PNB Venture Capital Corporation
50. PNOC Coal Corporation	
For Dissolution	
63. Agro-Livestock Commercial Development Corp.	72. Kaunlaran Food Corp.73. National Chemical Carriers, Inc.
64. Asia Goodwill Fishing Corp.	74. NDC-Nacida Raw Materials Corp.
65. Bislig Coal Corp.	75. NDC-Plantations, Inc.
66. Builder's Brick, Inc.	76. People's Livelihood Enterprises, Inc.
67. Construction Manpower Development Foundation Inc.	77. People's Technology Terminal Corp.
68. Davao Agri-Business Development Inc.	78. Philippine Genetics, Inc.
69. First Chicago Leasing & Equipment Credit Corp.	79. Prime Center Trade International System Inc.
70. Grains Insurance Agency Corp.	80. Wood Koal, Inc.
71. Inca Coffee Estates Corp.	81. ZNAC Rubber Estates Corp.

Table VIII-2 — Continued

Remaining GOCCs for Privatization	
82. APO Production Unit, Inc.	107. Philippine Phosphate Fertilizer Corp.
83. Basin Dredging & Development Corp.	108. Philippine Plate Mills Co., Inc.
84. East Visayas Agricultural Projects, Inc.	109. Philippine Pyrite Corporation
85. Leyte Park Hotels, Inc.	110. Pinagkaisa Realty Corporation
86. Northern Foods Corp.	111. Refractories Corp. of the Philippines
87. Philippines Fruit & Vegetables Industries Inc.	112. Integrated Feed Mills Corp.
88. Phil. Shipyard Engineering Corp.	113. Marawi Resort Hotel Inc.
89. Philippine Sugar Corp.	114. Mindeva Coco-Coir Inds., Inc.
90. Phivldec Panay Agro-Industrial Corp.	115. Mountain Spring Development Corp.
91. Ridge Resort & Convention Center, Inc.	116. Panaon Prawn Development Corporation
92. San Carlos Fruit Corp.	117. Shoe Technology Corporation
93. DBP Data Center Inc.	118. Filoil Industrial Estate Inc.
94. Philippine Amanah Bank	119. Filoil Refinery Corp.
95. Food Terminal Inc.	120. Malangas Coal Corporation
96. Republic Transportation & Shipyard Corp.	121. PNOC Oil Carriers, Inc.
97. Metro Manila Transit Corp.	122. NIA Consult, Inc.
98. Philippine Helicopter Services, Inc.	123. Manila Gas Corporation
99. Manila Hotel Corporation	124. Inter-Island Gas Service, Inc.
100. Meat Packing Corporation of the Philippines	125. Pagkakaisa Gas Storage Corporation
101. Batangas Land Company, Inc.	126. Pacific East Asia Cargo Airlines, Inc.
102. GY Real State, Inc.	127. Petron Tankers Corporation
103. Kamayan Realty Corporation	128. Petrophil Tanker Corporation
104. National Steel Corporation	129. PNOC Shipping & Transport Corp.
105. National Trucking and Forwarding Corp.	130. PNOC Tankers Corp.
106. Phil. Associated Smelting & Refining Corp.	

Source: Committee on Privatization, January 10, 1994.

Economic Impact

The economic impact of these achievements is hard to assess. Direct benefits to the Treasury were about $700 million of the $2.3 billion in realized proceeds, though this figure does not include allocation of some sales proceeds to pay off government obligations, nor the payments that will be transferred when legal issues have been clarified, nor deferred payments that might add another P10 billion (about the same amount went to agrarian reform activities). However, rising operating subsidies to GOCCs still in the state portfolio more than counterbalance the inflow to the treasury. Data are not at hand to allow estimates of whether and by how much the aggregate value of the state portfolio has been reduced.

One study has been done — an assessment of changes in efficiency and financial status of 20 APT-privatized firms, mainly in the sugar, cement, hotel, and textile industries. The study found some positive changes.[8] Twenty firms studied represented about 15 percent of the proceeds of APT sales through 1991. Sixteen of the 20 were found to be operational, 8 already profitable. Efficiency had been raised by cutting the work force (in all cases with adequate severance benefits),

[8] CJV Consultants, *Development Impact of the Divestment to the Private Sector of the Asset Privatization Trust-Held Assets*, 3 vols. A Study Conducted for USAID, January 1992.

restructuring finances, and professionalizing management, as well as by focussing objectives on profit-making.

The report is suggestive, but much of it is ambiguous. Details on the internal productivity improvements are sparse. The nature of the privatizations and the pre-privatization condition of the firms (other than as seen by their balance sheets) are not clear. In several cases (sugar, cement) industrial concentration increased, because the buyers were major existing firms. In one case (textiles), monopoly power was clearly augmented. It is, in any case, too soon to see many effects on efficiency, because they often appear only after some years under private management.

Shortcomings and Problems

Although the volume and value of sales and these hints of post-privatization efficiency increases warrant positive judgements about the efficacy and impact of the privatization program, many contrary indicators also exist:

- The number of GOCCs that the GOP decided to retain in the public sector doubled over the course of the program — from 39 to 79 of the 200 that existed at the outset of the program;[9]

- More than half the assets sold by APT were financial — unpaid notes. The direct economic impact of these transactions is probably small;

- Most of the divestitures involved small GOCCs: only 4 sales of more than P1 billion ($33 million) occurred between 1987 and 1991; 2 of these were partial.[10] Along with the sale of 67 percent of the shares of Philippine Airlines (PAL) in January 1992 (P10 billion), these 5 large transactions accounted for almost 80 percent of the P22 billion generated from GOCC sales as of mid-1992. The 50-odd other GOCC sales thus averaged under $3 million each;

- The pace of the program has tended to slow down. Only 10 of the full divestitures occurred after 1990, compared with 27 between 1988 and 1990. (The pace of partial sales was faster — 17 between 1991 and January 1994, compared with 8 before 1990.) Divestiture of larger enterprises has gone especially slowly. Only 3 of 11 big-ticket SOEs slated in the late 1980s to be privatized by the end of 1991 had been fully sold as of January 1994 (PAL, Luzon Integrated Services, and Bicolandia Sugar);[11]

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[9] The 200 figure is derived as follows: 122 approved for privatization — of which 4 privatized before the program began — and 79 retained in the public sector.

[10] Government sold 30 percent of the PNB for P1.8 billion; 100 percent of Marina Properties, Inc. for the same amount, 100 percent of Philippine Plaza Holdings for P1.5 billion, and 70 percent of Union Bank of the Philippines for P1 billion (Committee on Privatization, *Annual Report*, 1991).

[11] F.U. Bustos, "The Philippine Privatization Program," Economic Brief # 15, the PITO Economic Brief Series, East-West Center, Honolulu, December 1993, Table 3, p. 19.

- The bulk of transferred asset sales was also small. Of the P31 billion proceeds from sales of fully disposed assets by APT as of September 30, 1993, the 5 biggest (more than P1 billion each) account for P14.6 billion, or almost half. Of APT's partially disposed asset sales totalling P3.3 billion, 80 percent came from 6 transactions;[12] and

- The flow of subsidies from the national budget to the GOCCs increased during the 1980s. Overall net flows to the GOCCs *have* declined, from an average of about 3 percent of GNP in the early 1980s to an average of well under 1 percent in 1988-1990. But this is due to a shrinkage of equity purchases. Direct operating subsidies actually grew alarmingly in the 1980s, from an average of 1.1 percent of GNP in 1984-1986 to 3.2 percent in 1989 and 4 percent in 1990.[13]

Qualitative considerations raise further questions about the effectiveness of the program. The policy, institutional, and regulatory structure put in place to implement and guide the privatization process had serious deficiencies:

- Some basic tenets of sound policy were either absent or overridden by privatization opponents. Bureaucratic, political, and intellectual opponents argued that there was no point in selling profitable companies, that it was desirable to restructure before selling, and that no sales should occur below the "transfer price" — the book value at the time of state acquisition. They also argued against foreign capital participation. Such policies are inimical to effective privatization. Yet government's policy stance was never strongly enough articulated and defended to beat back these arguments.[14] One example: although officials call for increased foreign investment, the prevailing policy until recently prevented foreigners from taking more than a 40 percent ownership share in any entity. The new foreign investment law changes this, and some foreign investment takes place in joint ventures, but government policy continues to emit mixed signals to potential foreign acquirers of divested state assets;

- The institutional framework contains basic flaws:

  — Most important was the creation of 14 disposition entities instead of 1. Thirteen of these (all except APT) were the oversight agencies responsible for administering GOCCs in their sector. This made the beneficiaries of the status quo the presumed agents of change, with predictable foot-dragging as a result;[15]

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[12] Asset Privatization Trust, "1993 Third Quarter Report," pp. 9 ff.

[13] World Bank, "Project Completion Report . . . ," 1993, Annex Table 3, p. 56.

[14] The Manila Hotel, a moneymaker, is a case in point. President Aquino announced it to be a prime candidate for early privatization in 1989. It remains state-owned in 1994.

[15] For example, the National Development Company was responsible for privatizing 36 GOCCs, the Presidential Management Staff 13, PNB 12, the oil company (PNOC) 8, the Department of Agriculture 6, and so on. (World Bank, "Project Completion Report . . . ," p. 4.)

— Nowhere in the privatization legislation and organizational arrangements was room made for the Commission on Audits (COA) — a terrible oversight, because this agency could claim large jurisdiction over public asset pricing. In the event, COA proved capable of blocking privatization actions and distorting policy. It was extremely zealous, perhaps overzealous, in its attempt to ensure transparency and avoid sales at bargain basement prices. It set unrealistic sales requirements, including insistence on historical cost-based selling floors. It refused for 10 months in 1988 and 1989 to allow the use of outside consultants in the privatization process;[16] and

— Low salaries and other personnel problems led to imperfect staff commitment and high job turnover among senior officials in charge of privatization implementation. The Committee on Privatization had four different heads between 1987 and mid-1992; the technical committee was headed by six different finance under-secretaries in the period 1987 to end-1992;

- The legal framework got worse, not better, in some key respects. Republic Act (R.A.) #7181 of January 1992, which extended the life of APT and the Committee on Privatization, introduced constraining new conditions on the privatization process.

  Not all the new legal requirements are bad: the provision that sales be for cash only, prohibition of sales to former owners who mismanaged or pillaged companies, and a requirement to offer 10 percent of divested shares in going concerns to small local investors. All these requirements have much in their favor. But other requirements are less defensible:

  — Provisions that sales of going concerns should not cause "undue dislocation of labor," and that disposition entities must prove to the Committee on Privatization that all severance and other legal or negotiated benefits were paid to workers;

  — A provision that sale prices to former owners cannot be below original transfer prices plus accrued interest minus loss recoveries at time of sale; and

  — A requirement that when a sale price is less than original transfer price, a loss recovery provision is mandatory.

The privatization program seems to have been free of major scandals. This is no small achievement, given the large amounts of money involved, the complexity of transactions, the weaknesses of administrative capacity in general and financial controls in particular, and the popular

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[16] In March 1990 these matters were sorted out, and the role of COA clarified. But COA rules continued to impose rigid sales requirements. In the name of transparency, they required that all GOCCs and transferred assets be sold by auction. The auction had to have a minimum of two bidders and selling price had to be above specified floor prices, which were often based on COA recommendations. These rules apparently were not followed (or failed bidding was commonplace), because, looking at APT transactions alone, plenty of negotiated sales took place — more than auctions: 115 negotiated sales compared with 88 sales by bids between 1987 and September 1993. And in the first 9 months of 1993, proceeds from negotiated sales of APT were 35 times as great as proceeds from sales via bidding. (APT, "Third Quarter 1993 Report.")

perception that corruption and cronyism are widespread in the general environment. There have nonetheless been some criticisms of specific transactions:

- The Philippine Airline sale is faulted on several counts. The consortium that was successful in buying 67 percent of PAL stock (PR Holdings) turned out to be in large measure a front for Lucio Tan, an alleged Marcos crony. Moreover, the consortium claimed to have as technical partner Korean Airlines, but the Koreans somehow evaporated after the bid was won. Therefore, the hoped-for injection of new management and investment from a muscular technical partner will not result from this change in ownership. Moreover, the PAL sale violated the spirit of the rule that prohibits buyers from reselling for three years after purchase. Although the buying entity, PR Holdings, cannot sell, nothing prevents the stockholders in PR Holdings from reselling, as one of the major shareholders seems to have done; and

- The Philippine National Bank offering of 30 percent of its shares in 1989 was sold at too low a price; its shares doubled in price a month after the initial offer. There were accusations of insider trading. Also, since the privatization was partial, government remained majority owner and carried on with old political practices harmful to efficient operations. After the 1992 elections, for example, President Ramos replaced top PNB management and its Board of Directors, just as he replaced the management of other GOCCs. Furthermore, the government seems unwilling to fully privatize PNB. In 1992, pressed for cash, it sold 11 percent of its remaining 53 percent holding to the social security fund rather than to private buyers.[17]

Given the multiple obstacles in the way of speedy and effective privatization, it is impressive that so much has actually been done, and done well. But procedures remain laborious (see "How Time Flies" below), and sales of so-called big-ticket items lag badly. The public sector slimming process has a long way to go; the state presence remains strong in many markets. And the fiscal burden of the GOCCs has been reduced only in the sense that budget-financed investments have been cut back; direct operating subsidies from central government to GOCCs are — or were until 1991 — substantial and rising.

THE USAID PRIVATIZATION PROJECT

The PAD project has history and context that merit some comment. It is a follow-on to the USAID privatization project contracted in 1988 to the Center for Privatization, PW/IPG's predecessor as principal USAID contractor in privatization. And it is part of the larger USAID privatization project that awards IQC contracts to local consulting firms and bankers.

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[17] Government needed cash to stay within the budget deficit specified in its program with the IMF. The Department of Finance pushed to sell 8 percent to the private sector, which would have given private holders majority ownership. (The present ownership of PNB, after the sale to the social security fund, is 46 percent government and 43 percent private sector [Economist Intelligence Unit, *Philippine Alert*, September 1992].)

HOW TIME FLIES: CHRONOLOGY OF PNOC PRIVATIZATIONS

A chronology of one small subset of privatizations — that of several subsidiaries of the Philippines National Oil Co. (PNOC) — is illuminating. In *August 1987* PNOC was named disposition entity for privatizing six of its subsidiaries. In *November* it submitted to the Committee on Privatization (COP) its proposed privatization plan, based on the committee's guideline that full divestiture be implemented within one year. In *December 1987* COP informed PNOC how to proceed — for example, to sell assets of one coal-producing subsidiary, change the method of sale for another, and hire a third party valuator. In *February 1988* PNOC management countered that it believed the sale of assets was not advisable and proposed to pursue sale of shares. In *June* the ensuing bids were declared failures because of the lack of bidders. In *July* PNOC sought clearance from COP to negotiate a sale. The request was rejected. In *September* another coal area was bid and failed for lack of bidders. In *November* PNOC recommended alternative methods of divestiture. In *December* COP asked for details. Between *January* and *March 1989* the two agencies discussed timetables. In *April* PNOC submitted to COP a draft scope of work for privatization studies for three subsidiaries under USAID's technical assistance grant. COP rejected the negotiated sale/joint venture arrangements proposed by PNOC.

In *May 1989* the coal companies proposed that COP clarify alternatives, asked that second bidding be dropped as sure failures, and asked for an OK to negotiate a royalty scheme with a potential operator. In *October* a second round of bids nonetheless opened, with no response. In *November* PNOC again asked for COP approval to negotiate sale of the coal areas, which was granted. In *April 1990* COP approved a PNOC proposal to reduce floor price. In *July 1990* COP told PNOC that USAID-financed scopes of work were approved. In *August* COP approved the PNOC plan including longer deferred payment terms and joint venture arrangements. In *October* PNOC invited 19 possible buyers, but only 3 came.

In *January 1991* PNOC sent a modified scope of work to COP for USAID consultants. In *February* the PNOC Board approved sale of several coal areas, and in *March* requested clearance from COP to negotiate on the basis of specified prices the sale of two areas. COP approved but required that the payment scheme be changed from four equal installments to four declining annual payments. (The latter was in effect a lower offer in present value terms.) In *April* PNOC said no and asked COP if it could proceed on the old terms, since the buyer would not change his offer. In *May* COP said OK. The final award had not been approved by the Commission on Audits as of *1993*.

In *October 1991* the IPG/PW consultants began valuations and strategy studies for two PNOC subsidiaries (MCC and PDEC). Their final report was submitted in *February 1992* for PDEC, and in *March* for MCC. The PNOC Board approved sale of PDEC assets for P420 million in *March*, and COP approved the sale in *April*, with bidding to take place in *October*. In *June 1992* PNOC management approved the request of MCC management to restructure the mine's operations to get a higher selling price than that recommended by the consultants.

Source: Asian Development Bank, PNOC Energy Project, Loan # 726-Phil., "Project Completion Report," 1993, Appendix 13.

Two Phases: Nonutilization 1988-1990, Rebirth 1991-1993

The privatization project under CFP tutelage was something of a fiasco. It began in mid-1988 with financing of $5 million. By mid-1990 it had disbursed only $300,000. No project funds had been used to finance expatriate services. This extraordinarily low rate of utilization was due to various factors: the blockage of all hiring of consultants by COA; the desire of the disposition entities to use their own staffs, and their perception that the USAID money could be used only for the five IQC contractors (four accounting firms and one investment advisory firm) included in the contract along with the Center for Privatization; and the perception that banker-type services were needed, which in their view were not amenable to IQC arrangements.[18]

In tandem with the follow-on contract that was awarded to PW/IPG, much more utilization took place. (This refers not to PW/IPG alone, but to the associated local IQC firms as well.) By June 1992 almost $4 million of the $4.5 million grant was committed; 11 disposition entities and other bodies had tapped the project's funds. Eighty GOCCs and transferred assets had benefited from funding for technical assistance in policy reviews, asset appraisals or valuations, privatization strategy statements, or advisory services.

Achievements

This USAID privatization project received a highly favorable evaluation — at least for its 1990-1992 performance — in September 1992.[19] The evaluators reported that the project's clients (the Department of Finance and APT in particular) were invariably satisfied with the consulting services made available under the grant. They and other DEs asserted unanimously that the project served as a highly useful catalyst in pushing the privatization process forward. The IQC mechanism allowed access to better consultants than would have been possible otherwise. Although some of the local IQC firms complained about lack of transparency in USAID award of contracts, they were generally very positive about the USAID arrangements.

According to the evaluators, the assistance provided through the project helped achieve the following: full or partial sale of 10 accounts, preparation of 32 accounts for bidding, studies of 10 accounts and identification of one account for dissolution, and 17 accounts analyzed for privatization strategy.

Problems

The USAID privatization project had several deficiencies and problems:

- Several of the IQC contractors found a lack of transparency in USAID contract awards. Competitive bidding was not used in the allocation of delivery orders;

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[18] Carl Ludvik and Emmanuel Antonio, *An Evaluation of the USAID/Philippines Privatization Project*, Center for Privatization, Washington, D.C., August 1990.

[19] Intrados/International Management Group, *Evaluation of the USAID/Philippines Privatization Project, Final Report*, Manila, September 1992.

- It does not appear that USAID or its contractors put much effort into remedying the institutional and policy obstacles that became evident as the program unfolded — the mixed signals on foreign participation; the lack of integration into the process of COA and important DEs other than APT; the frequent appeal in asset valuation to historical, cost-based price floors; and the use of so-called transfer prices that had dubious economic justification. It is important to note, however, that reducing these obstacles was not the primary purpose of the project, which was rather to prepare assets for transactions;

- The weaknesses and gaps in the privatization institutional arrangements led to some false starts. The USAID project, for example, dealt with APT and the Committee on Privatization primarily. This left at the edge of the circle too many key players — notably COA and key DEs. It sometimes happened that USAID and APT or Committee on Privatization officials agreed to do a piece of work for GOCCs without the assisted entities having been adequately consulted. Contractors selected to do the work discovered unwilling clients. Their access was obstructed, their study tended to be ignored. Once again, this deficiency is not one of implementation; the project was designed to assist APT and COP; and

- U.S. legislation limited the range of privatization services that could be offered. Thus PW/IPG had to pull out of its engagement with the Philippine Phosphate Fertilizer Co. (Philseco) because USAID/Manila judged it illegal under Section 599 of the 1973 Foreign Assistance Act, which rules out USAID funding for firms in export processing zones unless there is a Presidential certification that such assistance is not likely to cause U.S. job loss.[20]

THE PAD PROJECT

The previous discussion refers to the USAID Philippine Privatization Project as a whole — the provision on an IQC basis of consulting services on privatization by six firms, of which Price Waterhouse was one. The positive evaluations of that project — by users and by the USAID mission — reflect the achievements and good performance of all the IQC consulting firms, including PW/IPG. But IPG was of course only a part of the project; of the 80 GOCCs and transferred assets given assistance under it as of late 1992, only 6 involved PW/IPG.[21]

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[20] A USAID document of May 1993 noted that Philseco was a registered enterprise in the Export Processing Zone Directory and that for lack of time and other reasons USAID/Manila would not seek presidential exemption.

[21] AYC consultants did 7; CFP 1; the Center for Research and Communication 4; C. Valdes 15; Investment and Capital Corp. of the Philippines 19; J. Cunanan & Co, 14, and SGV Consulting 15. Of the 80 consultancies, 37 were for privatization plans and 37 for valuation studies. (Intrados/International Management Group, "Evaluation . . . , September 1992, Appendix VIII.)

Work Accomplished

PW/IPG had eight delivery orders (DOs) or buy-ins under the PAD project (Table VIII-3).[22] They were the source of most of the expatriate technical assistance provided by USAID/Manila under the Philippine Privatization Project.

Under the technical assistance to APT, PW did privatization strategies and valuations for two copper mines — the North Davao Mining Corporation and Mariculum Mining — and the Paper Industries Company of the Philippines (PICOP), reviewed APT action plans, conducted a local training workshop, and provided general guidance in bidding and marketing procedures. For the oil company (PNOC), their assignments were valuation and privatization action plans for two subsidiaries: the PNOC Marine Corporation and Malangas Coal Corp. The Light Rail Transit (Metrorail) study involved valuation. The OEA work was mainly for a study of privatization options in the power sector. The project design (a new privatization project) was done for USAID. The Philippine National Railway DO was for a preliminary analysis of its privatization potentials. Options for the north-south toll road were analyzed and a pricing study was done for determining the value of APT's shares in Bagacay.

TABLE VIII-3

PW/IPG BUY-INS, USAID/MANILA, 1990-1993

Pio/t No.	Deliver Order #	Purpose	Commitment($)
80211	3	TA to APT	667,400
80214	12	PNOC	247,380
80219	19	LRTA	262,165
90235	21	OEA	177,836
80229	28	Bagacay	79,697
90254	41	Design Future Projects	77,304
20163	41	Seminar	23,938
20166	42	Railways	151,812
Total			1,687,532

PW/IPG Achievements

The USAID Mission (and in particular the Private Enterprise Support Office) rates the PW/IPG performance as excellent throughout. Personnel provided by PW/IPG were judged to be of consistently high quality and at appropriate levels of seniority. PW/IPG showed great flexibility

[22] This section relies on information provided by the Private Sector Support Office of USAID/Manila, in interviews and in their written response to the questionnaire cabled from Washington to all missions.

and responded quickly and well to USAID requests. They were judged to network well with other donor agencies. The Mission found the IPG outputs to be solid and pertinent.

Responses by GOP-using agencies to evaluation questionnaires sent out by the Private Enterprise Support Office were also very favorable to PW/IPG. Top ratings of 9-10 were not uncommon; none seems to have been below 7 — which denotes better than average. Significant effort went into capacity building, through seminars and training workshops and by on-the-job demonstrations. Everybody commented favorably about IPG's performance in this area.

In addition to responsiveness, flexibility, and good rapport with USAID staff and client agencies, PW/IPG innovated in several directions. They included private sector representatives in their workshops — apparently not standard practice in the past. Following up on leads given in the midterm evaluation, which reflected their own staff insights, the PW/IPG consultants pushed hard for approaches to privatization that would supplement divestiture, notably through build-operate-transfer schemes.

Fast-track legislation and other measures aimed at encouraging private investment in power and other sectors through BOTs reflect in part USAID and PW/IPG proselytizing. There is presently more discussion of BOTs in the Philippines, and more initiatives, than in any other developing country. More than 160 BOT projects are in circulation, representing an estimated investment of $17 billion, though most of these are still at the concept stage.[23]

The desirability of greater emphasis on private provision of public services is found also in the PW/IPG-drafted design for a follow-on privatization project in the Philippines. The proposed new project emphasized the spread of ideas about private provision by seminars and other means, and accelerated resort to BOTs and related instruments.[24]

Finally, the PW/IPG presence, and the competitive atmosphere it created, galvanized the five local IQC firms, making them more aggressive in pushing the MOF and USAID for business. Studies done by the local consulting firms between 1988 and 1991 did not use industry expertise in valuing companies. PW/IPG did use such expertise, creating new precedents. Also, PW/IPG demonstrated the importance of a strong marketing effort in the sale of PNOC's ship repair facility.

Project Weaknesses

Few Transactions Completed

Most observers put great weight on transactions actually completed as a criterion for evaluating the effectiveness of assistance for privatization.

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[23] Most are in the power sector, but industrial estates, toll roads, ports, water supply, and other sectors are also represented. As of October 1993, only 4 projects were actually being implemented — 2 in power generation, 1 in light rail transport, and 1 in urban water supply. Contracts had been awarded but work not yet begun on 10 others and bidding was imminent or under way for 6 more. The rest — the vast majority — were at the concept stage. (Economist Intelligence Unit, *Philippine Alert*, October 1993, pp. 40 ff.)

[24] The proposed new project failed to obtain congressional approval. The Philippine Privatization Project, and the PAD buy-ins that it financed, thus came to an end on December 31, 1993.

Judged by this criterion, neither the overall USAID Philippine Privatization Project nor the PAD project can be said to have been very successful. The umbrella project helped bring about only 6 full divestitures (sales) and 4 partial divestitures, out of the 80 entities that received USAID-financed technical assistance. Only 2 sales seem to have resulted from the PW/IPG inputs — Mariculum mining and the PNOC ship repair facility. North Davao was closed down, as PW/IPG recommended. In any case, the number of divestitures is obviously an unduly harsh criterion, since many other factors beside the efficacy of consultant inputs are at work in explaining the nature and effectiveness of any program.

Excessively Costly Valuations

The second weakness — which is not specific to PW/IPG but seems to be general in the privatization business — has to do with approaches to valuation. As in other countries visited in the course of this evaluation exercise, many asset valuations have come to be too lengthy, complicated, and expensive relative to the value of the assets whose privatization is being sought. In many cases a range of asset values is calculated, using different methods. The idea is to help establish floor prices. In some cases, also, restructuring plans are included in the privatization plan.

There are understandable reasons behind these phenomenons — the search for transparency and political protection, for example. But consultants should make clearer that historical cost/book value/value at time of transfer to government are analytically empty notions, not really meaningful for evaluation. The fact that they have not done so with insistence contributes to the persistence of wrong-headed ideas about proper selling prices, especially among politicians.

Moreover, it is not enough to fight the idea of book value as the criterion for selling price; consultants should also stress that selling price depends on what a buyer is willing to pay, and that this has only a remote relationship to the price that emerges from a consultant's estimate of discounted present value of future earnings. Buyers see possibilities that escape the consultant's eye, and buyers have unique needs and objectives that consultants cannot predict and that will determine offer prices. One of the PW/IPG privatization memoranda expresses this notion clearly.[25]

> Value of metrorail to a potential investor will reflect unique objectives and circumstances, taking into account . . . commercial synergy, alternative investment opportunities and tax considerations. . . . In the end, the value of the business will depend on what price the Government can convince an investor to pay.

The implications of this view have not always been recognized: that any buyer will want to do his own profitability assessment, from his own perspective, and consequently heavy up-front analyses by government privatization agencies and consequent heavy up-front costs should be avoided. What is needed from consultants is an informative and optimistic, yet brief and transparent, memorandum — something that will excite potential investors enough to take a closer look. And what is also needed is more marketing and less second-guessing of buyers. Multiple bidders are the best guarantee of a good price, not elegant privatization memoranda.

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[25] PW/IPG, *Privatization Action Plan for the Manila Light Rail Transit System (Metrorail)*, May 8, 1992.

It must be acknowledged that the consultants' explicit mandate was to carry out sales, not fight the idea of book value. Also, PW/IPG is often only responding to USAID requests when it undertakes its privatization assessments and plans. Frequently, the consultants' terms of reference (scopes of work) specify such activities. For example, in Delivery Order # 12, for PNOC, the consultants were asked to "determine potential enhancements of performance" and "prepare appropriate restructuring plans." But except in special circumstances, performance enhancement and restructuring is the business of the buyer (and his consultants), not the selling government and its consultants.

Picking Inappropriate Tasks

The PAD buy-in, like the standard IQC mechanism that it so closely resembles, is appropriate for bounded, focussed, limited-duration tasks. It normally involves mobilization of a limited number of specialists for a task that is well defined and doable in a reasonably short period. It is a perfectly good format for privatization assessments, valuations, preparation of company privatization plans, and other tasks normally performed under this contract. The consultants require skill and judgement, but they follow a well-travelled road.

Sector analyses do not normally fall within this vision of what is suitable for projects like PAD. They are complex and take a long time, because in-depth research is often required and also extensive technical analysis. Unsettled issues of policy and priorities are commonplace. Interested parties in the client country are numerous and stakeholders in the sector have clashing interests. In these circumstances, it is rarely possible to produce a technically and politically acceptable sectoral analysis using the typical IQC or buy-in model — three or four people each working for four weeks or thereabouts, with little up-front time and little time for writing and review of drafts.[26]

The PW/IPG power sector report is an example. One major problem was that it coincided with an ongoing and large-scale World Bank study of the same sector. The Bank staff working in the power sector reacted badly to the USAID-PW/IPG report. Some of this was resentment over turf invasion, some may have been ideological, some simply personal. But their arguments are worth listening to.

They say the report was too heavy on theology, that its authors started from the conviction or assumption that privatization in the power sector is a good thing, without adequately justifying that position. The Bank sector paper, they say, comes out with much the same general conclusion, but it is based on stronger technical analysis. It rests on extensive study of local conditions and its recommendations, rooted in local realities and usually reflecting intensive consultation with policy makers and stakeholders, have a good chance to be implemented.

Several examples of technical weakness in the PW/IPG paper are cited by Bank critics and others:

- It draws too liberally on general experience or universal ideas, not enough on specific Philippine circumstances. (The writers could hardly do otherwise, given their

[26] The PAD does not operate under the 120-day limit used in IQCs. But in practice its buy-ins have been mainly for short-term work.

constraints.) Because it is not anchored in local conditions, its recommendations fail to reflect correctly the difficulties of implementation in these conditions. For example, the PW/IPG power sector report recommends consolidation of power distribution without mentioning implementation difficulties (and without fully exploring alternatives relying on more competitive solutions, as mentioned below);

- The report says very little about critical policy issues such as tariff setting-cross subsidy relations; and

- The report proposes two alternative industry structures — formation of vertically integrated regional utilities or ownership of transmission lines by distributors, who contract for generation. But the first ties together disparate types of activities — a natural monopoly activity (high voltage transmission network), and competitive or contestable activities (generation and distribution). The PW paper did not analyze alternative models for separating generation, transmission, and distribution, and the potential for increased competition that might exist by separating ownership of the three businesses — separating generating capacity into several competing enterprises, for example; adding new capacity by private investment; and establishing separate transmission and distribution firms.

This is a central set of issues, yet passed over lightly in the PW/IPG study. The PW/IPG consultants did not intend their options paper to be the final word. Its aim was to set out options for discussion, not propose final solutions. But unless underlying issues are carefully analyzed and options well chosen, issues or options papers may be of little use, or even counterproductive.

Similarly, donors can be confused. Some, eager to help in the power sector but concerned about the policy environment and government commitment, are befuddled. They ask: The PW study exists, why doesn't the GOP implement it? They may interpret nonimplementation as a sign of lack of commitment to reform, when it is due more to the uncertain suitability of some recommendations.

To have credibility and serve as a proper guide to policy and programming, sector analyses have to be much deeper than the firm-level privatization studies common under PAD, and they must call on a broader range of professional experience. The Philippines power sector study that the World Bank is now completing is indicative. The Bank started it in August 1993, with a preliminary mission of six staff and consultants for 3-4 weeks each, several of the consultants being world-class specialists. A long period of analysis, discussion, and drafting followed in Washington, and then a second month-long mission by a seven-man team. All of this involved not only abundant and expensive time, but a procedure that is deliberate and allows for lots of interchange of ideas, including critical reviews by peer specialists and intensive discussion in-country.

Even if one has reservations about the Bank's approach and about the validity of some of its criticisms of the PW study, it is easy to agree with a basic conclusion that emerges: PAD buy-ins for larger studies, such as that of power sector privatization options, require much heavier financing than usual in this type of project. They also demand greater planning and much more intense collaboration with other donors.

IX. POLAND

During 1991, it became increasingly apparent that the struggles in the transition to a market economy in Poland warranted direct intervention by donor agencies. One response to the struggle was provided by USAID in the form of a $2.2 million buy-in to the existing global PAD contract held by PW/IPG. Subsequent buy-ins brought the total assistance provided to Poland under this contract to $3.7 million, culminating in the sale or point of sale of seven enterprises in the glass sector.

In addition to the transactions that took place in the glass sector as a result of extensive preparatory and transaction work by PW/IPG, two additional tasks were undertaken during the course of this engagement: the preparation of a diagnostic on fast-track auction programs as a method of privatization, and privatization training at the vovoidship level.

PROJECT DESCRIPTION

Called the Eastern Europe Economic Restructuring and Privatization Project, the PW/IPG transaction activity in Poland became widely known as the Glass Sector Project. The objective of the project was to provide related programs of technical assistance to achieve concrete results in the privatization of selected Polish enterprises. In addition, the program was designed to rapidly select, appraise, value, and divest certain Polish state-owned assets, while simultaneously expanding the capacity of the Ministry of Privatization to perform such tasks independently. Thus, the project was designed both as a practical exercise, with state budget and revenue implications, and as a model for ongoing privatization activities in Poland.

Four programs to achieve the objective — concrete results in the privatization of selected Polish enterprises — were incorporated into the original project design:

- Selection, evaluation, and privatization of a select number of designated enterprises, in conjunction with ministry staff, using various privatization techniques;

- Creation and execution of technical training workshops for ministry and vovoidship personnel;

- Design of an auction system to accelerate small and medium-sized enterprise privatization; and

- Design of a sector-specific privatization program.

PROJECT START-UP

The start-up of the project, in September 1991, concentrated on medium-sized enterprise valuation and privatization. As such, it was not yet a sector-specific project, but rather one aimed at developing a set of "clear and objective criteria for the selection of enterprise candidates to be privatized within a twelve-month period." In addition, the program was designed to assist the ministry to complete the privatization of the selected companies, by providing technical experts in enterprise appraisal, valuation, and industry-specific analysis.

Early in the initial phase, the glass sector emerged as a likely sectoral candidate for privatization. This conclusion was based on five factors:

- Generally well-regarded technical capacity of the industry;
- Potential for export;
- Well-trained and motivated work force;
- Industry segmentation, which permitted privatization possibilities in different segments of the industry, from packaging glass, to flat, to consumer products; and
- Existing investor interest from abroad, due to long-established trading relationships with Western companies.

The nature of the PW/IPG engagement was refined after start-up as follows. The engagement was refocused on and managed by two major departments of the Ministry of Privatization — the Departments of Capital Privatization and of Liquidation. The Department of Liquidation was responsible for the privatization of small and medium-sized enterprises, training, and auctions, as well as "difficult cases." The Capital Privatization Department was responsible for the glass sector project of which the Sandomierz glass company, the eventual centerpiece of PW/IPG efforts, was a part.[1]

The Sandomierz transaction had stalled at the time of PW/IPG's entry on the scene and was beyond the existing capabilities of the government. PW/IPG was specifically called on by the Ministry of Privatization (in its capacity as the advisor to the Liquidation Department on difficult cases) and the Ministry of Industry to kick-start and lead the transaction in spite of the longstanding presence and involvement of Pilkington (a potential buyer) and the International Finance Corporation (IFC). This request was in addition to work on the glass sector, training, and auction programs. Thus, PW/IPG was chosen to represent as lead advisors two different government ministries comprising three different departments, on the first occasion that the Ministries of Industry and Privatization had worked together.

As the importance of work in the glass sector gained momentum, and a PW/IPG team of up to 20 specialists became active in the sector and enterprise analysis, the training and feasibility study

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[1] Sandomierz was managed, however, by the Liquidation Department.

for a privatization auction system — components of the Phase I delivery order — were delayed for future implementation. In return, Part IV of the initial delivery order took on greater significance — in other words, the development of a pilot program for a sector-specific privatization program.

This component called for the following:

- Selection of a sector for privatization;
- An analysis of the sectoral competitiveness of specified enterprises;
- An analysis of enterprise characteristics and operating performance within the sector;
- Gathering financial and operating date for individual enterprises in the sector to assess strengths and weaknesses;
- A strategy design for the reconfiguration of enterprise assets, if necessary, for enterprise privatization; and
- An overall strategy design for state-owned asset divestiture sector-wide.

PROJECT EVALUATION

The project as a whole provided useful inputs and support to the nascent privatization program in Poland. Though the beginning of the project was just over two-and-a-half years ago, it is easy to overlook, given the changes in the private sector in Poland during this period, that the sectoral approach was a novel experiment. The experiment succeeded in giving a framework and hands-on method to tackling the problems of state divestiture, while at the same time providing an in-depth look at industry problems and features.

PW/IPG appears to have been successful in providing high-quality, professional experts, including qualified industry specialists, financial specialists, and transaction-oriented investment banker types. There is little doubt that the success of the Sandomierz transaction, though longer in coming than originally anticipated, was helped by the long-standing interest of Pilkington Glass, U.K. and the IFC. Nevertheless, PW/IPG, by its local presence and broad knowledge of transaction assistance, facilitated negotiations that became at times cumbersome and difficult to understand.

Time Frame

The project began in September 1991 and continued through September 1993. After expiration of the project funding, PW/IPG, on a success-fee basis, invested, and continues to invest, additional time and resources. The current phase of the unfunded work is aimed at enterprise marketing cultivation of investor relations, and the potential closing of additional transactions.

Types of Assistance

Sectoral Analysis and Prospectus

The sectoral analysis completed by PW/IPG, though some would suggest unduly time-consuming, produced a document that for the first time incorporated a full-fledged look at a Polish industrial sector, including market size, production capacity, product line breakdowns, and capitalization. The analysis provided a solid background for placing candidates for privatization in a firm contextual setting. From this document, the reader was able to glean the advantages and disadvantages of investing in the glass sector, and formed the basis for contacting potential interested parties. Here PW/IPG's role was invaluable, because PW/IPG attempted to broaden the audience of players who might be interested in the Polish glass sector.

Company Profiles

The company profiles that were prepared, covering all 34 participants in the glass sector, provided a quick look at individual companies in the sector, along with basic financial and employment information. These profiles were also used as marketing tools, and attempted to quantify the level of management and labor interest in privatization. These profiles were updated as recently as November 1993, and continue to serve as the basis for further sector marketing efforts.

Privatization Methods: Vadem Ecum (Fast-Track Program)

As part of the overall scope of work, PW/IPG was asked to develop an approach for a fast-track auction program that could be adapted to economic and legal conditions in Poland. This approach is most frequently used when a firm is unable to raise capital for privatization through its employees, though their desire to become owners is strong, and the firm has little or no contact with outside investors. An additional characteristic is that this method is best used in small and medium-sized enterprises with employees numbering no more than 500.

The PW/IPG work in fast-track programs produced a "cookbook" of sorts, explaining the uses of the method, its stages, and the activities required in each stage. In addition, the task incorporated into its final report to the Government of Poland an overview of privatization in Poland, a summary of the various methods of privatization used in Poland, and a discussion of the market dynamics of competitive tenders. The resulting reference manual serves as the basis for the implementation of the fast-track auction process by the vovoidships. This method has so far been the predominant privatization route for small and medium-sized enterprises; approximately 50 percent of total cases of privatization through liquidation (more than 800) have gone through the fast-track method. It is likely that with the new Regional Privatization Initiative (RPI) now started, more companies may choose to privatize through this method.

The cookbook is a useful tool. Doubts about its use have arisen not because of the failings of the publication itself or because of a lack of diligence in its preparation; rather, it would appear that it became an item on various bookshelves around Warsaw and Washington, rather than resulting in adoption of the program it describes. Because PW/IPG was not given the resources to implement the program, the lack of transactions as a direct result of this exercise is not surprising.

Privatization Training

During April-November 1992, PW/IPG conducted a series of eight workshops, Negotiating Privatization Transactions. The two-and-a-half-day workshops were designed to strengthen the skills of vovoidship and government officials in negotiating the sale of SOEs in respective jurisdictions. Extensive training materials, in English and Polish, were prepared. Approximately 200 Polish officials and some 10 Peace Corps business volunteers participated over the course of the eight months.

Specifically, the workshops sought to strengthen the skills of officials in four key areas:

- Assessment of enterprise performance and its ability to compete effectively in a market economy;
- Determination of a reasonable value, and sales price, for an enterprise to be divested;
- Selection of an appropriate privatization technique, incorporating the selection criteria of investor interest, valuation results, and enterprise competitiveness; and
- Negotiation strategies with potential investors.

Participant evaluations were positive; comments included by participants repeatedly stressed the need for continued training of this type.

Publications

Extensive privatization literature, both enterprise and sector specific, as well as writings on the privatization process in Poland in general, were generated during the course of this project. Unfortunately, no cohesive bibliography of publications exists, limiting the ability to disseminate the information generated from this scope of the project. PW/IPG has stated that they are in the process of compiling such a bibliography.

Transaction Assistance and Sale of Enterprises

Significant time and resources were spent closing the sale of Sandomierz to Pilkington (and to a lesser extent, the closing of the sale of Jaraslov to Owens-Illinois). For example, in the first year of the project, PW/IPG assisted in:

- Negotiating the value of all physical assets of Sondomierz, including inventory and work-in-progress, which was to form the basis of the joint venture contribution to the final financial package. These negotiations were seen as crucial, involving a myriad of parties in the United Kingdom and Poland; PW/IPG received consistent praise from parties to the transaction in developing a flexible, creative approach to this valuation, which raised its value some $5 million and eased the way for the equity participants;

- Signing of the Heads of Agreement, which defined the proposal structure for all parties, to which the parties provided their agreement;

- Ongoing negotiations with the main equity participants (Pilkington, Sandomierz/Government of Poland, the IFC, and the European Bank for Reconstruction and Development [EBRD]) on all key financial, corporate, and technical considerations; and

- Employment guarantee contracts generated by PW/IPG for 18-24 months following privatization, which have been a major contribution to the overall scope of Polish privatization.

Following the above groundwork, though USAID funding had ceased, PW/IPG remained engaged in a number of capacities, including establishment of the joint venture company, review of bankers' term sheets for debt and equity financing, and discussions with Government of Poland officials on such topics as tax holidays, duty exemptions, and establishment of foreign currency accounts.

When funding was resumed in March 1993, PW/IPG continued its efforts in obtaining necessary concessions and permits from the Government of Poland, assisting in the preparation and interpretation of financial statements for the joint venture company, and the implementation of various funding mechanisms for off-shore lenders and equity holders.

EVALUATION CRITERIA AND CONSTRAINTS

The following transactions have been completed in the glass sector:

- The privatization of HSO Sandomierz, which resulted in the creation of a joint venture with Pilkington plc (UK). The total transaction size was $171 million, consisting of $64 million in equity and $107 million in debt. This is the third largest privatization transaction to date in Poland and the largest single British and IFC investment to date, respectively. Key participants in the transaction other than the Government of Poland and Pilkington were the IFC (debt and equity), the EBRD (debt and equity), and the Polish Development Bank (debt).

- The conclusion of the Sandomierz transaction, which meant that Poland will for the first time obtain float glass manufacturing technology to replace the sheet technology currently in existence in the other factories. The significance of this is that float glass if of higher quality than sheet glass, the latter having no more than three years of economic value left. The effect on the other glass factories is to cause a shift in focus to value-added activities such as fabricating and laminating, away from wasting resources on manufacturing low-quality glass.

- The sale of HSO Jaroslaw, the largest container factory in Eastern Europe, to Owens-Illinois of Ohio and its equity partners. The total transaction size was approximately $80 million in debt, equity, and loan commitments. In addition, Jaroslaw entered into a licensing agreement with Owens-Illinois resulting in the introduction of Owens-Illinois technology to Poland. PW/IPG also negotiated an 18-month employment and salary guarantee for the entire work force.

- Sale of HSO Bialystok (Consumer/Technical) to a group of European investors. Total investment was approximately $4-5 million. A two-year employment guarantee was negotiated for the entire work force.

- Sale of HS Rozalia (Consumer/Technical) to Minex Trading Company (Poland). Total transaction size was $1 million.

- Two companies, Kara and Wolomin, are currently being restructured according to PW/IPG recommendations. Wolomin was recently the subject of a press article as an example of a successful restructuring program. Ninety percent of its products are currently exported, compared with a negligible amount prior to the restructuring program.

Impact: Pace of SOE Divestiture

For a project of significant duration, some 22 months, it would seem that the impact on Polish privatization would be readily definable and quantifiable. However, quantifying the impact of the project is difficult, given the nature of a major portion of the project inputs: ongoing advice and transaction support. These inputs are soft inputs that do not readily lend themselves to objective tally because benchmarks are hard to define and establish. In addition, the sectoral approach, the bulk of the effort, is but one of many approaches adopted in Poland. Many other privatization success stories have been based upon experimentation with other methods of divestiture.

The impact on the privatization of other SOEs arising from the activity under evaluation was limited nationwide, though felt broadly throughout the glass sector. The impact limitations of this project do not stem from PW/IPG's lack of diligence or professional capacity. Rather, the limited impact of the sectoral approach, and its nontransference to other state-owned sectors, points out one of the weaknesses of the approach — a great deal of time and effort is expended on coming to know the vagaries of a particular industry sector, which come to be viewed as peculiar to that sector with little applicability elsewhere.

Furthermore, the difficulty of quantifying the intensity and complexity of negotiations for a $170 million transaction are daunting. The hours spent behind the scenes in creating documentation acceptable to all parties, for example, do not produce a precise definition in a scope of work for contracts of this type, such that only the achievement of the closing of the transaction becomes the criterion for success. The spillover effect was marginal, due to the transaction-specific nature of the bulk of the resources expended, and the uniqueness of the glass sector (just as any industrial sector has its own peculiarities). Thus the argument can be made, despite positive press and the breaking of a privatization log jam in a particular sector, that the impact of the sectoral approach on the pace of privatization of SOEs, with success defined as closed transactions, is self-limiting, with little potential for providing models or solid know-how that can be applied in other segments of the economy.

Overall, the dollar value of inward investment brought to Poland through PW/IPG efforts is estimated at $300,000, stemming from approximately seven transactions.

Capacity Strengthening

The number of sales completed in the glass sector is indeed small — seven — when compared with the entire industry, some 34 companies, even taking into account that certain of the universe of 34 will fail when confronted with market forces, and are thus not wise investor choices for privatization. However, the glass sector does benefit from a wealth of knowledge compiled during this project, making the remaining sale candidates at least knowable and approachable. Negotiations are in progress for some of them, some of which benefit from continued PW/IPG assistance, provided on a success-fee basis. However, the local institutional and management framework for carrying out successful sales without outside consultant intervention appears to be weak.

A concern repeated by government officials and enterprise representatives, garnered during interviews undertaken in the course of this evaluation, was that the PW/IPG team often appeared to be operating independently of the concerns or agenda of the local parties to the transactions. These types of observations are attributable, in part, to the lack of knowledge on the part of Polish counterparts of the complexities of a transaction of the types that took place, as well as the inevitable bureaucratic hurdles that successful transfer of ownership deals must ultimately overcome. One must also note that bureaucratic turnover during the course of this project has been high — four Privatization Ministers, five Vice Ministers, and six department directors.

A point to make here, however, is that the scope of work for this project, and PW/IPG's pursuit of the scope's objectives and deliverables, did not place enough emphasis on communicating and incorporating local counterparts into the myriad activities and steps necessary to complete an international capital markets transaction. The PAD project, if rewritten and re-let for bid tomorrow, should place greater emphasis, particularly now that the climate for privatization in countries such as Poland have been tested and quantified, on insisting on clear counterpart support, with regular communication with counterparts to explain and describe actions undertaken. It is clear that the success of the transactions under evaluation were a result of, at times, feverish negotiation and professional dedication on the part of PW/IPG; incorporation of Polish financial and industry professionals, as well as government officials, into all steps of the transaction, including explanations throughout the process as to what, how, and why certain steps were being taken, would have enhanced the ability of the institutions involved to feel confident that those institutions and its personnel could begin to think about taking on the work involved in these types of privatization transactions on their own. As it stands today, parties to the transaction in Poland would be reluctant to state that they learned enough from the exercise to perform independently should another set of transactions arise.

The lack of apparent capacity strengthening was not caused by any failure to execute PW/IPG's contractual duties. Indeed, as mentioned, the training sessions were well received, and the fast-track auction information was well researched and presented. The weakness inherent in the definitions of success in this contract, as the glass sector work evolved into focusing on two large, important transactions, is the culprit here.

However, a further word on the glass sector is appropriate here. In the long run, the future does not seem very positive for some state-owned glass factories that are burdened by outdated technology, inefficient process layout, and potential environmental liabilities. For some enterprises, investors are interested only in parts of the business and are reluctant to take on the additional risks associated with other sections. The constraint in such cases is often government policy that places strong emphasis (for political reasons) on enterprises to be sold in their entirety, although the current legislation permits the privatization of sections of companies. This often results in an impasse in the privatization process as investors show strong reluctance to assume risks in business units that do not fit their investment strategy. These issues are some of the many factors causing many investors to become more cautious and selective, and to reconsider their options about whether to invest in the existing companies or start a greenfield operation.

Managing government expectations on the likely number of sales possible in the industry is crucial. As the domestic market evolves toward greater economic convergence with the West, the industry can only support a certain number of glass factories. Thirty-four companies with obsolete technology will be difficult to privatize as the economics of the industry does not permit the existence of 34 glass companies in their current form. What is taking place, however, as indicated above, is that the presence of key significant worldwide players is causing the sector to restructure more efficiently.

Deliverables

Key deliverables prepared and distributed to the government are as follows:

- Phases I and II Sector Reports, which provided an industry and company competitive analysis and privatization recommendation;
- Two-page profiles of each company in the industry used for investor solicitation;
- Detailed business profiles of each company sent to potential investors upon the execution of a Confidentiality Agreement;
- Information memoranda on Jaroslaw, Krakszklo, Kunice, Bialystok, Jelena Gora, Julia, Hortensja, Violetta, and Zawiercie;
- Holding Company Report:
- Estimate of value for each of the above;
- Key investor contact list for each of the companies; and
- 1993 status report (prepared October 1993).

Many of the above marketing reports are circulated worldwide and PW/IPG is recognized as the conduit for investors interested in investing in the glass sector. Although the number of transactions closed may be widely seen as the benchmark for quantifying success, much more value has been created that is not as easily quantifiable or evident. Typical is the enhanced profile of the Polish market as a viable investment opportunity. Some of the potential investors may eventually choose to build greenfield plants in Poland instead of investing in the existing factories. Either route is ultimately beneficial to the Polish economy.

PW/IPG activities in Poland under USAID funding have created considerable value in many areas of the Polish economy, much of which may become more evident as the transformation process stabilizes. These range from drawing attention to the benefits of the Polish glass industry, to nationwide training of key government officials on privatization issues, and preparing a blueprint for privatization through the fast-track method.

X. ZAMBIA

In mid-1992 the Zambian privatization program — probably the most ambitious in Africa — seemed blocked by scarcity of technical capacity in the agency responsible for its implementation, the Zambian Privatization Agency (ZPA). The Government of Zambia requested help from the donor community. The USAID Mission responded quickly, using the PAD project and the contracting vehicle it made available.

PROJECT DESCRIPTION

During a period of some 12 months, up to October 1993, the project financed some 25 person-months of technical assistance from PW/IPG. Several resident advisors and short-term consultants were made available. The resident advisors acted as operating staff members of ZPA. Along with the short-term consultants, they made up a significant proportion of the senior staff of that agency.

Privatization initiatives began in Zambia well before mid-1992; preparatory activities had been launched two years earlier. Although no privatization transactions had actually occurred, the foundations were in place: a Privatization Law had been passed, specifying in detail the procedures to be followed; a new implementing agency had been created (ZPA); many preliminary studies of SOEs had been completed; and general decisions about the sequencing of sales had been taken. Trade sales were to be the chosen instrument. All SOEs were grouped into 11 tranches to be privatized in succession. The first tranche consisted of 19 small firms, chosen for their salability.

The program was supported by two World Bank adjustment loans (Privatization and Industrial Restructuring I, approved in June 1992; and PIRC II, approved in May 1993). Both contained substantial conditionality aimed at guaranteeing a satisfactory pace of SOE sales.

The main tasks of PW/IPG assistance were to help make the SOEs in the first two tranches ready for sale, and to assist in the negotiation of sales agreements. The PW/IPG advisors provided major inputs to ZPA work on actual transactions. They were part of negotiating teams. In addition, the PW/IPG advisors made some proposals to ZPA management aimed at tightening the internal operating procedures of ZPA and raising staff productivity. They also provided training: a seminar on valuation procedures and on-the-job training. And one of the subcontractors, SRI, prepared a "lessons of experience" paper that the Mission and Zambians found very useful. The cost of these services — the total cost of the buy-in — was $632,000.

EVALUATION CRITERIA AND CONSTRAINTS

There can be little doubt that the project provided useful support to ZPA and to the privatization process. PW/IPG's skilled advisors provided technical backbone to ZPA at a time when national staff was especially sparse and inexperienced and when implementation of the privatization program was just beginning. The fact that PW/IPG could deliver two resident advisors of unquestioned competence and additional short-term consultants is itself an a priori indicator of successful performance.[1] Their presence allowed the privatization program to move more quickly than would have been possible otherwise. Their efforts contributed to satisfactory performance in meeting World Bank privatization-related conditionality, and, hence, timely disbursement of the Bank's policy loan.

But this general achievement is of course not enough to allow a meaningful assessment of the project's effectiveness. A closer look is needed, one that compares objectives and results. Two criteria, or guiding questions, seem most pertinent for evaluation of this project: What has been its impact, particularly on the pace of divestiture of SOEs, but also (secondarily) on capacity strengthening in ZPA? and How responsive has the project been to the needs of USAID and the host government?

The limitations and hazards of evaluation along these lines should be underscored.

- The Zambia buy-in lasted only 18 months and had just finished in late-1993. Expectations about impacts therefore should be modest.

- Most of the inputs (advice, participation in negotiations, training) are soft, and the outputs are relative and subjective (quicker, better privatization and strengthened organizational capacity).

- Though they contributed significantly to ZPA work output, the PW/IPG advisors and consultants were not the only staff of ZPA, nor even the only expatriate technical assistance. Other advisors were on the ground when the PW people arrived, and some had more influence because of their longer presence.[2] The expatriates were in any event a minority of ZPA staff; in mid-1993, ZPA employed more than 30 Zambian professionals. And of course PW/IPG advisors never had managerial responsibility for ZPA actions, much less for managing the overall privatization process, though they did help manage the process of preparing sales information and sales negotiations.

- The PW/IPG transactional performance is not the same as the GOZ performance. Thus the team helped negotiate 17 "completed" sales of the 19 enterprises up for sale in the first tranche. But once there was verbal agreement between the negotiating team and the bidder, the PW advisors exited. If the ZPA Board, the Ministry of Finance (MOF), or ZIMCO (the state holding company) prevented the conclusion of SOE sales because they felt the price was too low, because MOF refused to sign the agreement, or because ZIMCO refused to transfer title, this was beyond PW/IPG's control.

- The externally provided technical assistance could have been extremely effective in this period, and greatly enhanced the efficacy of ZPA, but this could have failed to advance

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[1] One resident adviser, however, proved to be unsuitable and had to be replaced after a few months at ZPA.

[2] During January-June 1993, 4 advisors and consultants were provided by the United Kingdom, 3 of them from the Commonwealth Fund For Technical Cooperation, 1 from ODA; 2 advisors were also provided by the German GTZ, and 11 by USAID. (Zambia Privatization Agency, "Progress Report No. 2, 1 January 1993 to 30 June 1993, p. 35.)

the privatization program because of environmental factors beyond the project's control (weakness in the legal framework, cumbersome regulations, political interventions, and so forth).

- The presence of the PW/IPG advisors may have had important intangible effects — for example, higher-quality analysis, stronger negotiating positions, better use of existing national staff, introduction of better systems of information management, and improved internal management procedures. But many of these don't show up right away and are in any case difficult to measure.

ASSESSMENT OF IMPACT ON SOE SALES

All of this notwithstanding, the apparent yield from the PW/IPG (and other) technical assistance has been small. The large and carefully formulated privatization program creeps along at a snail's pace, despite intensive efforts by local and expatriate staff of the privatization agency, and despite the spur of World Bank conditionality. As noted, the PAD-financed technical assistance did move the ZPA's workload, and did thereby help meet GOZ commitments to the World Bank. But progress remains slow.

The program calls for privatization of some 140 SOEs in 11 tranches. Tranche 1 consists of 19 small companies, most of them prime candidates for early privatization. Tranche 2 consists of 32 companies that should be relatively easy to privatize: three are to be returned to former owners; about three quarters have minority shareholders with preemptive rights to buy government holdings; and four of the largest firms are the biggest moneymakers: metal fabricators of Zambia, Chilanga cement, Zambia breweries, and Zambia sugar.

The number of completed privatizations varies according to the stage at which a sale is regarded as completed. If it is when all the cash has actually been paid in and private buyers have taken over management, then it seems that there have been two completed sales. If point of sale is defined as signature by the Minister of Finance of a sales agreement, then the number of completed transactions, as of October 15, 1993, is 6: AFE (agricultural equipment and supplies), Eagle Travel, Mwinulungu Cannery, Poultry Processing, Auto Care Ltd., and Coolwell Systems (air conditioning).[3]

More SOEs are in various stages of negotiation for sale, or are wending their way through the layers of authority that must approve the sales agreement. Most of the 19 first tranche companies will probably be sold successfully; bidders were numerous and sales agreements have been signed for 11 of them; 5 of these are being re-tendered, however, because bidders and ZPA could not conclude agreements. Negotiations are also well along for some of the second tranche companies,

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[3] However, one of these (Mwinilungu Cannery) is in doubt: on the day the agreement was signed by the minister, the buyer died. One second tranche firm has been privatized by share dilution (Nanga Farms). All the firms sold thus far are small. Three employ fewer than 65 workers; none has more than 185. Total employment in the six privatized firms is less than 600.

which are bigger; some of these should be easier and quicker to sell, because minority private shareholders exist and are eager to buy government holdings.

In part as a consequence of the "start small" strategy adopted, the privatization program has so far yielded modest results. The 600 employees in the 6 privatized firms represent 1 percent of total employment in Zambia's state enterprise sector. The 19 first tranche firms together account for 4 percent of total SOE employment.

For reasons mentioned earlier, it would be wrong to impute this slow progress to inadequacies in the PW/IPG-provided assistance. But impact on the pace of privatization transactions is a legitimate criterion to judge technical assistance of this kind, and it is clear that PW/IPG (and other external) inputs have not had much effect in speeding things up.

The modest forward movement on privatization in Zambia is something of a surprise, given the many factors favorable to rapid privatization in that country. The program is not new; it began in 1990 and it benefits from preparatory work done during the early years. World Bank conditionality has been present since 1991. Although experienced and well-paid and motivated local staff have been in short supply, donors have been ready to provide much technical assistance. The political environment — government commitment — has been unusually favorable following the change of government in October 1991.

Many of the SOEs in Zambia, moreover, should be relatively easy to privatize. A sizeable number were taken over from private sector owners; they therefore suffer much less from oversized scale and inappropriate technology than SOEs that were born in the public sector. Many of the firms still have significant minority private shareholders — well-defined potential buyers. There is a sizeable group of still-lively capitalists anxious to buy divested SOEs; the tranche 1 and 2 firms attracted more than 120 bids, the great majority of them from Zambians. Credit policies during the period of government ownership were also less accommodating than elsewhere, so most of the firms are not carrying heavy debt burdens, a common headache elsewhere.

WHY IS IMPLEMENTATION SLOW?

Despite these favorable factors, Zambian progress in divesting SOEs has been slower than anticipated. One reason is general and universal: a seemingly inevitable tendency to underestimate the time these changes require. Specific factors are outlined below.

Cumbersome Procedures

The privatization process, designed with a view to assuring transparency and implemented by inexperienced staff anxious to avoid mistakes, is extremely laborious.

- For every SOE, a long and elaborate company study is required to prepare the confidential information memorandum distributed to all bidders.

- Each transaction is negotiated by an autonomous team composed of an independent chief negotiator and a lawyer, supported by ZPA staff and consultants. The chairmen are busy people who travel a lot and are hard to get to meetings; insufficient pay for the work is also a factor.

- The lawyers take a long time to draft sales agreements and tend to be extremely legalistic, addressing every possible problem.

- Short-cuts are avoided. Short lists are rarely short enough, prequalification procedures are neglected.

- Approvals by MOF can take many months; signature of the Eagle Travel and Car Care agreements took nine months. The minister tends to send agreements to the Attorney General for his approval.

- ZIMCO, the state holding company responsible for most of the SOEs to be privatized, engages in frequent foot-dragging. ZIMCO staff has to find and transmit to new owners all the legal documents attached to the enterprise. This gives plenty of opportunity for delay. Sometimes key documents are said to be lost — for example, title deeds to property — which forces extensive delay.

Diffusion of Responsibility

The process was conceived to give ZPA and its negotiating teams the responsibility for setting terms and concluding sales agreements. As it has turned out, other entities intervene all along the line. The Board of Directors was supposed to provide general policy guidance and oversight, but it was assumed that this would be used sparingly. And the MOF was to give approval by signing the final agreement, but, again, this was thought to be merely pro forma because representatives of the ministry sit on the ZPA Board. In the event, the Board or the MOF occasionally rejects agreements (requires that they be rebid). For example, the ZPA Board recently decided to cut off ongoing negotiations for three firms (Consolidated Tyre Services, Monarch, and Zambia Ceramics). And one sales agreement was being returned by the MOF to ZPA for more information on the winning bidder.

There are various reasons for ZPA Board interventions: belief that price is too low, political opposition, labor problems, and uncertainties about sources of financing. It is reported that in two cases the Board intervened on the grounds that consultants had overstepped professional bounds by helping management buy-out groups find partners to finance the buy-outs. PW advisors are unaware of any case in which the Board based rejection of an agreement on these grounds.

Weak Implementation Capacity

ZPA was formed in June 1992 out of a previously existing technical committee on privatization. It is thus a brand-new organization. Until April 1993, it occupied inadequate offices and had little equipment. Its staff is young and inexperienced, and not all are well trained. Salary incentives are modest, as in the civil service generally. Expatriate consultants have carried on an inordinate share of negotiating responsibility, and, according to some informants, Zambian staff have not benefited in experience as much as they might have, in part because of limited continuity of Zambian staff representation in the negotiating committees. Other observers deny this; they say that staff assigned to a parastatal work on it until the divestiture is completed.

In addition, there are problems common to many organizations in developing countries: uncertain control and limited delegation by management; few nonwage rewards for good performance and few sanctions for poor performance; lack of communications and information flow within the agency; an overly complex structure, with too many empty boxes; and general slowness of decision making.[4]

Confusion over Valuation

One reason for Board, ministerial, and political interventions is the belief that offer prices are too low. This belief arises because some offers are lower than valuations based on asset value or net present values of estimated future earnings — usually the former.

The public and its political spokesmen in Zambia (as elsewhere) are deeply attached to the notion that the value of an asset should be measured by its historical or replacement cost. Put differently, they have not accepted the simple idea that machines, companies, or anything else are only worth what somebody will pay for them. When they see draft agreements with selling prices below physical asset values (or even values based on estimated future earnings), they disapprove.

Contingent Liabilities

Several SOEs have substantial contingent liabilities — retrenchment costs, unfunded pensions, and environmental claims. Many SOEs have made costly agreements with trade unions regarding severance benefits. This has caused few problems with first tranche SOEs, aside from some misunderstanding among workers in several of the privatized first tranche firms. But it is important in second tranche privatizations.

Other Problems

Financing of SOE purchases has already posed a few problems: some bidders are unable to produce statements from banks on their financial status, and several have withdrawn bids because of inadequate access to credit. But this will be a greater obstacle to Zambian participation in the future, when bigger enterprises are up for sale.

The political commitment to privatize is weakening, and bureaucratic resistance increasing. The October 1991 anti-Kaunda alliance is dissolving; a reform and anti-reform schism has emerged,

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[4] It apparently took two months for staff to win approval to write bidders who had incorrectly submitted bids based on deferred payment — for example, partial payment up front, and credit for the rest. This is not allowed by the Privatization Law except for individuals, for purchases of shares.

making privatization a more sensitive and contentious issue. There is some talk about non-Zambian roles; one winning bid was contested because the winner was not a "pure Zambian." The resistance of existing stakeholders, notably ZIMCO, has been a contributing factor to lagging sales. ZIMCO has done effective political lobbying at presidential and ministerial levels.

The present strategy postpones confrontation of the liquidation problem. No SOEs are formally slated for liquidation, though many will have to be liquidated. Effort had to be given to putting these nonstarters up for sale. Growing recognition of the need to liquidate some of the SOEs, with its disemployment potential, erodes political support for the program. ZIMCO argues that "every parastatal can be profitable"; combined with macroeconomic uncertainty, this feeds the reluctance to liquidate.

Given these many obstacles to quicker sales, it is obviously not possible to impute Zambia's lagging privatization performance to inadequacies in technical assistance, from whatever source. No matter how magnificent that assistance, or how humdrum, it is not likely that outcomes would have been much affected. This is not to say that quality does not matter, but only that environmental factors matter more in explaining global outcomes.

THE VALUATION PROBLEM

Questions can and should be raised, however, about one aspect of the approach followed by PW/IPG consultants, other donor-provided technical assistance, and ZPA: the nature of valuation exercises and the weight given to them.

PW/IPG in general, and its advisors and consultants in Zambia, has always emphasized that market value is what counts in the pricing of enterprises that are to be sold. The fact that this is a technically uncontestable idea, universally acknowledged in the communities of accountants, financial analysts, and economists, does not diminish its practical importance, because many laymen — especially but not only politicians — find it a hard notion to swallow. Their view is that the sale price for an SOE should depend on its book value, usually measured as the historical cost or replacement value of its assets.

The valuation process seems to have gone awry in Zambia in part for this reason. The Privatization Law, terms of reference of company privatization studies, and prevailing practice require that company valuations based on the worth of physical assets be included, and this has become common practice. This is harmless enough on the surface, and is even useful as an estimate of scrap value if liquidation is a possibility. But it has mischievous consequences in many cases:

- The estimates tend to be too high. They rarely take into account the external factors that condition the value of these physical assets, such as technological obsolescence and the market demand for the goods and services they produce;[5] and

[5] The legally defined fee for valuers in Zambia is a percentage of the final valuation. This creates an obvious incentive to overvalue.

- The elaborate calculations of value based on physical assets that are contained in company privatization studies give a pseudo-scientific justification to thinking about value this way. They confirm the instincts of decision makers about how to measure company worth; they take it to be a floor price, and often reject offers that fall below it. Even ZPA management in some cases has taken physical asset valuations as floor prices.[6]

A second distortion characterizes the prevailing approach to valuation, and is somewhat more subtle than the first. Elaborate projections of future earnings are used to calculate net present values of SOEs; these are the heart of the company privatization studies that are used to guide government negotiators. This is conceptually on target — the right way to measure company value. But what matters is not how consultants see probable future earnings flows, but how potential buyers see them. The only situation in which detailed government projections of future earnings are required is for initial public offerings.

When SOEs are sold as going concerns, these elaborate valuation exercises are superfluous, a waste of time and money. All that is needed is a short (perhaps 25 page) prospectus — a summary of the company's past earnings history, its present market position, its problems, and its potentials. What's required is attractive bait, a marketing device — a document that tells the potential buyers there's something here that's worth looking at. Any genuine potential buyer is going to do his own analysis; his vision of the company's potential will determine whether he will bid and what he is willing to pay.

So simple an approach is not pursued for four main reasons:

- Habit or tradition: the preparation of country privatization studies and confidential information memoranda are standard practice worldwide;

- Everybody seeks the greatest transparency possible in these transactions and the preparatory studies are seen to contribute to that objective;

- Country privatization studies provide political cover for everybody concerned, especially responsible officials and political authorities; and

- Company privatization studies are free goods. Donors are willing, even anxious to pay for such studies. The German aid agency (GTZ) has financed 16 company studies, and NORAD (Norwegian aid) another 3 or 4. GTZ will finance 20 more company studies in the next phase. The cost of each of these is between $120,00 and $140,000. We thus have a third party payer problem. Demand for such studies is high because while not essential for effective privatization they provide some benefits — primarily political cover but also some direct advantages — and cost the consumer nothing. Supply is

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[6] For example, Zambian Clay Industries, Ltd., a nearly defunct operation, had two offers. ZPA management rejected them as too low, on the basis of valuations in a company privatization study. Monarch Zambia, Ltd. had a number of bids of which the highest was $1.5 million. The ZPA Board rejected the sales agreement at that price. The company was valued at $5 million; the Board set a floor price of $3 million. Adherence to recommended floor prices can be rigid. The floor price fixed for Chilanga Cement was $19 million, for example, and the Board rejected an agreement based on an offer of $17 million, though later negotiation resulted in agreement.

buoyant because donors see these small aid allocations as making vital contributions to a transparent, successful privatization process.

In-depth valuation exercises are not only costly and largely redundant, but have an undesirable indirect effect as well. They contribute to the neglect of marketing, which should receive much higher priority in the privatization process than it has yet been given. You don't have to be Michael Porter to recognize that the one important way to get a better price for any company is to increase competition on the buyer side. Yet most marketing efforts in Zambia (and probably elsewhere) are perfunctory — a few advertisements in newspapers and journals. There is clearly an imbalance between inputs devoted to preparation/valuation and those allocated to marketing.[7]

CAPACITY-BUILDING IMPACT

Success in institutional development in ZPA is a second criterion for assessing project effectiveness. It is not evident that the capacity of ZPA is significantly stronger now than it was a year and a half ago. Formal staff training did take place — a seminar on valuation methods, for example, and weekly staff meetings were used as forums for formal and informal training and information dissemination. Counterparts were trained in PC use, business correspondence, valuation, and marketing. But systematic approaches to on-the-job training do not appear to have been developed. Evidence of strengthened organizational competence is not apparent.

The lack of evidence of stronger ZPA capacity may in part be the result of the brevity of the PW/IPG presence. But 18 months is perhaps long enough to have left some impact. However, many factors worked against capacity-building efforts. Over this period, ZPA itself was brand new and concerned mainly with establishing itself. The threat of unmet conditionality required that priority attention be given to negotiating sales. All concerned parties — ZPA management, USAID, and PW/IPG and its consultants — wanted the focus to be on pushing through transactions. No capacity-building mandate is evident in the Terms of Reference or scopes of work.

Also, according to some ZPA staff, the PW/IPG-provided technical assistance suffered some misfortunes of a kind not uncommon in the technical assistance business. One key staff member who came on board early turned out to be patently unsuitable and was fired after a few months. The other members, though individually strong, reportedly did not jell as a team. There appears to have been some public airing of intra-team differences within ZPA, which reduced the impact of the team on that agency.

[7] It is true that marketing companies involves marketing the country, which can create special difficulties if the investment climate and external perceptions are unfavorable.

RESPONSIVENESS TO USAID REQUIREMENTS[8]

With one exception, the quality of personnel provided by PW/IPG was excellent. The USAID Project Officer and ZPA management give very high marks to two of the longer-term advisors (Edwards and Johnson) and acknowledge that almost all the consultants provided by PW/IPG were competent and fully satisfactory.[9] One advisor who was supposed to stay for six months was found unsuitable and was asked to leave after a month.

USAID/Zambia staff concerned with the project expressed considerable dissatisfaction with the contractor's performance, in particular that of the Washington office.[10] The following concerns were noted:

- The references of the unsuitable advisor had not been carefully checked; if they had been, it is highly unlikely he would ever have been selected;
- PW/IPG took two months to get a replacement in-country;
- PW/IPG did not take the Mission's request for additional consultants seriously at the outset, and suggested weak candidates;
- PW/IPG was unwilling to extend Mr. Johnson for the two to three months that his services were urgently needed. The Mission's view is that the new post to which Mr. Johnson had been assigned could have been filled by another person. They believe the attitute of PW/IPG/Washington in this matter reflects lack of responsiveness;[11]
- In February 1993, USAID/Zambia was asked by ZPA to supply additional short-term consultants. They turned to PW/IPG, but were told that a PIO/T would have to be sent first by the Mission to the PAD project officer in Washington; PW/IPG management explained that funds would have to be committed before they could act; and
- The Mission observed that the contract included persons (such as an intern) whom they never requested and from whom they did not receive any work that they could recall.

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[8] See the Zambia Mission staff's extensive comments in their response to the questionnaire sent to all Missions for this evaluation (Annex B).

[9] They note, however, that all but one of the PW/IPG consulting team had a prior successful record with ZPA under other contracts, so success in consultant selection was nearly a sure bet.

[10] The Nairobi regional office of PW was very supportive. And in implementing the "lessons learned" study, both the responsible subcontractor (SRI) and PW were "exceptionally responsive," according to the questionnaire response.

[11] The questionnaire response puts it this way: "The general attitude seems to be that 'Well, we have enough other work so your demands are not that important.'" PW/IPG staff point out that Johnson and Edwards were extended for two months beyond their original end-dates, prior to additional requests for extension. They note that Johnson's assignment was not routine, as the mission impiies; it involved managing 26 professionals engaged in Kyrgyzstan's mass privatization program.

ANNEX A

SCOPE OF WORK

Scope of Work

ARTICLE I - ACTIVITY TO BE EVALUATED

Privatization and Development Project (No. 940-0016) of the Bureau for Private Enterprise's Office of Emerging Markets (PRE/EM).

ARTICLE II - PURPOSE OF THE MID TERM EVALUATION

To provide a team of experts to make an interim evaluation of the project and to answer the following broad questions.

A. Relevance. Are the services being provided to the designated countries well correlated with the original designs of the project?

B. Effectiveness. Is the project implementing privatization programs as well as helping decision makers recognize the potential benefits which divestiture and privatization can bring [i.e. supplying technical Assistance to confront specific technical implementation problems such as establishing a sales price for a given asset or crafting legislation to permit the use of Employee Stock Ownership Plans (ESOPs)].

- Are the policies introduced by Missions well received and effectively integrated into the host government?

- Are programs presented in a manner easily comprehensible to the clientele?

- What components are successfully put into action and can they be usefully replicated elsewhere?

C. Efficiency. Are project outcomes being produced at a cost comparable to the estimated cost? Are less costly alternative methods of implementation possible?

- Are the countries able to take full advantage of the services supplied or are there some restrictions?

- Are the project's services such as technical assistance and implementation strategies being provided in a timely manner?

D. Impact. What positive and negative effects have resulted from the project?

- Is this project stimulating the interest and providing the awareness needed by other agencies and Missions to initiate similar programs?

E. Sustainability. To what extent are the project efforts permanently integrated and effectively institutionalized within the country's organizations and/or the Mission's planning process?

- Is there sufficient demand for and supply of the various components introduced through the project?

- What changes are needed in order to implement sustainable performance and long-term capacity of the project's reforms?

F. Responsiveness of Project's Mechanisms. As a general overview, what impact are suggestions by the Contractor for changing the project having on the success of the project?

- Are suggestions for improvement -- made by the Contractor -- implemented into the already existing framework of the project by the Missions' teams?

ARTICLE III - BACKGROUND OF THE ACTIVITY

A. The Privatization and Development Project was originally designed in order to continue and enhance the efforts of its predecessor, the Divestiture and Privatization Project (940-0008). Under this project, a two year $4.9 million contract was awarded to Scientex Corporation. The contract established the Center for Privatization (CFP), a consortium of six companies to provide expert advisory services to governments and private firms in developing countries on privatization and divestiture. CFP established an extensive bibliography and library of publications on privatization. They have also produced and issued a number of publications on privatization (i.e. country reports, "Why Privatize?", and "A Privatization Conference Planning Guide"). The Contract provided central Bureau core funding for numerous tasks designed to advance the Agency's privatization objectives and allow overseas A.I.D. missions to buy-in to the contract to obtain needed technical assistance. This project was dominated by the arduous task of changing the mind-set of the governments, populations, and business people in countries where the project was being implemented. The project's activities comprised the following:

1. Privatization Strategy
2. USAID Mission Program Reviews
3. Dialogue with Multilateral and other Donors
4. Publications
5. Establishing Country Priority Criteria
6. State Enterprise Marketing Study
7. Privatization Conferences
8. Privatization Data Base

The improvements on the predecessor project that the Privatization and Development Project hopes to gain include:

1. To assist decision makers in A.I.D. recipient countries in recongnizing and understanding the potential economic benefits of privatization;

2. To assist A.I.D. recipient countries in developing and implementing effective privatization strategies and programs;

3. To help A.I.D. recipient countries develop the capacity to independently implement their privatization programs without need of further donor assistance.

In order for these improvements to be gained, the Contractor should meet the following objectives:

1. Develop and implement a mechanism for monitoring and evaluating privatization efforts in A.I.D. recipient countries.

2. Develop a framework for identifying target countries in which project interventions have high potential for success in initiating or advancing a privatization project.

3. Provide a method for advancing interest and knowledge of privatization activities and techniques among the decision makers of the developing world.

4. Provide a vehicle for assisting overseas A.I.D. missions and host countries in developing and implementing an effective privatization strategy and action plan.

5. Provide A.I.D. with the capability of providing high quality technical assistance on short notice in a wide range of skill areas related to privatization.

6. Provide a means for gathering and distilling experience in selected important aspects of privatization. These analyses should integrate the lessons learned into useful guidance which should be widely disseminated to privatization practitioners, government officials, and the donor community - including A.I.D.

Has the Contractor maintained:

1. weekly informal meetings
2. quarterly reports
3. annual work plans
4. field reports
5. delivery order report requirements
6. final report.

ARTICLE IV - STATEMENT OF WORK

The evaluating contractor shall conduct a survey, using a cable survey questionnaire and telephone, to missions which have completed or ongoing delivery orders under the P&D project contract. This survey will generate answers to the questions below. In addition, the contractor will visit a sample of "client" countries, selected for reasons of the complex, "cutting edge", or problematic nature of tasks called for under the P&D delivery order(s). In these countries, the contractor will use the same set of questions as the basis for a more in-depth inquiry of project performance and results, in interviews with USAID mission staff, and key host government officials selected by USAID project staff. Where there have been evaluations undertaken or in process of USAID privatization projects, the contractor will draw information from such evaluations, in consultation with USAID staff, to enhance the breadth and depth of this evaluation.

A. Relevance. Have the various strategies used by the contractor allowed for sufficient analysis of problems to be addressed by the contractor under AID-assigned tasks? If so, have the strategies been relevant and flexible enough to meet changing political and economic conditions in host countries, or USAID private sector/privatization program objectives?

B. Effectiveness. The evaluation should provide information to determine whether the presentation of the project has made satisfactory progress towards achieving its stated specific objectives:

1. Develop and implement a mechanism for monitoring and evaluating privatization efforts in A.I.D. recipient countries.

2. Develop a framework for identifying target countries in which project interventions have high potential for success in initiatng or advancing a privatization project.

3. Provide a method for advancing interest and knowledge of privatization activities and techniques among the decision makers of the devolping world.

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195

analyses should integrate the lessons learned into useful guidance which should be widely disseminated to privatizations practitioners, government officials, and the donor community - including A.I.D.

C. Dissemination of Information Objective.

a. Has the contractor maintained updated relations with PRE Bureau through its reports and meetings?

b. Were the newsletter, press clippings, and other publications targeted to the appropriate audiences? If not, what other staff members or interested personnel should be included in the mailing list.

D. General.

a. Is the PRE Bureau effectively and efficiently managing and promoting the project? Specifically, what could the Bureau do in order to stimulate more interest or awareness?

b. Have the Contractor and PRE Bureau completed the work needed to maintain a sharp focus of the project? In what ways, if any, have these two entities drifted from the original objectives?

c. Is there evidence that the previously mentioned 6 objectives are relevant and effective in achieving the overall project goals?

d. What can be done specifically to revise the project design, focus, and coverage, to further improve any other projects of this nature?

E. Efficiency.

1. Briefly describe alternate approaches and mechanisms for Privatization and Development that PRE might employ in the future (These can be broken down into the 6 subject areas mentioned above).

2. Are the subcontractors maintaining close relations with the governing contractor throughout the project so that the Contractor is evidently benefitting from their services? If not, what services can be provided by the subcontractors in the future to more effectively assist the Contractor?

F. Impact.

1. Are the recommendations of the project consultants being communicated to all countries possibly interested?

2. Are the press clippings, case studies, Privatization Database, publications, and presentations produced successful in communicating all current aspects of the development of the project, or has their information been limited?

3. Is there evidence of substantial interest in the material presented at the various conferences and/or presentations so as to lead to the development of similar additional projects?

4. Is PRE maintaining close contact with other international donors throughout the project? Briefly describe the cooperative efforts made by these organizations.

5. Identify the countries where the Privatization and Development project has most successfully carried out its principal objectives.

6. Are the countries and A.I.D. Missions integrating into their policies the recommendations furnished and projects implemented by the Privatization and Development project? Is there evidence that these suggestions were actually implemented by the host governments?

G. Sustainability.

1. What appears to be the institutional impediments of promoting a sustainable, strategic approach to the development of the role of Privatization as a development tool?

2. What additional resources are necessary to increase the feasibility of sustainable activities which the countries researched will be able to build upon and improve in the future?

3. What changes can be made to improve the idea of "ownership" or "stakeholding" at the mission level?

4. Looking ahead, what new programs or efforts can be implemented internally and externally through Privatization and Development to make it a more successful and lasting project?

Responsiveness of Project's Mechanisms.

Are deliverables produced by the contractor, or recommendations and suggestions made to the mission or host country by the contractor clear, acceptable, and readily implemented?

ARTICLE V - METHODS AND PROCEDURES

A. The Contractor shall develop a work plan for this evaluation that fits within the framework set forth below. Modifications within this framework shall require PRE approval.

B. At the start of the evaluation, the evaluation team shall meet with representatives of PRE and the Office of Project Development and/or Private Enterprise Bureau to prepare a detailed work plan.

1. Interviews. The evaluators shall conduct interviews with individuals identified from the following groups using a questionnaire or other appropriate methodology developed by the evaluators and approved by PRE/EM:

   a. Representatives of the project contractor(s) and subcontractors;

   b. A.I.D./PRE personnel responsible for managing and monitoring the project, including PRE and regional bureau staff, and other A.I.D./W staff knowledgeable about the project;

   c. By telephone and/or telegram (as necessary), A.I.D. Mission directors, private sector officers and other personnel who worked with project consultants or are otherwise familiar with specific project activities abroad;

   d. through visits to a sample of client countries, tentatively including Russia, Poland, Morocco, Burundi, Zambia, Nicaragua, Bolivia, Ecuador, Philippines and Indonesia, senior host country officials, host country consultants, representatives of other donors providing privatization assistance. This list may be amended by mutual agreement of the contractor and PRE.

2. Research. Research shall include, but not be limited to, review of the following:

   a. Project consultants' reports and any other documentation generated by project contractor(s), subcontractor(s) and consultants;

b. A.I.D. documentation of the project, including the Project Paper, the core contract and modifications for Mission buy-ins, the Request for Proposal and proposal for the project contract;

c. Contractor's regular reports to A.I.D.

d. Previous assessments of project work, including Mission reviews of consultants' reports; and

e. Other additional questionnaires.

ARTICLE VI LEVEL OF EFFORT AND WORK SCHEDULE

1. The scope of work calls for three senior Policy and Program Analysts and one Budget and Financial Analyst:

   a. The Policy and Program Analysts shall each have formal education in the fields of development finance, economics, business administration, and substantial professional experience in privatization AND one or more of the following: macroeconomic policy analysis and development, financial markets development, and business administration. Each of the three analysts must have substantial experience in the above areas working in developing countries, and must have served as the team leader on at least one prior evaluation mission, and/or privatization mission involving a privatization transaction using a transparent (e.g., public share offer, tender) mechanism.

   A total of 93 workdays will be needed.

   b. A Budget and Financial Analyst will assist in preparation of the survey schedule, tabulation and collation of survey responses, basic research, preparation of budgets, cost accounting, backstopping and other supportive tasks.

   Total workdays; 20.

2. Work Schedule

   Week 1: Review of relevant materials and interviews with PRE, other A.I.D./W staff connected with the P&D project, and other donor officials, as recommended by PRE/EM. Evaluation work plan and survey questionnaire schedule submitted for PRE approval. Survey cabled to USAID missions.

W[illegible] [illegible]Visits to sample of P&D client countries to interview USAID, host country officials and other donor officials. Budget and Financial Analyst will collate and tabulate survey responses.

Week 5: Formatting and construction of evaluation report. First draft submitted to PRE. Debriefing of AID/W staff and P&D contractor.

Week 6-7: AID/W review and finalization of report.

Attachment C

Background Information

The Privatization and Development (P&D) project is fulfilling the intent and purpose of the Office of Emerging Markets project portfolio of providing state-of-the-art technology in private sector development to A.I.D. and P&D "client" host governments worldwide. The project, arguably the trend-setter for the agency in the field of privatization, has proven a star performer in overall quality and volume, far exceeding the original expectations of worldwide demand. The project's rapid growth has nonetheless resulted in certain stresses in performance. The purpose of the mid-term evaluation, to be conducted by Development Alternatives, Inc., is (a) to determine whether both the core and requirements contracts are being fulfilled in accordance with their stated requirements, and (b) to recommend alterations in the two contracts, and in the way the contractor is performing that will better fulfill project goals and objectives.

At the project's halfway point, 50 Delivery Orders (D.O.) had been completed or were underway, totalling just under $30 million. This figure is three times the original estimated value of the Requirements contract of $10 million. Much of this growth was driven by high profile U.S. initiatives in Eastern Europe and the NIS region before AID had in place instruments to provide other technical support to those regions. At the same time, PRE was aware from the start that implementation problems might arise as a result of a tight core budget relative to a complex set of core tasks. Key core staff to develop and oversee the large overseas program, operate a privatization data and information storage and retrieval service for AID and host country users, as well as fulfill PRE bureau needs for privatization technical support has remained three persons. However, a change in the functions of the third key position has been initiated to correspond with actual experience which has called for less research and more day-to-day coordination. OP and PRE/EM have discussed from time to time implementation issues relating to core staff and costs, such as the time spent by the project executive director on D.O. projects. We look to the evaluation to assist OP and PRE in identifying such issues and recommending solutions. We expect also that careful analysis of project performance under the requirements and core contracts will reveal trends in privatization technologies and financing, as well as salient political and social issues that beg for solutions, to enhance the effectiveness of privatization tecnical support.

Given the high profile of this project in the agency's private sector strategy, and the role it plays as the "cutting edge" in privatization technology, it is essential to ensure an objective and high quality product from this evaluation. Therefore, PRE/EM has selected one of AID's evaluation IQCs to undertake the evaluation. Development Alternatives, Inc. (DAI)

151

has a sound reputation in conducting evaluations for AID. In particular, DAI has had recent experience in evaluating privatization programs in developing countries in particular. Its expertise in privatization as well as financial markets development and macroeconomic analysis qualify DAI to examine the "big picture" of economic restructuring in which privatization plays a central role, as well assess the quality of privatization policies and institutional structures at the host country level. To the best of our knowledge, no DAI principal likely to work on this evaluation has worked on the P&D project for Price Waterhouse or its subcontractors. (DAI principal Elliot Berg recently completed an evaluation of privatization programs in Africa for the World Bank, which should be an asset in carrying out this evaluation.)

It is expected that the evaluation will take eight weeks. the final report should be delivered to PRE not later than the end of November, 1994. The evaluation scope of work calls for an investigation of P&D "clients" in AID/W and overseas. Three senior DAI investigators will hold in-depth discussions with PRE, OP and regional bureau staff responsible for P&D core or D.O. activities before travelling to a sample of countries where they will interview USAID and host country senior officials about P&D project performance. DAI visits to countries where missions are conducting their own evaluations of USAID-funded privatization projects involving P&D will be brief exchanges of pertinent information, while more in-depth discussions will take place in the other project sites. At the same time, DAI will survey by cable the remaining missions using P&D services; information derived from the cable survey should confirm patterns or point up anomalies or problems worth further investigation. The first draft of the report should be delivered to PRE/EM no later than the end of the fifth week, following debriefing of PRE and other AID/W staff.

ANNEX B

MISSION RESPONSES TO QUESTIONNAIRE

SSION RESPONSES TO QUESTIONNAIRES

Mission	Used PAD Y	Used PAD N	Responses
Bangladesh		X	According to our records, USAID/Dhaka has not used PAD. The mission is in the process of recasting its private sector development strategy, including the role of privatization and future demand for services in this area.
Bolivia	X		1. Yes, on several occasions, dating back to 1989.
			2. The mission's assessment of TA provided by PAD, would vary according to the time period involved. Before 1990, our experience was average at best. As PW took charge, the improvement was quite noticeable. USAID/Bolivia has used IPG on 3 major DO's, 2 of the 3 related to privatization TA, and the third geared towards the development of a PR campaign for ongoing activities in a government of Bolivia (GOB) initiative to "privatize" its pension funds system. The mission was particularly satisfied with IPG's performance in DO's I and II. (rating: excellent). DO III, unfortunately, was not concluded due to continued delays on behalf of the GOB in authorizing a full-fledged PR campaign.
			3. Excelled in prompt and responsive service. Flexibility in providing TA was the norm. Several tasks required a significant level of locally-hired staff, particularly in the case of pension reform initiatives. This has helped in establishing a cadre of Bolivian professionals that will undoubtedly find its way into key positions within those entities that will monitor and supervise the new system.
			4. Of contention, in this mission. Although USAID/Bolivia realizes the benefits of using contract mechanisms such as the IPG buy-in, the negotiated overhead rates for said contracts have, from our point of view, been excessive. In fact this missions experience has been that in many instances PW TA was supplies via TCN's or other US-based consultants that were not PW staff. This puts into question the reasonableness of lofty overhead rates. On the other hand we realize that PW was very understanding of this situation and where possible sought to accommodate our concerns depending on the nature and content of the tasks performed.
			5. This mission has always believed that the IPG consortium had the best mix of experience to satisfy the TA requirements needed for the Bolivian privatization program. We have not used the services of any small IQC's, and therefore cannot comment on how they compare to IPG. As mentioned earlier we have always been very satisfied with the quality of the work provided by PW and its consortium.
			6. Although this question may be best answered by the end-user (i.e. the GOB), it is our impression that, due to the nature of the TA provided, and the extent of coordination with local GOB counterparts, that significant amounts of "technology transfer" has taken place.

			7/8. PW/IPG has provided TA in a number of different areas. But perhaps where it has had the most impact was early on in the Bolivian program, when decision makers had to be informed of the importance of designing a well-planned privatization strategy. These efforts eventually led to the development of legislation that has proven to be flexible enough to allow for a number of divestures, including - as of late - the possibility to sell what are considered "strategic" entities (the National Hydrocarbons Company, local and long distance companies, railroads, etc.). Furthermore, PW work performed under the Bolivian pension reform initiative will undoubtedly set the stage for unprecedented macro-economic change, the cornerstone of a structural adjustment program which we anticipate will go into effect in early 1995.
Botswana		X	USAID/Botswana did not receive nor request assistance under the PAD project. The mission may request privatization services through the PAD during FY94 and FY95 to assist in the development and implementation of a medium term privatization strategy for state-owned enterprises in Botswana.
Chad		X	To date, USAID/Chad efforts have not included a privatization program nor do program projections envision such a program. Nevertheless, USAID/Chad welcomes information on current resources available on privatization TA, especially in regard to training.
Cote d'Ivoire		X	I do not believe that REDSO/WCA has requested or rec'd assistance from PAD. To the best of my knkowledge, the only direct privatization assistance that has been provided by AID to Cote d'Ivoire has been the funding of several participants to US-based seminars on the subject.
El Salvador	x		1. We had requested assistance but the GOES changed its mind and no assistance has since been requested.
			6. Information has been received and kept on file.
			8. - A method for advancing interest and knowledge of privatization activities and techniques among the decision makers of the developing world. - A vehicle to help overseas AID mission and host countries develop and implement effective privatization - Organizing trips to see other countries experiences in the process, to learn the mistakes and the successes.
Gambia	X		1. Yes.
			2. Above Average.
			3. PW/IPG was both responsive and flexible. The delivery orders were focussed solely on the privatization of the Gambia Produce Marketing Board (GPMB) and therefore had no designated training activities. However, in valuing the assets, writing the sales prospectus and advising on the negotiation and bid evaluation methodology, the consultants worked closely and successfully with USAID/Banjul and more importantly, the national investment board of the Gambia.
			4. Unknown.

			5. During [illegible] in Washington, a representative from USAID/Banjul met with several project managers to discuss using consultant services. Mission representative received good support from Penny Farley and was able to discuss mission needs with PW. Based on these fruitful discussions, it was decided to contract with PW.
			6. Not to my knowledge.
			7. Privatization of the GPMB was a condition precedent to the first trance non-project assistance in the Financial and Private Enterprise (FAPE) program. The Privatization and Development (PAD) project was instrumental in USAID/Banjul identifying and mobilizing, on a timely basis, expertise required to complete this action. The GPMB was the Gambia's largest SOE. As with many of Africa's early 80's privatization efforts, the GPMB had long lost its profitability and had become saddled with a diverse portfolio of poorly maintained assets. The PW/IPG team segregated the company into core assets or those critical to GPMB's primary business activity, (the collection, processing and marketing of groundnuts and groundnut by-products), and non-core assets or those that were not. This was followed by a valuation and marketing strategy for each. The core assets were packaged in a prospectus that was widely advertized and distributed both locally and internationally. PW/IPG maintained involvement throughout the receipt of offers stage as well as provided much needed guidance with respect to negotiating the final sale. On July 28, 1993, the core assets of the GPMB were successfully sold to a Gambian/Swiss joint venture.
			8. The Gambia has had a very attractive and enviable record of privatizations over the past five years. The remaining key targets of opportunity include the telecommunications company (GAMTEL), the transportation company (GPTC), the port (GPA), and the airport facilities (GCCA). Although USAID/Banjul's continued involvement calls for assistance in developing and implementing a multi-year divestiture plan, it is not possible at this time to determine if and when specific privatization technical assistance will be required. It is most likely, given budget projections, that additional PAD services would not be required prior to December 20, 1995.
Ghana		X	Mission has not used PAD and therefore cannot comment on its performance. Mission does not anticipate working in the privatization area during the next year or more. So it is unlikely that the mission will need assistance from PAD during that time frame.
Guatemala	X		1. The mission completed one buy-in in 1991 to provide assistance to the Ministry of Communications, Transportation and Public Works on the feasibility of the concession operation of a portion of Guatemala's road network.
			2. The assistance provided under this project was above average/excellent.

		3. The mission, the Ministry and the Guatemalan enterprise chamber, the private sector organization who worked as a liaison with the ministry, were very satisfied with the work completed by PW's IPG. The response from PW was prompt, responsive and flexible enough to take into account the changing needs of the ministry. The two consultants that were provided were knowledgeable, with a broad background of road concessioning issues, and fully unclassified. Met the needs of the Ministry, even staying a few unplanned days to make a presentation, in Spanish, of their findings before a group of private road construction firms at the request of the ministry. They worked with advisors to the minister on the technical details of the report to ensure that they were understood and that the Ministry would have enough information to proceed with road concessioning in the future. Following the completion of the technical assistance, the consultants kept in touch with the mission to see how the ministry was progressing in implementing their recommendations and if any further assistance was required.
		4. The PAD project was the only source considered for this assistance. It is therefore difficult to assess its relative cost effectiveness.
		5. Following the use of the PAD project, the mission decided to use funds remaining in an older buy-in to the Private Enterprise Development Support Project to provide TA for the privatization of Empagua, the municipal water authority. This decision was primarily based upon the mission's desire or a felt need to try alternative sources of privatization technical assistance. Although privatization is included in the list of topics covered by the PEDS project, it is not its central focus. This resulted in a significant delay on the part of the consulting firm managing the PEDS project in identifying suitable consultants.
		6. The mission has benefitted from PW's information dissemination activities by being on the project's mailing list and therefore receiving monthly summaries of worldwide privatization actions excerpted from newspapers and other publications. A more useful unclassified service would have been a short analysis of what approaches were working in other countries and what problems were being encountered based on the project's own experiences.
		7. The TA provided by the PAD project established a solid analytical base on which road concessioning could proceed. Due to a difficult political environment and a change in the Minister of Communications, Transportation and Public Works, no action has been taken the concession portions of the highway system.

			8. The concept of privatization in Guatemala has recently surged in popularity with the recent change in government. We plan on continuing to work on privatization issues through an agreement with the Guatemalan Enterprise Chamber, the umbrella organization of the organized private sector through 1997. The mission may request additional assistance from the PAD project, but it is too early at this point in the time to be specific in terms of amount of funding, time frame or even the exact subject area. As the needs become more specific, we will be in contact with G/Pre. Given our positive experience with the PAD project, it would certainly be high on our list of technical assistance options. If you would like clarifications on any of the points addressed in this cable, please slug your questions to Kim Delaney in ISPRIE/USAID/Guatemala.
Guinea		X	The mission does not anticipate participation to this program in the foreseeable future.
Honduras	X		1. The mission is presently receiving TA under PAD for the privatization of the telecommunications system in Honduras.
			2. Our experience has been limited to the work presently being carried out for the telecommunications system. We rate their performance on this job as excellent.
			3. The contractor has been sensitive to capacity building needs of the host government and has been prompt, very responsive and flexible.
			4. We have no basis to compare the cost effectiveness of PW/IPG services with other sources.
			5. The selection of PAD was based on the reputation and experience of the PW/IPG group in privatization in other countries.
			6. The information disseminated on privatization under PAD is very good and will be used locally in privatization conferences/seminars that are planned by the chamber of commerce and other private sector institutions for next year.
			7. It is too early to measure the impact of PW's efforts to privatize Hondutel. However, we believe that the work performed to date is high quality, has met the needs of the GOH, and will be a significant factor in achieving the privatization of this entity.
			8. We expect that by the end of the PAD mandate, most of the state-owned enterprises in Honduras would have been privatized and the Privatization project will end. Therefore, we do not envision any further needs beyond 1995.
Indonesia	X		1. Yes.
			2. Average.

158

			3. Client (USAID/Indonesia) satisfaction has been average. Performance and client satisfaction have only been average because of lack of substantial progress toward desired achievements. Much of the reason for this, however, has been outside PW's control. Such as institutional reorganization. Both PW and USAID/Indonesia are currently taking a more proactive posture and the GOI are currently taking a more proactive posture and the GOI has now taken steps to revive its slow-moving privatization program. Mission is confident that, with a little more than a year left in USAID/Indonesia's privatization activity, PW will be producing results far exceed those achieved in the activity to date. The contractor has been sensitive to capacity-building needs of the host government. PW/IPG, already working in Indonesia for several years, has been prompt, responsive and flexible, although no new contracting has been involved.
			4. PW is an expensive firm. Their prices are higher than the average AID contractor, but, usually so is the quality of their work. In certain instances AID has benefitted despite higher costs in other instances, the results have been disappointing. One such case in Indonesia involved an expensive expert for two years to establish a financial and administrative framework for the private provision of public services. The consultant, despite some good, was not successful in instituting this framework. In another instance, PW started a training needs assessment for the GOI entity overseeing privatization, only to have a major reorganization render it almost useless.
			5. USAID/Indonesia selected PAD because we needed a contractor well-versed in privatization over a three-year period. We could not use IQC's and when we were looking, in 1991, PRE/EM had the most attractive product. We have used no other suppliers.
			6. We are aware that PW publishes press clippings on privatization. We are not familiar with other information dissemination activities.
			7. Impact to date has been minimal. Mission predicts impact over next 12 months will be significant. The difference can be attributed to two factors: (1) the GOI, after a slow start and much soul-searching, is now making movement in privatization and (2) as a result of a recent evaluation of the financial market project (of which privatization is one component) USAID/Indonesia is now taking a more active role in pushing the GOI and PW for results. There is also a change in program approach. We are shifting from relying on a long term advisor who ended up in a responsive mode rather than a proactive one - to short advisors which will have very specific mutually agreed upon activities which are clearly linked to desired project outputs.

157

Jamaica		X	USAID/Jamaica has not made use of the PAD project to date and does not have any current plans to do so since we expect that Jamaica will continue to need basically the same type of ongoing general and specific privatization support that it has been receiving under the Export Development and Investment Promotion (EDIP) project. Since 1990, under EDIP, the mission has supported Jamaica's privatization program by providing funds for professional services. To date, over 180 sectors have been divested, using a range of methods including asset sales, public offerings and leases.
Mexico		X	AID/Mexico has never requested or received assistance under PAD. The GOM is one of the leaders in privatization. AID/Mexico Rep Jerry Bowers explored the possibility of AID support with GOM representatives, but they declined the offer. We have received some materials, but without knowing what has been prepared for dissemination, it is difficult to know if we have received everything. No future requests under this project are planned for AID/Mexico. The major contact that AID/Mexico has had with the PW/IPG project was a visit of three Ecuadorans to Mexico to learn about the Mexican privatization experience. They were accompanied by a PW representative. We received a request to assist them in setting up a series of meetings. Jacques Rogozinski, Head of the GOM Privatization Office, helped AID/Mexico in making appointments. It appears that the Ecuadorans were able to learn a great deal from the visit.
Nepal	X		1. Yes, USAID/Nepal is currently receiving assistance from PAD.
			2. PAD assistance has been excellent in all the activities outlined below. Our primary contractor is Price Waterhouse with Intrados as a sub-contractor. Thus far, Intrados has been doing all the work, however, we expect some people from Price Waterhouse for some of the more complex privatizations still to come. The contract is for providing consultants both Nepali and expatriates, carrying out valuation of plant and machineries, doing financial analysis, recommending selling strategies, prepare privatization action plan, implementing action plans, etc. We have had the consultants for less than four months. In this period, four public enterprises have been privatized and turned over to the private sector. Two are on the market now and another two scheduled to go to market within the next two weeks. This process will continue until 14 are privatized. The contract is to privatize 14 enterprises in one year, and at the pace it is currently moving it is not difficult to meet the target. There is a very good coordination between the contractor, USAID and the host government, and the consultants are called in as the need arises.

			3. Technical assistance provided by the contractor has been excellent. As the government has also become experienced with privatization they know the quality of technicians offered and are very selective when going over the resumes. These contractors are hired on the basis of their experiences on privatization and re-called only if we are satisfied. The contractor has been very prompt, responsive and flexible, i.e. they have not pushed for any consultant that the government has rejected. The contractor has also gone out of their way to use Nepali contractors whenever possible, including having special training programs to get Nepali contractors familar with procedures.
			4. Initially, Price Waterhouse felt that the cost we had allocated fell short of level of efforts needed for the privatization program. There was a lot of discussion on this as the Nepalese government felt that the cost of privatizing public enterprises in Nepal could not be compared with the cost of privatization in other countries since most of the public enterprises on the list were small for which preparatory work has been done by the Ministry of Finance or could be done by Nepalese consultants. With $1.3 million, we believe that we can privatize at least 14 enterprises, if not more.
			5. We selected PAD because we needed a quick contract to continue with the privatization work after the first three were privatized with the assistance of UNDP. Also we had been very pleased with earlier privatization training done by Intrados. As they were a major sub-contractor, we used the PAD as a way to secure the services of Intrados. We have not contracted with other suppliere so we cannot give a comparison. We had tried to secure a person to help with privatization from another USAID contract, with Chemonics. But they were not able to move fast enough, nor were they willing to allow the Privatization Cell to control the work of the consultant (required for confidentiality).
			6. We have not received any information from PW on privatization.
			7. The work the contractor is doing so far has made a significant impact on the process of privatization in the country. As the contract was to privatize 14 enterprises, it is moving along well. It has been mentioned above that three enterprises are being transferred to the private sector, four should be advertised for sale soon, and another three or four are being prepared for privatization. All this within a short period of less than four months. This definitely is an excellent record.
Nicaragua	X		A consultant from DAI conducted field work for the subject evaluation during the week of October 25-29, which included an assessment of all aspects of the activity. Therefore, this cable is in response to question 7 and 8.

			7. The privatization of two sugar estates, two large hotels, and the pending privatization of another hotel and TELCOR, the telecommunications monopoly have had or will have a significant impact on Nicaragua. These transactions eliminate badly-run and money-losing, state-controlled enterprises, reduce public sector employment, and encourage new private sector investment, both in existing assets and in expanding, rehabilitizing and modernizing these previously state-run enterprises. The mission is planning to continue its support to the privatization program, utilizing policy measures incorporated in its PL-480 Title III and economic support programs to facilitate the process, and project level technical assistance to carry out the privatizations. Possible candidates include ports, grain storage facilities, the petroleum marketing company, and one of the state-owned banks. All of these privatizations will be significantly more complex and politically more difficult than those attempted to this date.
			8. The nature of assistance utilized will be similar to that employed to date, i.e., a mix of technical assistance supervised by a task manager familiar with the political and economic situation in Nicaragua. We expect that the PAD project will be the principal, but not exclusive, source of technical assistance. Because of the time needed to complete transactions and difficult working environment, the experience and perseverance of the task manager becomes extremely important. In addition, the proposed December 20, 1995 PACD could cause difficulties in continuity with more complex and time consuming privatizations. We hope the project is extended. Beyond December 1995, privatization could include one ore more of the state-owned banks, private power generation, some port facilities, and a comprehensive analysis of the effect of privatization on the economy as a whole.
Nigeria		X	The mission has neither asked for nor received assistance under the PAD project.
Jordan		X	During the period 1987 through 1989, USAID/Jordan used the services of the Center for Privatization (CFP) to assist the Government of Jordan (GOJ) conduct studies for privatizing state-owned enterprises. Specifically, short-term consultants conducted studies for privatizing the Royal Jordanian Airlines, the telecommunications corporation and the public transport company. The CFP has been responsive to mission's needs and on many occasions were able to provide alternative candidates for consultants. Generally the CFP consultants were capable with good experience. In only one instance has the mission hot satisfied with the services of a CFP consultant. Currently privatization is not on the mission's priority list. However, there are indications that in the aftermath of recent parliamentary elections, the GOJ may make a major push on privatization and may request USAID assistance. If they do, we will endeavor to be as responsive as our human and financial resources permit. The mission did not receive information about PAD. The host government did not benefit from information disseminated under that project.
Philippines	X		1. Yes. USAID/Manila through PESO had seven delivery orders to "buy-in" to the PW/IPG contract with PAD, funded by the mission's privatization project. These constituted mostly the foreign technical assistance provided under the project.

162

2. The PW/IPG assistance was consistently of high quality provided through teams of high level senior consultants. PW/IPG established continuous communications for project direction at the concept stage through completion of assistance, including the networking with other donor agencies such as the World Bank and the ADB. PW/IPG was flexible in organizing various teams on short notice according to project constraints and delivering assistance in a time manner.

Our ratings on the assistance are as follows: Delivery order 3 TA to asset privatization trust (APT) and other disposition entities/above average. These consisted of conducting a local training workshop, preparation of studies for two major mining firms and a paper company, review of apt action plans, and guidance to apt for bidding and marketing. PW/IPG mounted efforts to convince government authorities to understand and adopt effective privatization strategies and many of their recommendations were subsequently adopted by the government's asset privatization trust and the committee on privatization.

Del. order 12 TA to PNOC/Excellent. These consisted of reviewing three subsidiaries and implementing a privatization strategy for one resulting in a sale. This was considered one of the more successful transactions of the privatization program in terms of returns and implementation. Notable was the genuine interest by IPG consultants to raise level of capability through intensive guidance provided to local implementing staffs. This was in turn acknowledged by the benefitting entity.

Del. order 19 TA to light-rail transit authority/above average. IPG consultants developed the activity in the face of resistance to change by the implementing entity. The framework that was presented led to increased awareness by the government of alternative modes in carrying out privatization.

Del. order 21 TA to OEA/above average. The study on options for the power sector generated serious comments by other multilateral agencies and became an important reference for the development of the government's energy plan.

Del. order 28 TA to Bagacay Mines/above average. The technical review provided by IPG through its subcontractors was a critical element in the government's valuation of the assets.

Del. order 41 TA for seminar/design of supplement/excellent IPG guidance in the preparation process including the identification of speakers and materials resulted in a well received and highly informative seminar. The recommendations that were made for a mission design of a supplement to the privatization project indicated sensitivity to further institutional development. The supplement that was eventually approved by the mission incorporated many of PW/IPG's recommendations.

Del. order 42 TA to Phil. National Railways/excellent. PW/IPG study is highly regarded by the client and is considered an important paper in the government's planning of the privatization of the company.

			3. PESO was highly satisfied with the quality of the deliverables, and found PW/IPG very collaborative. In the interactions of the team with the implementing entities there was a conscious effort on their part to assist in capacity building through intensive dialogues, provision of guidance and conduct of training workshops. The delivery of assistance was on all occasions prompt, responsive and flexible. The receiving government entities of various technical assistance indicated during several evaluations that PW/IPG adhered to the scope of work and provided clear privatization action plans. On a scale of 1-10, they rated the caliber and level of the analysis and the quality of the team members within the range of 7 to 10. The recommendations were regarded as sensitive to the concerns and issues, comprehensive, clear and useful. A pre-bidding conference assisted by PW/IPG impressed attendees as very well organized. The fact that this was presented by staffs of implementing entity indicated the effective result of the guidance provided by PW/IPG. The reservations on the assistance were normally arising from the limitations brought about by the constraints set by the level of effort.
			4. Yes. The IQC provided a quick method of responding to need for assistance, and the cost compared favorably when considering other similar contracts entered into by the government through its competitive procurement process.
			5. Criteria include specialty of expertise in selected privatization activities, familiarization with Philippine privatization program and availability as needed. The PW/IPG contract was the only AID/W IQC known to PESO that specializes in the subject of privatization. We contracted with other suppliers such as the Center for Privatization and Intrados/International Management Group for conducting evaluation activities. PW/IPG services quality at par and are cost effective.
			6. Yes. The monthly digest and the readings which were widely disseminated in USAID and in the implementing entity were sources of updated information. The materials especially on the subject of private provision of public services were sources of new knowledge on the subject. The framework developed for conducting a privatization action plan and implementing privatization actions became standard guidance for developing consultants' scopes of work.
			7. It is difficult to associate directly with PAD the overall impact of assistance for privatization, because USAID/Manila did not avail of PAD centrally funded activities, as it has its own privatization project. The project had buy-ins under PAD's contract with the PW/IPG. These were directed at state corporations and non-performing bank assets in sectors such as the transport, mining, paper, dockyards, shipping, and power which in the overall context of the Philippine privatization program had complex and difficult transactions. Two cases of assistance resulted in sale. The others were prepared to a status where the government was able to determine an appropriate privatization strategy, and in some cases to received bids. In terms of percentage of total values, the proportion is not significant because of the large number of transactions. In terms of adding to the clarity of thinking, and advancing the process to next higher level, the buy-ins were important and in this sense significant.

165

			8. USAID/Manila will complete the privatization project by December 31, 1993, thus it will no longer be able to access PAD activities under this project. There will be other opportunities for the mission through its other current/future project to be linked with PAD in the period up to December 20, 1995 and beyond, since the mission considers the partnership of the private sector with the public sector in the provision of goods and services and infrastructure as program outcome of its mission strategy. The subject could be an area that PAD should look into in its future design.
Senegal	X		In general, mission has been extremely pleased with the technical assistance received from Price Waterhouse/ International Privatization Group and sub-contractors. Without this assistance, mission could have not begun to undertake an activity as extensive as privatization of Sonacos, the second largest manufacturing operation in Senegal. This highly technical and complex process that has as its objective the transfer of a two hundred million dollar business from a parastatal to a private sector organization has required and will continue to require in the future only the highest quality professional business experts. This can only be done with exterior assistance.
			1. Yes, the mission has received assistance under PAD as indicated above and the response has been very favorable.
			2. We would rate the performance of Price Waterhouse/IPG as excellent. The team leader is uniquely qualified and unusually skilled at working in Senegal. Knowing Africa and Senegal first hend as an investment banker has provided him full access to all government offices. As a direct result of this access, the contract assistance is rated excellent.
			3. The contractor has worked extremely well with mission and host government officials including the privatization commission, and has been prompt and responsive. For Phase 2, mission was somewhat that an internal contract dispute between PW and one of its sub-contractors delayed for nearly four weeks price waterhouse's response to the scope of work approved by the government.
			4. The cost of the services seemed to be in line with the going rates but AFR/ONI would be in a better position to judge cost effectiveness since we don't have a lot of other privatization experience.
			5. PAD was selected on the basis of its relationship with ONI. Mission was not aware of any IQC's that could provide the same quality TA on such a timely basis. Mission has not used any other privatization contractor during the past 2 years.
			6. The mission has no knowledge of any other information disseminated under PAD other than through Price Waterhouse contract. Mission and host country have been satisfied with the information disseminated.
			7. There is no doubt in our mind that PAD activities have had an impact on privatization process in Senegal. The work with the other major donors, the host country and government officials have thus far provided the kind of motivation that was necessary to begin the privatization of the groundnut sector. Yet the work to date has stimulated the GOS at the highest level to think through the impacts of a major privatization activity.

			8. Mission believes that the continued utilization of the same key personnel in privatization is of utmost importance. During the past 6 months, the mission, the government and the contractor have built an information base that will be an invaluable data source for making future policy decisions. It will take some time before the mission, the other donors and the GOS can decide if we will continue this activity with a 3rd phase. However, in the event we do proceed to phase 3, we will strongly consider utilizing the PAD project's privatization services to fill this need.
Swaziland		X	USAID/Swaziland has not requested or received direct assistance from PAD. Mission receives substantial information on privatization activities and conferences. It is difficult to say which info generates from PAD and which does not. Information is shared with Ministry of Finance/Public Enterprise Unit. At least one PEU official attended a conference sponsored by PAD (Telecommunications Privatization in Namibia). Mission has no funding for new activities/initiatives although work in privatization/commercialization is viewed as important. Through a bilateral project, we have been able to use limited funds for a PASA with Treasury Department (all salary costs born by Treasury) to fund attorney to draft insurance/pension legislation for newly deregulated industries. Through another activity we have funded an "OPEXER" in PEU who has been very effective; however, funding for this terminates in mid-1994. We are in process of a follow-up consultancy on privatization of waste management for city councils with financial inputs from REDSO. For a mission with limited resources, both personnel and financial, such as Swaziland, it is important for PAD resources to be easily obtainable with limited mission time and inputs required. Mission believes longer term future requirements (over next 5 years) for technical support include training of mid-level government employees (technicians and undersecretaries) in nuts and bolts of restructuring public companies. Also needed for privatization are functioning financial markets. Government of Swaziland will probably need more assistance in this field re drafting updated legislation and regulatory responsibilities. In addition to future requirements listed in paragraph 2 above, mission suggests that PAD organize and fund a regional workshop (2-3 days) on privatization activities and experiences in the region. Such an event would allow interested private and public persons, as well as responsible USAID officers, to share regionally relevant privatization experiences, thus promoting and facilitating privatization in the region.
Thailand		X	USAID/Thailand has not repeat not used G/PRE's PAD project's TA or training services and therefore will not participate in this project's mid-term evaluation.
Tunisia	X		1. USAID/Tunisia bought into PAD for the following work; (a) a brief 16-day level of effort diagnostic on two SOE's (SAKMO and SOTAC) proposed by the Government of Tunisia (GOT) for privatization; (b) an action plan for the privatization of the national flag carrier Tunis Air. Prior to these two efforts mission requested a larger buy-in covering a range of services requested by the GOT, but contractor and USAID/W turned down the request as being too general.

		2. SAKMO/SOTAC: The assistance, though limited in nature, was high quality (above average). USAID engaged the same consultant to assist the mission in designing its privatization and financial markets development project. However, due to prior difficulties in negotiating buy-ins under PAD, it was decided to go through Coopers and Lybrand. Tunis Air: Average. See additional comments below.

3. Tunis Air: While the final report has been generally well accepted (with the exception of GOT and Tunis Air's reservations on the assessed value), both USAID and the GOT share the following concerns:

- The lapse of time between the GOT's initial request and the arrival of consultants in country was too long: about 5 months. Much of this delay resulted from the lengthy negotiations with Price Waterhouse (PW) over level of effort.

- Management of the work: PW subcontracted with several different individual consultants/companies to perform the work. The lead consultant, who was not a PW employee, was technically qualified but in the opinion of USAID was not given sufficient authority to adequately manage the work. As a result, the finalization of the report was done by home office staff who had never been to Tunisia. Over the period of execution of work (from August 92 to January 93) the home office management for the work changed hands at least four times, and with each change, the new person had to be brought up to speed. Admittedly, the more timely provision of comments and financial information from Tunis Air might have overcome this problem, but a clearer delegation of authority to the lead consultant would have obviated the problem altogether.

- Use of local consultants: The scope of work clearly called for the contractor to included a local financial consultant in the development of a marketing strategy for Tunis Air shares. The concept was that the local consultant would work closely with the lead consultant, an investment banker, and that there would be some "transfer of technology". Unfortunately, PW concluded after its first visit here that such a person was not available locally, and instead brought in high paid consultant Solomon Brothers. While PW informed AID that this person was being sent out, they did not request USAID's authorization to replace the specified local consultant. USAID was instead left with the impression that this new consultant would be using some of the person days allocated to the lead consultant previously described. This problem was later brought to the attention of PW.

- Stays in Tunisia: The consultant spent too little time in Tunisia to obtain the required financial information from Tunis Air and to adequately discuss the report's findings and recommendations. The draft report was circulated one day before a meeting with the responsible Tunisians and USAID staff; the consultants left the country almost immediately after the presentation. Additional discussions with the Tunisians would have been an extremely useful way of answering questions and overcoming natural concerns about what is a major undertaking in the Tunisian context.

- Delivery of final report: The final translated report was delivered almost two months after the deadline provided for in the delivery order, which had already been extended by three months. Delays occurred for a variety of reasons and include slowness ont he part of the contractor in finalizing pricing information and in providing an acceptable translation. To Price Waterhouse's credit, no charges were billed for work performed after the expiration of the delivery order.

4. Cost Effectiveness: PW was competitive.

160

			5. PAD was initially selected because it was the only central source known to USAID/Tunisia. As mentioned above, we later contracted through coopers and Lybrand for privatization services to avoid the negotiation problems experienced with PAD.
			6. The only information we are aware of is the periodic privatization news clippings circulated by PW. While informative for the mission, they are not very helpful to the GOT personnel, most of whom do not speak English.
			7a. The GOT is expected to make a final decision on the partial privatization of Tunis Air later this month. Should they decide to go ahead, we could say that the impact of PAD will have been positive. However, we can also speculate that if PAD had been able to respond more quickly to our original request, then the Tunis Air issue might have already been on the street. 7b. Given the difficulties the mission experienced with meeting its privatization needs through buy-ins and the anticipated level of activities in Tunisia, we decided over a year ago to compete a mission contract for the implementation of our privatization and financial markets development project (Private Enterprise Promotion Project). A $4-9 million, three year contract with ABT Associates was executed in August of this year. Price Waterhouse is a major subcontractor.
Uganda		X	Mission has not received assistance under PAD. Our privatization activities have been funded under one of our bilateral projects, the Rehabilitation of Productive Enterprises (RPE) (617-0104). While Uganda will require technical assistance and training over the next half decade to support its privatization efforts, mission has not yet determined what USAID's level of involvement should be. Privatization has not been an area of direct involvement to date. While USAID may well wish to tap into PAD to address targets of opportunity as they arise, mission is not in a position to forecast specific services to be requested between now and December 1995.
Zambia	X		1. The mission requested from PW/IPG and received the services of Messrs. Nelson Edwards, John Johnson, and James McDade under PAD during the period December 1992 through October 1993. In addition, a major research piece on relevant developments in privatization in other countries was completed by Peter Boone of SRI with PW cooperation/oversight during mid-1993 under ONI financing. We also offered the IPG the opportunity to submit additional persons for STTA along with Chemonics and Checchi, but finally selected the Chemonics team.

		2. Assessment of PW responses under PAD must be split into two areas: A) The performance of both Nelson Edwards and John Johnson was superior. They were technically competent, got along well with Zambian counterparts, and were able to get a lot done. Mr. McDade was not invited back after his departure for a Christmas break, and he was replaced by Mr. Johnson. B) We have found the relationship with PW/IPG to be spotty, with difficulties in justifying some arbitrary responses to the mission (EG no resumes for suggested consultants until there was a signed PIO/T for them; unwillingness to extend Johnson even though IPG was aware that we needed his services for another 2-3 months. Mr. Johnson was going on to a new post which another person could have filled.) The general attitude seems to be that "Well, we have enough other work so your demands are not that important." Mission found this strongly true of the Washington office, with the Kenya regional office of PW smoothing things out and being very supportive. This attitude was markedly exacerbated after PW/IPG found out that they and their 8A partner did not win the institutional contract under this project.
		3. PW/IPG and SRI were very prompt and exceptionally responsive on the "Lessons Learned" study, and we appreciated the fact that they went far further than the scope of work in answering our questions. Mission decided to go with a regionally-based IQC with PW for a human resource study rather than the PAD due to stated incapacity by AID/W contracts office to do contracting during year-end.
		4. Cost of IPG services, with a 2.65 multiplier, were higher than other services received under this project.
		5. PW/IPG services were equivalent in quality to those received under a Chemonics consortium delivery order.
		6. Mission and the Zambia Privatization Agency have benefitted greatly from the informational study listed in #3 above. The news clippings were mildly informative, mainly being announcements rather than anything with much detail. We regretted not seeing Zambia clippings, considering that their own staff were here and could forward them.
		7. There is no doubt that the timely services of both Edwards and Johnson enabled a much more rapid start to the privatization process in Zambia. Without their services, first trance company negotiations might have been delayed enough to have prevented a critical World Bank balance of payments support disbursement to Zambia (this was a condition of disbursement.)

			8.	Needs under the Privatization Support project will diminish with the advent of the institutional contract. At this time mission does not anticipate future use of PAD For a follow-on project to PAD: General needs under privatization for such interim support include setting up of a legal framework for privatization to commence, establishment of a central agency for privatization, financial market developments and assessments of all kinds, completion of market and company studies, valuations, publicity work to promote privatization, very high-level seminars to bring senior politicians on-board and social impact reviews and recommendations. This broad set of needs requires a very broad set of skills: legal, human resource, financial, accounting, business analysis, valuation, publicity, political, union/labor analysis. A consortium of companies, each of which specialize in one or two of these areas seems to be the appropriate package for the next IQC award.
Zimbabwe	X		1/2/3.	PW and Intrados consultants were used to develop, organize, and implement a southern African regional telecommunications policy workshop on behalf of SADC in 1992/1993. Funded by USAID/Zimbabwe. Overall, their work was above average. Most of the speakers obtained were very good, one or two disastrous, one or two excellent. The PW side was not terribly responsive to AID/SADC input as to the specific concerns of the southern African region; for example, PW did not incorporate a discussion of national security issues despite a very specific request to do so. The relationship between PW and Intrados was tense, to the detriment of seminar quality. However, despite these difficulties, overall, the above average quality of the seminar had a profound impact on several of the participating SADC countries, and caused them to view private sector participation/privatization in telecommunications in a new and positive light. The seminar has set the stage for program activities which will directly lead to private sector participation in this sector traditionally reserved for the state. PW consultants were also used to help the Ministry of Communication and Transport of Zambia develop a comprehensive telecommunications strategy. The work undertaken by PW was technically above average to excellent, and the PW team handled itself in a very professional manner. Unfortunately, the minister himself has not "bought in" to the conclusions of the PW report. For the time being the impact of the PW effort may be minimal.
			4.	The high multiplier 2.65 for services under the PAD project makes the assistance relatively expensive. The intense level of oversight from PW office for quality control no doubt contributes to this expense, and is a two-edged sword. While final products benefit from the additional review at home office, USAID/Zimbabwe has experienced delays in receiving draft and final reports. Such a lack of available information on a timely basis has delayed our responsiveness to regional policy needs. USAID/Zimbabwe chose the privatization and development project vehicle because of its apparent fit with activity objectives and the anticipated ease of contracting through a buy-in. While the mission did benefit in terms of reducing the time required to have a contractor in place, we experienced other difficulties in being able to access top flight technical people for the specific tasks required.
			6.	Articles clipped and circulated by PW have been useful to the mission and to some of our counterparts (e.g. The Southern African Foundations for Economic Research or "Safer".

			7. In the USAID/Zimbabwe experience, the PAD project appropriately has not placed too much emphasis on supporting privatization transactions to the exclusion of preparatory work. In most parts of southern Africa, far more attention needs to be placed on building a consensus in and outside of government on privatization. This is true even in countries with full-blown privatization programs such as Zambia. The PAD project supported our needs in this area in a highly responsive and flexible manner.
			8. USAID/Zimbabwe estimates approximately 12-24 person-months of STTA will be requested from the PAD project before 20 December 1995, largely to continue the privatization consciousness raising and institutional development activities in the telecommunications sector.

ANNEX C

SUBCONTRACTOR ACTIVITIES

173

PAD SUBCONTRACTOR ACTIVITY

Subcontractor	Country/Region	Activity	Contract Amount	Invoice Amount
Abt Associates	Africa–ONI	Privatization Study	$209,546.5[illegible]	$187,745
	Mongolia	Support to the State Privatization Commision	$357,757.00	$348,294
	NIS	Health Privatization	$2,416,616.00	$234,808
	Ethiopia	Valuation Training	$83,[illegible]7.32	$50,404
	Burundi	Privatiztion Assistance	$28,763.34	$26,133
	Mozambique	Private Sector Road Transport	$175,436.83	$162,518
	Mozambique	Pirvatization Assistance	$51,024.78	$0
		SUBTOTAL	$3,325,100.65	$1,008,902.00
Baker & Mckenzie	Zambia	Telcom Policy–Deliverables	$46,300.00	$34,725
	Honduras	Legal Assistance	$100,000.00	$20,000
		SUBTOTAL	$146,300.00	$54,725.00
Carana Corporation	Nicaragua	Sugar Industry Privatization	$32,155.40	$24,822
	Czech Republic	Textile Industry Privatization	$21,000.00	$17,262
	Kyrgyzstan	Advisory Services to the State	$185,296.16	$185,296
		SUBTOTAL	$238,451.56	$227,380.00
Eccles Associates	Zambia	Telecommunications Privatization	$35,043.16	$34,753
	Honduras	Telecommunications Privatization	$36,008.48	$36,008
	Nicaragua	Telecommunications Privatization	$31,746.00	$13,668
	Russia	National Voucher Auction	$105,838.71	$105,839
		SUBTOTAL	$208,636.35	$190,268.00
Intrados	Namibia	Regional Seminar on Restructuring Telecommunications Sector	$154,581.37	$129,474
	Nepal	Privatization Assistance	$65,183.04	$264,642
	Nepal II	Public Enterprise Project	$1,295,320.00	
	Cameroon	Needs Assessment and Development Agenda for Privatization Workshop	$13,831.00	$12,634
	Ecuador	Seminar	$22,450.00	$22,450
	Grenada	Seminar	$3,250.00	$3,250
		SUBTOTAL	$1,554,615.41	$432,450.00
SRI International	Zambia	Privatization Guidebook	$18,284.04	$18,284
		SUBTOTAL	$18,284.04	$18,284.00
		TOTAL	$5,491,388.21	$1,932,009.00

174