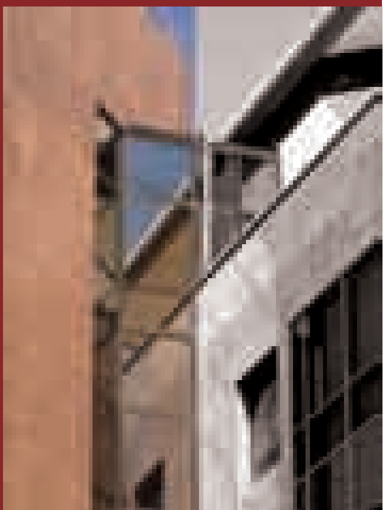
Bank of Namibia



11th ANNUAL SYMPOSIUM 2009
PRIVATISATION
FROM PUBLIC OWNERSHIP TO PRIVATE OWNERSHIP

FROM PUBLIC OWNERSHIP TO PRIVATE OWNERSHIP

BANK OF NAMIBIA

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PRIVATISATION IN NAMIBIA

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Preface

The 11th Annual Symposium of the Bank of Namibia was held on the 17th of September 2009 in Windhoek at the Nampower Convention and Conference Centre. The aim of the event was to continue promoting dialogue and exchange of views on topical economic policy issues. In 2009, the role of privatisation in Namibia was chosen to be the central theme of discussion.

Privatisation as a policy subject has, for a long time, received less attention in Namibia, if at all, as it was deemed sensitive. This is despite economic theory and international experience indicating its significance in the economic development of an economy. International experience also suggests that, while unintended negative impacts could arise from privatisation, if managed properly, privatisation has the ability to foster sustainable economic growth. It is against the above background that the Bank of Namibia saw the need for a critical dialogue on privatisation. There is good privatisation that can build the economy as well as bad privatisation that can destroy the economy, and it's only through critical dialogue that a befitting privatisation could be determined.

International and local prominent speakers and discussants were invited for this purpose to come and share their views and experiences of the subject matter and provide the basis for the dialogue. These were Professor Jin Park from South Korea; Dr John Steytler of the Bank of Namibia, Dr Omu Kakujaha-Matundu from the University of Namibia, Mr Robin Sherbourne of the Old Mutual Group, Dr. Keith Jefferis from Botswana and Mr Sven Thieme of the Olthaver and List Group. Their papers are published herein.

Overview

Privatisation is defined as an economic process of transferring property from public ownership to private ownership. In theory, privatisation helps to establish a free market as well as foster competition. While Namibia operates on the basis of a free market system, the private sector has been small, and this has hampered competition to a large extent. In most sectors of the Namibian economy, competition is either non-existent or very limited. The importance of competition is such that it has benefits to an economy arising from having multiple providers of products (i.e. suppliers) and thus the possibility of increased productivity, as well as users enjoying innovation and lower prices. This illustrates the need for private sector development in Namibia, for which privatisation of state owned property can play a role.

Privatisation can take many forms. It follows thus that depending on the scope; it could leave minimal government involvement or could be used to create smart partnerships between government and the private sector where government retains its stance as the dominant player. In extreme cases, the role of government could be eliminated completely with private sector agencies running public assets or service delivery sectors. Hence, rather than avoiding it completely, the country could devise strategies best suited to its situation and needs to be able to reap the benefits that privatisation has to offer. It is with the above in mind and the commitment in complimenting government on its economic and developmental goals and efforts, that the Bank of Namibia had chosen ‘Privatisation’ as the theme for its Annual Symposium for 2009.

The Governor of the Bank of Namibia, Mr. Tom Alweendo, in his welcoming remarks referred to two extreme versions of privatisation. According to Mr. Alweendo, the one extreme view suggests that privatisation by itself is the answer to faster economic development, whereas the other extreme view suggests that privatisation inherently impoverishes societies. Given these two extremes, Mr. Alweendo, therefore proposed that privatisation will only be beneficial to nations if a middle-ground of the two extreme views can be found.

The Minister of Trade and Industry, Dr. Hage Geingob, in his keynote address cited some advantages of privatisation such as improved economic efficiency, cutting of waste, and mobilization of both foreign and domestic investment. Furthermore, Dr. Geingob stated that despite the apparent benefits offered by privatisation, experience from privatisation in Africa has shown that privatisation is not a seamless process, but at times brought problems including increasing unemployment. Thus, he concluded that the debate about privatisation should be approached carefully taking into account the challenges faced by countries in respect to privatisation.

There were three papers on this theme presented by international and local speakers, complemented by discussant papers. The first paper entitled ‘Cross country experiences from privatisation' by Dr. John Steytler, Director of Research: Bank of Namibia, presented experiences as well as evidence of privatisation efforts across the globe. According to the paper, the global drive to privatise began in the 1970s and gradually gained momentum through to the 1990s. The main incentives for this drive in the West were 1) to address the numerous, inefficient and poorly managed SOEs that had begun to drain on governments' resources (USA and UK). 2) The growing dominance of the neo-liberalist ideology during the time was where the free market was seen as the optimal driver of economic growth; hence the role of the state was proposed to subside.

In Africa, the idea of privatisation was introduced during the 1980s through the IMF and World Bank's Structural Adjustment Programmes (SAPs). Opponents will argue that African economies were, therefore, forced to implement these neo-liberal economic policies which often included privatisation. Privatisation, however, took on different forms from the direct sale of assets, commercialisation, outsourcing and Public-Private Partnerships (PPPs). According to the paper, some notable case studies from literature that provide valuable lessons on privatisation in Africa have been Ghana, Zambia, Kenya and Zimbabwe, while those pursuing PPPs have been South Africa, Chile and the United Kingdom to mention a few.

With regard to the impact of privatisation, the paper reviewed findings of its impact on firm efficiency, its overall macroeconomic impact, and welfare distributional issues. Surprisingly and contrary to popular believe, empirical studies suggest that the impact of privatisation has been largely positive or neutral in most cases. Although, there were job losses and price hikes following privatisation, the impact on income inequality and poverty reduction is less clear. Generally there are no overwhelming arguments for or against privatisation. However, it seems most of the fears of privatizing might be unfounded and that under certain circumstances there might be modest or even big net gains, especially at the firm level.

Dr. Steytler's paper was discussed by Dr. Keith Jefferis, an independent economic consultant from Botswana. He generally agreed with the contents and conclusions of the paper. The discussant further shared his thoughts on privatisation especially with regard to banks in Africa. He outlined pre-requisites for successful privatisation, viz. privatisation should be informed by the lessons of previous privatisation cases; privatisation should be tailored to local conditions; efforts should be made to promote competition and regulatory structures and transparency in sales process should be enforced.

Dr. Omu Kakujaha-Matundu, Deputy Dean of Economics and Management at the University of Namibia presented the second paper entitled 'Overview of Privatisation in Namibia'. The paper highlighted some pertinent issues such as the current debates and controversies surrounding public-private partnerships (PPPs). The paper concluded that despite the measly performance of the SOEs, government is not prepared to embark on a full privatisation and rather prefer the current government ownership and participation of the private sector through PPPs. The paper recommended that the immediate and pressing task was for government to improve efficiency and productivity in SOEs.

The discussant for Dr. Kakujaha-Matundu's paper was Mr. Sven Thieme, Executive Chairman of the Olthaver and List Group. In his presentation, Mr. Thieme highlighted real issues pertaining to privatisation that need discussion in order to make privatisation work for Namibia and offered views on the way forward. Among the issues highlighted were the effect of privatisation on the poor; privatisation and the provision of basic services; governance of SOEs; profitability of SOEs, etc.

The last paper was presented by an international speaker, Prof. Jin Park from the KDI School of Public Policy and Management in South Korea. The paper entitled: 'Strategies and Policy Options for Ensuring Successful Privatisation in Namibia', gave the privatisation experience in South Korea and the steps that were taken to achieve privatisation in that country.

Furthermore, the paper recommended that infrastructure-related and network industries should not be privatised for some time in Namibia, while privatisation can be considered for those SOEs that are neither infrastructure nor network related. In doing so, the following should be taken into account: (1) Ask for SOEs' self-help first, and if there is no progress, privatise them; (2) Utilise the audit office in finding inefficient management cases so that the general public understands the need of a strong reform; (3) Reform the reformer first; (4) Set a deadline for each step towards privatisation; (5) Create a driving force within a relevant line ministry, and make them accountable to the reform driver; (6) If a whole SOE cannot be privatised, then privatise function by function in each SOE. In conclusion, the paper noted that the most important element in privatisation is the political will to do so, without that, privatisation will not succeed.

Mr. Robin Sherbourne discussed Prof. Park's paper. Mr. Sherbourne indicated that as much as the Korean experience of privatisation serves as a good lesson for Namibia, the experience in Namibia regarding commercialisation and privatisation has been mixed and the country is not well-developed to undertake the privatisation drive as witnessed in Korea. Furthermore, there is a lack of political will in Namibia to push for privatisation. Mr. Sherbourne suggested that an immediate and fruitful way towards privatisation may involve looking at joint ventures between SOEs and private companies (i.e. PPPs).

WELCOMING REMARKS

By

Mr. Tom K Alweendo

Governor of the Bank of Namibia

Director of Ceremony

Honourable Dr Hage Geingob, Minister of Trade and Industry

Honourable Members of Parliament

Members of the Diplomatic Corps

Distinguished Speakers and Discussants

Members of the Media

Ladies and Gentlemen

I would like to extend a warm welcome to all of you to our 11th Annual Symposium.

Having hosted this event for eleven years is significant to us because we believe that we were able to make a contribution towards economic debate. However, we could not have achieved this without your participation. Many of you in the audience have become part and parcel of this annual event for the past 10 years and I thank you for your commitment.

A special welcome goes to our international and regional guests and I wish them an enjoyable stay in Namibia. Among us this morning we have Professor Jin Park from South Korea and Dr Keith Jefferis from Botswana. We all know that South Korea is one of the success stories in as far as accelerated economic development is concerned. We look forward to hear Prof Park's views. It is also important for us to learn from the regional experiences and that is where Dr Jefferis comes in as a discussant for one of the papers to be presented today. I would also like to recognise our local speakers: Dr Omu Kakujaha-Matundu, from the University of Namibia; Dr John Steytler, Director of Research at Bank of Namibia; Mr Sven Thieme, Group Chairperson of the Olthaver and List Group and Mr Robin Sherbourne, Group Economist at the Old Mutual Group, Namibia.

The purpose of the Bank's Annual Symposium over the last 10 years has been to promote the exchange of views on economic issues, and thereby promote policy dialogue. It is only through dialogue that we can hope to make progress in our search for what work better for us. This is true whether the issue under discussion is of a social, political or economic nature. With dialogue you allow the interrogation of ideas and hopefully at the end of the dialogue you move forward with the best possible ideas. For this process to work, you, however need to ensure that the dialogue is genuine where all participants are willing to consider others' ideas.

This year's theme for our symposium is about privatisation. This is a topic many in Namibia would rather not want to discuss on the pretext that it is too sensitive. I am, however, of a view that it is the issues that are sensitive that need to be discussed. How else do we resolve issues that are sensitive other than by having a dialogue? Avoiding discussing sensitive issues will not make those issues go away. The consequence might be that we are simply delaying making a decision one way or the other.

So far what has made the privatisation discussion difficult is the fact that the issue is usually discussed dogmatically, where the discussion is usually advanced by two extreme views. The one extreme view suggests that privatisation by itself is the answer to faster economic development; whereas the other extreme view suggests that privatisation inherently impoverishes societies. Clearly, with a debate couched in these two extremes we are not likely to make any progress in the matter.

There is "good" privatisation and "bad" privatisation. Without pre-empting today's presentations and discussions, I believe that privatisation can play an important role in economic development if the result is more consumer choice and improved service delivery. It will not be right to privatise simply because the argument is that Government should not be involved in the provision of goods and services. There are cases where the Government should be the provider of certain goods and services. Equally, there are cases where the private sector has a better chance of providing certain goods and services in such a manner that the consumer will benefit much more than it would have been the case if Government provided the same service

The proponents for "all privatisation is good" argue that over time privatisation leads to lower prices, improved quality, and quicker delivery. However, what they fail to mention is that there are situations when market failures do occur and when that happens, Government intervention is crucial and expected.

The opponents of privatisation believe that, because of the profit motive, privatisation will not address the needs of the society. They argue that privatisation would lead to high unemployment and the worsening of the plight of the poor, especially when it concerns the provision of basic services such as water. These are all valid concerns that cannot be simply ignored, and they need to be addressed in such a manner that privatisation can still be beneficial to the society as a whole.

Another reason why privatisation might be beneficial is the fact that private sector participation in our economy is still not at its potential level. This suggests that we need to have more private sector participation in the economy. Some aspects of privatisation might well be the answer to this under-participation of the private sector. I sincerely hope that through this dialogue, we will be able to reach reasonable consensus on the feasibility of privatisation in Namibia and therefore, map out some specific strategies going forward.

Once again, let me welcome all of you to this year's Symposium and it is my belief that the presentations and the debates will bear fruits for the economic transformation of our country and hopefully increased economic growth that we so much need.

KEYNOTE ADDRESS

By

Honourable Dr. Hage Geingob

Minister of Trade and Industry

Director of Ceremony

Mr. Tom Alweendo, Governor of the Bank of Namibia

Honourable Members of Parliament

Eminent Speakers and Discussants

Distinguished Guests

Members of the Media

Ladies and Gentlemen

First of all, I thank you for inviting me to deliver the keynote address at this year's Bank of Namibia Symposium. I would like to use this opportunity to share with you my own thoughts about pros and cons of privatisation in Africa in general and Namibia in particular. No doubt, the succeeding speakers would talk in detail about the issues at hand.

To begin with, I would like to reiterate the statement I made at the First African Capacity Building Conference, which was held in Bamako, Mali in 2001 and I quote.

"Regarding privatisation, there are always two voices - one that favours privatisation, and the other that argues that it is tantamount to selling family silver. In our case those against privatisation feel that only foreigners who by implication are rich would benefit from privatisation and that privatising would make them devoid of social responsibility. There are others who feel that there is a dichotomy. On the one hand we want to attract investment, on the other; we do not want foreigners to benefit. The bottom line is that we need to revisit the issue of privatisation and arrive at a solution that creates a mutually beneficial situation".

Since the eighties there has been a global move towards privatisation. In Africa, very often privatisation and IMF prescriptions went hand in hand. Sometimes, choice for a country was between going broke or selling the family silver. Leaders also worried about the conflict between social welfare of the citizens and reduced role of the state in the economy. Over the past two decades, particularly since the collapse of the Soviet Union, there was even more pressure on African governments to privatise state enterprises. Proponents of privatisation cited many advantages of privatisation: improved economic efficiency; cutting of waste; and mobilisation of both foreign and domestic investment. In the hope of getting these benefits, many African governments sold off hundreds of state-owned enterprises (SOEs).

Did the benefits accrue to the citizens? Most African countries' experience seems to indicate that the privatisation process has brought numerous problems – it has aggravated the already high unemployment rate, sell-offs of state assets were often for pennies to the dollar, and the positive effect of these changes have often remained illusive. Many examples can be cited from many countries in Africa.

Was the problem with privatisation or were there other factors that made privatisation not what it was claimed to be. Indeed, there are examples where privatisation is alleged to have been a success. Equally, there have been sectors where private enterprise finds it difficult to take on the challenge. We therefore need to examine the circumstances that make privatisation beneficial.

Africa's circumstances have often not been very conducive to privatisation because of enormous social deficit prevailing throughout the continent. Those who argue in favour of or against privatisation also tend to discuss the issue from ideological perspective. My view is that it is the responsibility of the government to promote the optimization of benefits accruing to the Namibians through building complementarities between the private sector and the public sector. If the private sector improves the condition of Namibians, and if the state enterprises do that, why wouldn't I want to promote complementarities.

The latest Africa Competitiveness Report of the Global Economic Forum provides very useful measures of how these complementarities work.

According to the Africa Competitiveness Report, Namibia ranks fourth in Sub-Saharan Africa, after South Africa, Botswana and Mauritius. Overall, Namibia ranks 74th on global competitive list of 134 countries; this is an improvement from last year when our ranking was 80th. There are two issues – in spite of improvement in our global ranking, we remain in the bottom half. Second, we have been fourth in Sub-Saharan Africa for quite a while now. It would be good to examine the reasons why we are not making better progress. In order to find the reasons, we need to look at the sub-indices the report as these sub-indices shed some light on what the government needs to do and what the private sector needs to do to enhance the country's competitiveness.

The three sub-indices that I referred to are telling. The first sub-index deals with basic requirements, that is, institutions (Global Rank 48), Infrastructure (Global rank 33), Macroeconomic Stability (Global rank 27), and health and education (Global rank 118). Most of the issues in this sub-index are the responsibility of the government. Our ranking in health and education still remains abysmally low.

Indeed, we have come up, but social deficit is so huge that we are only crawling forward despite the fact that some 60% of the budget goes to these two sectors. Our ranking on human development index attests to this fact.

The second sub-index deals with efficiency enhancers, that is, higher education and training (Global ranking 110), goods market efficiency (Global ranking 94), labour market efficiency (Global ranking 50), Financial market sophistication (Global ranking 53), Technological readiness (Global ranking 85), and Market size (Global ranking 122). On higher education and training again, we have done poorly and we need to increase our effort to increase emphasis on science and technology. In technological readiness, we are really slow. Firm-level technology absorption is low, FDI is likely not linked to technology transfer, broadband internet use and generally computer use is still limited. Our ranking about the market size indicates that our private sector has not even penetrated the local market, much less the regional market. Our private sector, other than mining, and fisheries where international players abound, we have not shown significant improvement in goods market efficiency, or technological readiness despite the fact that we are okay in labour market efficiency. This shortcoming has made our private sector less productive than competitors elsewhere.

The third sub-index deals with innovation and sophistication factors. These include business sophistication (Global ranking 94) and innovation (Global ranking 111). We are not doing very well in these two aspects. On both of these issues, we need to invest in advanced technologies and develop research institutions.

All together there are 12 components divided under three sub-indexes. If we want to make our private sector strong and competitive, we need to address these issues.

Further, we need to ask ourselves, does our private sector have the capacity to take over government enterprises, and run them effectively without losing sight of social responsibility? Answer is not an unequivocal yes. Yet, that is what I need to hear before we surrender the government responsibility to its citizens to private-for-profit enterprise.

You will no doubt recall that the World Bank had determined that we are a middle income country. Such categorization based on per capita GDP hides some serious inequities – majority of our citizens are poor and those who are rich are extremely rich. We need to bring about some level of income redistribution. But our options are limited. We are committed not to grabbing land for redistribution. How then do we achieve income redistribution to remove the remnants of imposed inequities?

We have sought to do that by becoming partners with the private sector in the exploitation of the country's resources so that more resources are available to the state to extend benefits to the masses in terms of education, health, infrastructure, housing, electricity, water, and access to resources and opportunities to enter formal economy.

When we talk about privatisation, I ask the experts not to lose sight of the challenges we face. Privatisation has to have a purpose other than just asset transfer. I recall that in late nineties everyone was talking about smaller government. Later on, everyone agreed that right-sizing, not shrinking, the government was the right approach. The same applies to privatisation – not for the sake of it, but with a purpose – without losing sight of the reasons for the government's involvement. This issue has already been brought home in the United States by capitalism gone awry. The excesses of capitalism have played havoc on global economy. We therefore need justification for privatisation that goes beyond privatisation for the sake of privatisation.

I would look forward to the outcome of your deliberations.

I thank you.

Annex

Namibia's 12 Pillars As Reported in the Africa Competitiveness Report

Global Competitiveness Index

	Rank (Out of 134)	Score (1-7)
Basic requirements	48	4.7
1st pillar: Institutions	42	4.6
2nd pillar: Infrastructure	33	4.6
3rd pillar: Macroeconomic stability	27	5.7
4th pillar: Health and primary education	18	4.0
Efficiency enhancers	93	3.6
5th pillar: Higher education and training	110	3.1
6th pillar: Goods market efficiency	94	3.9
7th pillar: Labour market efficiency	50	4.5
8th pillar: Financial market sophistication	53	4.5
9th pillar: Technological readiness	85	3.0
10th pillar: Market size	122	2.3
Innovation and sophistication factors	104	3.2
11th pillar: Business sophistication	94	3.6
12th pillar: Innovation	111	2.7

PRIVATISATION CROSS COUNTRY EXPERIENCE

By

Dr. John Steytler

Director: Research Department, Bank of Namibia

Abstract

During the period 2000-2007, close to 2000 formerly state-owned enterprises have been privatised in developing and transition economies, generating about US$414.6 billion in sales proceeds. The majority of sales took place in the East Asia and Pacific and Eastern Europe and Central Asia regions, although activity in other regions, including in Sub-Saharan Africa has also started to pick up. A few emerging market economies, like the Russian Federation, and the Peoples Republic of China, accounted for the bulk of privatisation activity. In addition, many firms have been transferred by privatisation processes in which no money was raised, and a huge number of state-owned enterprises remain in these countries. During the period under consideration, only one privatisation deal was recorded in Namibia. Regarding the sectoral breakdown of privatisation receipts, most activity took place in the financial and infrastructure related sector, although in recent years there has been a notably pick up in energy related privatisation deals.

Most studies that have reviewed experience of privatisation focus on the impact of privatisation on the firm's financial and operational performance and returns to shareholders; the macroeconomic effects of privatisation; the consequences for economic welfare; and the social and distributional impact[1]. According to Nellis (2006), the vast majority of these studies, praise the positive impact of privatisation at the firm level, as well as its positive macroeconomic and welfare contributions. Despite this privatisation has proved to be difficult to launch, especially in low-income countries with weak institutional capacity. What is needed are reform mechanism that give incentives and comfort to reputable private investors, that create and sustain the policy and regulatory institutions that make governments competent and honest partners with the private operator, while at the same time, protecting consumers from abuse.

1. Introduction

Although, it is a widely applied policy, privatisation continues to be a controversial around the world. The forms of privatisation are many, ranging from outright sale of government's entire stake, to partial sale, to concessions, leases and management

[1]For a excellent assessment of privatisation, see Nellis, 2006, Privatisation, A Summary Assessment, Centre for Global Development Working Paper, 87.

contracts, to the hiving off and sale of non-core business activity, to the opening of previous restricted sectors to new entrants (Nellis, 2006). The number and receipts attached to privatisation deals are also significant. According to the World Bank (2007) during the period 2000-2007 close to 2000 formerly state-owned enterprises have been privatised in developing and transition economies, generating about US$414.6 billion in sales proceeds.

Studies that have reviewed the experience of privatisation focus on the impact of privatisation on the firm's financial and operational performance and returns to shareholders; macroeconomic effects of privatisation; the consequences for economic welfare; and the social and distributional impact[2]. According to Nellis (2006), the vast majority of these studies, praise the positive impact of privatisation at the firm level, as well as its positive macroeconomic and welfare contributions. Moreover, contrary to popular believe privatisation has not contributed to mal-distribution of income or increased poverty. Despite the cited benefits of privatisation, why is it then that so many people in the developing world oppose privatisation? In this connection, Nellis (2006) shows that across all regions of the developing world, privatisation is viewed with suspicion and alarm by the general public. For instance, in Latin America, opinion polls show that the percentage of respondents with a negative view about privatisation stood at 70 percent in 2005. At the heart of much of the criticism is the belief that privatisation has been unfair, hurting the poor, the disenfranchised and beleaguered workers, and benefiting the rich and powerful. It is claimed that privatisation throws masses of people out of work, or forces them to accept jobs with lower pays, less security, and fewer benefits, and that it raises too far and too fast the prices of essential goods and services, leaving the poor worse of than before, while the rich are the overwhelming beneficiaries.

This paper aims to provide a brief cross country comparative review of privatisation. It is structured as follows. Section 1 discusses reasons for privatisation, while section 2 provides stylized facts of privatisation deals across different regions. Using the World Bank database on privatisation, it provides information on the number and value of recorded privatisation deals across different geographical regions of the world. Section 3 reviews the impact of privatisation, and it focuses on the micro or firm level impact, the macroeconomic impact, and the social welfare impact. Section 4 concludes.

2. Why privatisation?

Although private enterprise is the most common form of enterprise today, it was not always the case. In fact in some parts of the world, in some cases some of the fastest growing economies of the world, state owned enterprises account for quite a significant share of gross domestic output. Moreover, the trend of the first three-quarters of

[2] *For an excellent assessment of privatisation, see Nellis, 2006, Privatisation, A Summary Assessment, Centre for Global Development Working Paper, 87.*

the 20th century was state intervention in productive aspects of the economy, not withdrawal. These include amongst others the rapid spread of communism following the second world war; the near breakdown of the capitalist system during the great depression; and the post World War II disintegration of European empires and their replacement by regimes with little ties to private economic actors. These factors led many governments to adopt interventionist economic programs, characterised by public ownership and management of productive entities, especially in infrastructure. According to Nellis (2006) through the first two-thirds of the century, public enterprises on worldwide average accounted for over 10 percent of GDP. Average percentages in developing countries surpassed 15 percent, with much higher figures in socialist and communist economist[3]. One of the early outcomes of the current global financial crisis has been massive state intervention, not only in the financial sector, but also in other productive companies, most notably the automobile companies. It would also appear that countries with more interventionist policies, like China was relatively less affected by the global economic crisis and bounced back earlier than the bastions of Anglo-Saxon capitalism. This has rekindled the question, why privatisation.

Many reasons have been advanced for the rapid increase of privatisation following the Thatcher reforms in the United Kingdom and the collapse of socialism in the former Soviet Union countries. However, a key reason cited for the rise in privatisation was that publicly owned companies did not live up to the expectations of their stakeholders. Nellis (2006) point out that although some public enterprises performed well, most generally failed to live up to the expectations of their creators and financiers. In this connection, some of the cited weaknesses of public enterprises include: drainage of state budgets; failure to produce sufficient quantity or high quality of services or products; widespread failure to charge cost-covering tariffs in infrastructure/utility public enterprises; and subsidies from government that kept them afloat. These flows eventually posed large financial burdens on government budgets, and attracted the attention of international financial institutions and donors. Kikeri and Nellis (2004) put the annual financial losses of state owned enterprises as a result of overstaffing and prices below costs in the range of 5-6 percent of GDP. Covering these losses through fiscal transfers required governments to finance larger fiscal deficits and increase tax revenues or reduce public spending in other areas or both. Financing losses through the state banking system reduced the private sector’s access to credit and threatened the viability of the financial sector. Ultimately many governments became incapable of providing capital to their state enterprises, even profitable ones, for maintenance and repair, much less for urgently needed expansion and renewal (Kikeri and Nellis, 2004).

The poor financial performance of state owned enterprises have often been attributed to weak management practices of the CEOs of these institutions. It is argued that many of the CEOs of state owned enterprises were not appointed based on competencies, but on political connections and that often when government

[3] The World Bank estimates that on average as much as 50 percent of important sectors such as infrastructure and finance remain publicly owned and operated in its members countries (Nellis:2006).

departments were privatised unskilled and in some instances un-trainable labour was moved to the newly created institutions. However, a counter to this argument is the 1995 World Bank study entitled bureaucrats in business that suggest that bureaucrats who run state-owned enterprises (SOEs) should not be blamed for all the ills of these companies. According to the study, CEOs of state owned enterprises are not necessarily incompetent, but rather have to deal with contradictory goals and perverse incentives. Nellis (2006) concurs that the fundamental problem of public firms was multiple, ambiguous and conflicting objectives. He argues that government owners decreed that public enterprises operate in a commercial, efficient and profitable manner. At the same time, they insisted that these enterprises finance their actions with debt rather than equity, provide goods and services at prices less than cost, generate employment, receive their inputs from state-sanctioned suppliers, choose plant location on political rather than commercial criteria, and hire their staff on the basis of who rather than what they knew. This mix of social and political with economic objectives, Nellis concludes, weakened managerial autonomy, commercial performance and efficiency.

Even in cases where privatisation results were positive, they tended not to last. Repeatedly it was demonstrated that proper information and monitoring systems, incentives and financial discipline could be introduced in public enterprises. However, once the sudden crisis eased, than the capacity and will to impose painful reforms faded (Nellis, 2006). As disappointment with enterprise reform mounted, government and donor enthusiasm grew concerning privatisation. In retrospect, this enthusiasm was generated as much or more by expectations based on hope and theory, rather than on hard empirical evidence of the superiority and ownership in non-industrial economies. “Thus, the shift to privatisation was something of a leap of faith – but it was carried out” (Nellis, 2006).

A related question is whether it makes a difference that some developing countries have lagged the leading privatisers. Nellis note that given the “recent shift away from dogmatic promotion of ownership change” perhaps caution was the correct course of action, particularly regarding infrastructure. It is argued that the slow pace and limited scope of countries that were slow to privatise might have allowed them to avoid the mistakes made by wholesale ownership transformation in the absence of legal safeguards as in the case or Russia, or infrastructure privatisations elsewhere in the absence of effective regulatory institutions. Therefore, keeping the largest firms in state hands until the institutional framework is more solid will lead to the attraction of better buyers, higher sales prices and better more socially acceptable outcomes. While this may the case, it is also possible that state owned enterprises may deteriorate further making it more expensive as most governments are already finding it more difficult than ever to provide their infrastructure firms with the capital needed for long-delayed maintenance, much less expansion.

3. Stylized facts and figures about privatisation

This section presents stylized facts and figures on privatisation during the period 2000 to 2007. It is based on the World Bank Group privatisation database and covers privatisation transaction worth US$1 million and more. The database covers only developing countries, and includes transactions which generate proceeds or monetary receipts to the government resulting from partial and full divestures, concessions, management contracts and leases. Only transactions that generate revenue from privatisation or private sector participation in an existing state owned enterprise or other government assets (such as wireless sales) are included. Transactions that did not generate revenue for the government are excluded from the database. In this regard, the database does not include firms transferred to the private sector through mass or "voucher" privatisation (as in Eastern Europe). It also does not include Greenfield investments that did not involve payments to the government, funds committed or invested by new owners, and built-operate-transfer schemes which do not involve payments to the income[4]. The rest of this section discusses privatisation by regional and economic sectors. With respect to regions, the database includes developing countries classified by the World Bank's Development Indicators as low income, lower middle-income and upper middle income. High-income countries (OECD and non-OECD) are not covered. With respect to sectors, the following are covered: energy; financial; infrastructure; manufacturing and services, and primary.

3.1 Regional composition of privatisation

During the period 2000-2007 there was about one thousand six hundred privatisation transaction in 99 developing countries, with a combined transaction value of US$414.6 billion (Table 1)[5]. According to the World Bank (2008) preliminary results for 2008 show a sharp drop in activity as a result of the global financial crisis. The high value in 2007 mainly came from partial privatisations through initial public offerings – mainly in China and the Russian Federation and in finance and energy. There was a notable shift in dominance of privatisation activity from Latin America and Eastern Europe and Central Asia during 1990-1999 to East Asia during the period 2000-2007. Kikeri and Nellis (2004) note that this shift occurred just after the 1997 financial crisis, and attribute to the fact that prior to the 1997 crisis, East Asian countries generally concentrated on opening up their economies to new private entry rather than on privatizing enterprises. They argued that this approach was workable given the

[4] According to Nellis 2006 in Russia alone up to 15000 firms were divested for vouchers, meaning that no revenues were raised by the seller.

[5] For a review of privatisation receipts between 1990 and 1990 see Kikeri and Nellis (2004). According to them during the period 1990 to 1999, privatisation receipts totaled US$850 billion growing from a mere US$30 billion in 1990 to US$145 billion in 1999. The figures include privatisation receipts of OECD and non OECD countries and are therefore not comparable with the World Bank database that focuses on developing and transition economies. In the non-OECD countries, privatisation activity grew rapidly through the mid-1990s with tens of thousands of enterprises sold and roughly US$250 billion in revenues raised during 1990-1999. Proceeds peaked at US$66 billion in 1997 and then fell following the Asian and Russian financial crises.

region's smaller reliance on state enterprises as agents of economic policy with the exception of China and a few other Asian socialist states, as well as the success of China's evolutionary approach to property reform and the relatively sound financial and fiscal position of most Asian states. The value of other privatisation transactions declined overall but grew in infrastructure and the primary sector. From a regional perspective, East Asia led in privatisation value, followed by Europe and Central Asia in 2007[6]. Value increased in Latin America and Sub-Saharan Africa, declined in the Middle East and North Africa, and held steady in South Asia.

Table 1 IPO transactions and values in developing countries, 2000-2007

Number of countries with privatisation	**99**
Total number of transactions	**1,638**
Total amount (US$ millions)	**414,623**
Details	

Economy (US$ millions)	2000	2001	2002	2003	2004	2005	2006	2007	Total 2000-2007
Total	39,036	16,303	15,559	19,600	33,571	53,053	104,872	132,629	414,623
East Asia & Pacific	10,780	1,659	1,830	8,136	8,037	14,708	51,230	74,161	170,541
Eastern Europe & Central Asia	12,252	7,062	9,806	7,028	14,800	27,148	35,528	40,852	154,476
Latin America & Caribbean	12,237	4,983	581	179	2,189	922	3,493	10,447	35,031
Middle East & North Africa	3,243	666	339	2,084	3,338	4,155	11,047	3,390	28,262
South Asia	61	486	2,289	1,297	4,663	3,799	1,649	1,343	15,587
Sub-Saharan Africa	463	1,447	714	876	544	2,321	1,925	2,436	10,726

Source: World Bank Database on Privatisation

3.1.1 East Asia and Pacific

In the East Asian and Pacific region, 335 privatisation transactions were recorded between 2000 and 2007, with a combined value of US$170.4 million. China alone accounted for 93.2 percent of the region's value, due in large part of minority initial public offerings of state-owned banks and enterprises, including two mega deals involving the Industrial Commercial Bank of China for US$22 billion and the Bank of China for US$13.7 billion in 2006. It is interesting to note that while Chinese IPOs prior to 2007 were mostly H-share offerings on the Hong Kong Stock Exchange, in 2007 A-share offerings on mainland exchanges accounted for roughly 50 percent of the country's IPO value. In the same year, China also had 22 non-IPO transactions, totalling US$1.3 billion in water, transport and energy. Other significant contributors

[6] During the prior decade (1990-1999), Latin America and the Caribbean accounted for the largest share of privatisation proceeds, with the largest contributions coming form the sale of infrastructure and energy firms in Argentina, Mexico, and Brazil. Eastern Europe and Central Asia sold the largest number of firms during this period, mainly through mass privatisation voucher programs before 1995 in Russia, the Czech Republic, Slovakia, Kazakhstan, Lithuania, Ukraine, and Moldova (Kikeri and Nellis, 2004).

were Thailand, Indonesia and the Philippines, each with recording privatisation deals of close to US$3 billion during the period under review. In terms of the number of privatisation deals, Vietnam with 127 deals concluded between 2000 and 2007, came in second after China's 167 deals. During the period under review, Fiji recorded only 1 deal worth US$28 million.

Table 2 IPO transactions and values in Asia Pacific Region, 2000-2007 (US$ Million)

Number of countries with privatisation									**7**
Total number of transactions									**335**
Total Amount (US$ Million)									**170,388**
Economy									Total
(US$ millions)	2000	2001	2002	2003	2004	2005	2006	2007	2000-2007
East Asia & Pacific	10,780	1,686	1,830	8,136	8,038	14,708	51,231	73,979	170,388
China	10,279	985	1,598	6,066	4,122	14,086	50,356	71,353	158,845
Fiji			28						28
Indonesia	115		188	691	841	448	270	372	2,925
Malaysia			16	347	1,871				2,234
Philippines	147	70		7	4		486	2,176	2,890
Thailand	239	631		1,025	1,066				2,961
Vietnam					134	174	119	78	505

Source: World Bank Database on Privatisation

3.1.2 Europe and Central Asia

Europe and Central Asia raised US$154.5 million of privatisation receipts in 28 countries and 730 deals during the period 2000-2007. The Russian Federation accounted for 30 percent of the region's value, closely followed by Turkey with 18 percent. Poland and the Czech Republic came in third and fourth accounting for 9.1 percent and 8.1 percent of the region's privatisation value's, respectively. Other significant contributors with a value of close to 5 percent include Hungary, Serbia, Romania, Slovakia and the Ukraine. In terms of the number of deals, Georgia accounted for 15 percent of all deals, closely followed by Turkey and Poland with 13 percent and 12 percent, respectively. Explaining the sharp increase in Russia's privatisation value in 2006 and 2007 were two large banking IPOs each in excess of US$8 billion on the London and Moscow exchanges. These were the top two transactions in the region and among the largest globally. Thanks to 12 electricity sales fro US$10 billion, Russia also ranked as regional and global leader in non-IPO value. Excluding Russia, regional value declined by half to US$12 billion in 2007. Russia accounted for 56 or 7.7 percent of all privatisation deals in the region. The overall low number of privatisation deals in Europe and Central Asia can be explained through the fact that enterprises privatised through voucher and mass privatisation schemes have been excluded from transactions recorded. Most of the deals in this region have been in the infrastructure and energy sectors, which together accounted for nearly 70 percent of the regions value.

Table 3 IPO transactions and values in Europe and Central Asia Region, 2000-2007 (US$ Million)

Number of countries with privatisation	**28**
Total number of transactions	**730**
Total Amount (US$ Million)	**154.5**

Economy (US$ millions)	2000	2001	2002	2003	2004	2005	2006	2007	Total 2000-2007
Eastern Europe & Central Asia	12,252	7,063	9,805	7,028	14,800	7,148	35,528	40,853	154,477
Albania	96	38		139	6	41		161	481
Armenia			30	25	136				191
Azerbaijan				1	10				11
Belarus		24							24
Bosnia and Herzegovina	25	23		4	18	35	861		966
Bulgaria	344	157	109	784	1,248	444	259	149	3,494
Croatia	300	192	281	1,037	53	48	2	1,380	3,293
Czech Republic	667	1,783	4,222	729	785	3,932		456	12,574
Estonia	176	59					6		241
Georgia	11			7	3	282	615	651	1,569
Hungary	94	78	17	729	1,226	2,617	1,921	530	7,212
Kazakhstan	300	108		192		138	2,300		3,038
Kyrgyz Republic						3			3
Latvia			71	15			135		221
Lithuania	10	88	56	297	37	13	852		1,353
Macedonia, FYR		370		11			353	14	748
Moldova	27	2		4	5			8	46
Montenegro								22	22
Poland	6,174	1,805	847	905	2,704	1,855	375	471	15,136
Romania	97	7	29	815	2,163	146	4,745	2,635	10,637
Russian Federation	314	1,103	121	287	4,633	165	10,844	28,948	46,415
Serbia			258	667	9	1,085	3,054	163	5,236
Slovakia	984	1,047	3,484	143	197	16	1,105	6	6,982
Slovenia								824	824
Tajikistan						1			1
Turkey	2,604		218	10	1,087	11,517	8,099	4,257	27,792
Ukraine	29	179	42	221	470	4,800	2	178	5,921
Uzbekistan			20	6	10	10			46

Source: World Bank Database on Privatisation

3.1.4 Latin America and the Caribbean

Latin America and the Caribbean raised US$35.1 million worth of privatisation receipts in 15 countries and 113 deals during the period 2000-2007. Brazil alone accounted for almost half, or 47 percent of the region's privatisation value. Mexico with 16.9 percent and Columbia with 15.7 percent came in second and third, respectively. Bolivia, Chile and Peru were also significant contributors to the region's privatisation values. As shown in table 4 values in Lain America more than doubled to US$10.4 billion in 2007 although the number of transactions fell from 17 in 2006 to only 10 in 2007. More interesting 90 percent of the value came from just three transactions: Mexico's highway concession for more than US$4 billion, Colombia's IPO of Ecopetrol for US$2.8 billion, and Bolivia's sale of development rights to the El Mutun iron ore deposits for US$2.3 billion. In terms of the number of deals, Brazil with 35 deals or 30 percent of all deals was again the clear frontrunner, followed by Columbia with 16 deals or 14.2 percent of all deals. Chile came in third with 11 deals or 9.7 percent of all deals, while Mexico and Peru each accounted for 8.8 percent of all deals in the region during the period under consideration. From a global perspective, the region's share fell from almost 60 percent in the 1990s to under 1 percent by 2003. After 2003, dwindling political will to privatise more sectors combined with renationalization movements in some countries contributed to further weakness, with the regional share standing at just 2 percent in 2005. Since 2006, however, activity picked up and the region more than tripled each value between 2005 and 2006 and again between 2006 and 2007.

Table 4 IPO transactions and values in Latin America and the Caribbean, 2000-2007 (US$ Million)

Number of countries with privatisation	**15**
Total number of transactions	**113**
Total Amount (US$ Million)	**35.1**

Economy (US$ millions)	2000	2001	2002	2003	2004	2005	2006	2007	Total 2000-2007
Latin America & Caribbean	12,238	4,985	584	279	2,189	922	3,495	10,447	35,139
Argentina	12	12							24
Belize		50	38						88
Bolivia	27		275					2,300	2,602
Brazil	10,788	3,867	2		648	74	594	871	16,844
Chile	282	235			782		27		1,326
Colombia	483			170		462	1,282	3,136	5,533
Costa Rica						34	22		56
Ecuador								30	30
El Salvador					295				295
Honduras								80	80
Jamaica		294					2		296
Mexico	190					352	1,378	4,030	5,950
Nicaragua	115	43	7		49				214
Peru	190	450	262		397		23		1,322
Uruguay	151	34		109	18		167		479

Source: World Bank Database on Privatisation

3.1.5 Middle East and North Africa

The Middle East and North Africa raised US$28.3 billion worth of privatisation receipts in 12 countries and 107 deals during the period 2000-2007. Egypt and Libya accounted for 38 percent and 28 percent, respectively of the region's privatisation value. Tunisia and Algeria accounted for 11 percent and 5 percent respectively. As shown in table 5, the regions' value dropped by nearly 70 percent to US$3.4 billion, while the number of transactions declined from 33 in 2006 to 20 in 2007. In 2007 the region had two new comers to privatisation, Iraq with a US$1.25 billion sale of a 15 year mobile license and Libya with its US$205 million sale of Sahara Bank. In terms of the number of deals, Egypt was again the frontrunner with 48 of the deals, while Tunisia and Jordan each recorded 14 deals during the period under consideration. The region's privatisation activity declined significantly between 200 and 2002 before it started to pick up again to reach an all time high level of US$11 billion in 2006. The Arab Republic of Egypt, the main contributor in 2006 saw its value plummeted from US$7.6 billion to just US$310 million in 2007 as public opposition brought its program to a virtual halt.

Table 5 IPO transactions and values in the Middle East and North Africa, 2000-2007 (US$ Million)

Number of countries with privatisation									**12**
Total number of transactions									**107**
Total amount (US$)									**28,262**
									Total
Economy (US$ millions)	2000	2001	2002	2003	2004	2005	2006	2007	2000 -2007
Middle East & North Africa	3,243	666	339	2,084	3,338	4,155	11,047	3,390	28,262
Algeria	7	369		360	421	223		161	1,541
Egypt	308	207			52	2,171	7,582	310	10,630
Iran						350			350
Iraq								1,250	1,250
Jordan	568	20	112	173	2	55	319	556	1,805
Lebanon						236			236
Libya								205	205
Morocco	2,110			1,551	2,616	147	650	847	7,921
Oman						852			852
Syria		70							70
Tunisia	230		227		247	121	2,282	61	3,168
Yemen	20						214		234

Source: World Bank Database on Privatisation

3.1.6 Sub Saharan Africa

Sub-Saharan Africa, raised US$10.7 billion worth of privatisation receipts in 30 countries and 219 deals during the period 2000-2007. Nigeria with 60.4 percent dominated by far the region's privatisation value. South Africa and Kenya the other two economic power houses of Sub-Saharan Africa accounted for 7.3 percent and 4.9 percent of total privatisation receipts, respectively. Other countries that accounted for between 2 and 3 percent of privatisation receipts include Mauritania, Burkina Faso, Tanzania, Sudan and Uganda. All other countries accounted for less than 1 percent total privatisation receipts. Namibia, with only 1 privatisation deal, worth US$7 million accounted for a mere 0.1 percent of Sub-Saharan Africa's privatisation receipts during the period 2000-2007. With respect to the number of privatisation deals, Nigeria was again the front runner with 105 out of 219 deals during the period under consideration. South Africa and Uganda, with 13 deals each came in a distant second. All other countries recorded less than 10 privatisation deals, 9 of them including Namibia recorded one deal only. Two of Namibia's important neighbours, Angola and Botswana recorded 7 and 0 deals, respectively during the period under consideration. Although Sub-Saharan Africa recorded the third highest number of privatisation transactions after Europe and Central Asia, in value terms it represented only 3 percent of total privatisation receipts[7].

[7] *This remained more or less the same as in the period 1990-1999 (Kikeri and Nellis, 2004).*

Table 6 IPO transactions and values in Sub Saharan Africa, 2000-2007 (US$ Million)

Number of countries with privatisation **219**
Total number of transactions **30**
Total amount (US$) **10,734**

	2000	2001	2002	2003	2004	2005	2006	2007	Total 2000 -2007
Sub-Saharan Africa	470	1,446	714	876	544	2,321	1,926	2,437	10,734
Angola					2	15	10		27
Benin								69	69
Burkina Faso	19	5					290		314
Cameroon	154	70							224
Central African Republic								12	12
Congo, Rep.	2								2
Equatorial Guinea	64						2		66
Ethiopia	5								5
Gabon		3			5			79	87
Ghana			28		45			120	193
Guinea							38		38
Guinea-Bissau					1			7	8
Kenya					27		113	390	530
Lesotho		17							17
Madagascar		36			14				50
Malawi							31		31
Mali	27		44						71
Mauritania	34	48							82
Mauritius		261							261
Mozambique			68	85					153
Namibia								**9**	**9**
Niger	12	19						72	103
Nigeria	68	749	344		386	2,178	1,401	1,356	6,482
Rwanda						20	8	100	128
Senegal	5			55		15		200	275
South Africa	19	28	191	528		15			781
Sudan		10		177	59				246
Tanzania		60	20	13	5	58		23	179
Uganda	61	9	19	18		20	33		160
Zimbabwe		131							131

Source: World Bank Database on Privatisation

3.1.7 South Asia

The South Asia regions raised US$15.6 billion from 134 transactions in 7 countries between 2000 and 2007, representing about 5 percent of the total from all developing countries. India accounted for 49.9 percent and Pakistan for 48.4 percent of all privatisation receipts. The contribution of the other countries in this region was fairly insignificant. In terms of the number of deals, India accounted for 60 and Pakistan for 54 out of a total of 134 deals. Bangladesh and Sri Lanka recorded 8 and 6 deals respectively. Over half of South Asia's regional value came from infrastructure, with telecommunications generating nearly US$5 billion (70 percent) of the sector's total and about 30 percent of the region's total value.

Table 7 IPO transactions and values in South Asia, 2000-2007 (US$ Million)

Number of counbtries with privatization	**7**
Total number of transations	**134**
Total amount (US$)	**15,588**

Economy (US$ millions)	2000	2001	2002	2003	2004	2005	2006	2007	Total 2000 -2007
South Asia	61	486	2,290	1,297	4,663	3,799	1,649	1,343	15,588
Afghanistan						40	40		80
Bangladesh	13					50		2	65
Bhutan							18		18
India	33	460	1,717	836	3,852	63	458	362	7,781
Nepal	15		5						20
Pakistan		19	562	399	811	3,646	1,128	975	7,540
Sri Lanka		7	6	62			5	4	84

Source: World Bank Database on Privatisation

3.2 Sectoral breakdown of privatisation

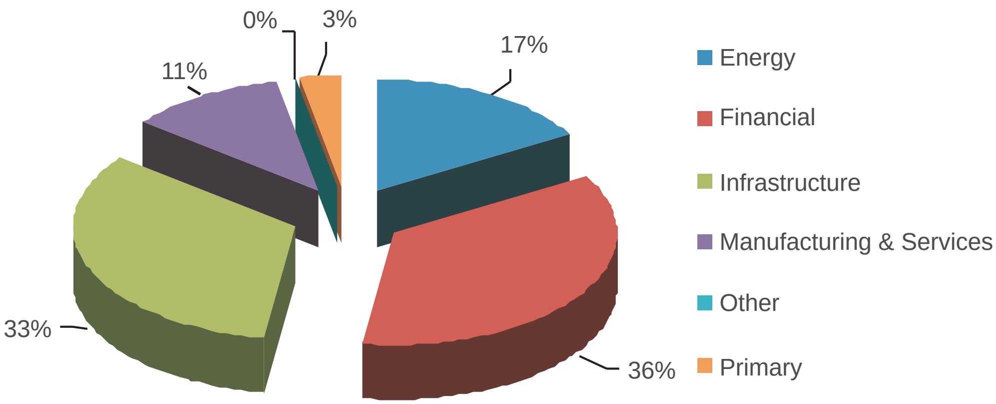
The World Bank database provide data for five sectors: (i) Energy, including exploration, extraction and refinement of hydrocarbons and oil and natural gas; (ii) Finance, including banks, insurance, real estate and other financial services; (iii) Infrastructure such as transportation, water and sewerage telecommunications, natural gas transmission and distribution and electricity generation, transmission and distribution; (iv) Manufacturing and services, such as agribusiness, cement, chemicals, construction, steels, hotels, tourism, airlines, maritime services and other sub-sectors that are not infrastructure or finance related; and (v) Primary sector activities, including extraction, refinement and sale of primary mineral and metals such as coal and iron ore.

During the period 2000-2007 financial services and infrastructure related privatisation deals accounted for the bulk of privatisation receipts. Out of a value of US$414.6 billion, financial services accounted for US$147.7 billion or 36 percent, while infrastructure related deals accounted for US$137.6 billion or 33 percent. Energy and manufacturing and services related deals accounted for 17 percent and 11 percent of the total value of privatisation deals during the period under consideration. Primary sector related activities accounted for only 3 percent of the total privatisation values.

In finance, transaction value in 2007 reached a record of US$61 billion (46 percent of total), growing from US$49 billion in 2006 and US$25 billion in the previous six years combined. Driven by the demand for shares, the need for opening of markets, IPOs accounted for nearly 95 percent of sector value and most of its growth. Nearly 67 percent of IPO value (US$38 billion) came from nine Chinese banks and insurance companies, and another 28 percent (US$16,8 billion) from two Russian banks.

Infrastructure transactions value grew by 20 percent to US$28.4 billion (21 percent of total) in 2007. Value in electricity and natural gas tripled returning to the levels of the late 1990s and accounting for more than half the infrastructure total. Nearly 85 percent came from the sale of 12 companies in Russia and Romania's IPO of Transgaz.

Chart 1 Sectoral breakdown of privatisation value (2000-2007)



Source: World Bank Database on Privatisation

4. The impact of privatisation

According to Kikeri and Nellis (2004), privatisation in early years was to a great extent a leap of faith, because there was neither great theoretical justification, nor hard evidence at the beginning of the 1980s that the performance problems of state owned enterprises could altered by ownership change. While there are currently more empirical reports in support of the positive impact of privatisation no major theoretical breakthrough has been made as to whether change in ownership matters or not. This section reviews of the recent empirical studies the impact of privatisation, primarily in developing and transition economies. It is essentially a desk review, and draws heavily on the comprehensive work of Nellis (2006) and Kikeri and Nellis (2004) on this topic. Most empirical studies on the impact of privatisation primarily focus its impact on firm efficiency, the macroeconomic impact of privatisation and the broader welfare aspects of privatisation. Generally these studies conclude that privatisation improve firm level performance and short-run macroeconomic stability, however the findings on social welfare impact appears less robust, in part due to methodological issues. While most studies have a fairly good assessment of the employment effects of privatisation, wider income distribution issues need more attention.

4.1 The microeconomic impact

Most studies of the impact of privatisation focuses on its impact on the performance of the firm. According to Nellis (2006), the vast majority of these studies report post-privatisation increases in profitability, efficiency and returns to shareholders. The firm level studies show improved post privatisation performance in both industrialized and developing countries, and in most manufacturing, commercial, industrial and service sector. For instance, La Porta and Lopez-de-Silanes (1997) in a study of 218 nonfinancial firms privatised in Mexico during 1983-91 conclude that enterprises went from being highly unprofitable before privatisation to being profitable thereafter. In Brazil, privatisation also improved the efficiency and profitability of state enterprises (Macedo, 2000). Even in Sub-Saharan Africa, a number of studies reported strong performance of public enterprises subsequent to privatisation[8]. In a recent study covering eight transactions in four Sub-Saharan African countries the World Bank (2008)[9] found that four cases had firm level gains, ranging from considerable to dramatic. Three other cases also had improvements, though the effects of privatisation were less clear. In only one case was there no positive impact on firm results attributed to the brevity of the transaction and management difficulties as the particular utility company that was privatised.

[8] See for instance, Boubakri and Cossett, 1999; Campbell White and Bhatia, 1998; Appiah-Kubi, 2001; Andreasson, 1998; Due and Temu, 2002; and Temu and Due, 1998.
[9] The study covered the following four Sub-Saharan African countries, Cote d'Ivoire, Mozambique, Senegal and Uganda and the following sectors, electricity, water, airlines, clay and telecommunications.

In transition economies it is more difficult to assess the impact of privatisation, mainly because of concurrent sweeping economic and social changes, that makes it difficult to separate privatisations effects from other factors. Nevertheless, Djankov and Murell (2002) in reviewing empirical studies of enterprise restructuring and ownership change conclude that private ownership produces more after restructuring than state ownership in most transition economies. However, there were noticeable regional differences. For instance, the privatisation effect in Central and Eastern European countries was more than twice that in former Soviet countries. In the case of Russia they found little difference between privatised and state firms. These differences have been attributed to different sales methods. For example, in Central and Eastern European countries that privatised largely through trade sales on a case-by-case basis ended up with concentrated strategic owners, often foreigners, who tend to be more productive than domestic shareholders. Firms in the former Soviet Union countries, which relied mainly on mass privatisation through vouchers, tended to have less positive results. Mass privatisation led to insider ownership (by managers and employees) and widely diffused shareholding among small, first time equity holders.

It is not fully understood why privatisation produces or is associated with efficiency gains. Economic theory, either in its neo-classical or amended forms, offers no clear picture of a definite advantage of private ownership. Analysts point to improved information to and incentives for managers, greater access to capital market resources and pressures, increased isolation from political interference and increased flexibility to deal with labour and other cost concerns, as likely sources of the improvement. According to Tandon (2005), one of the problems related to assessing the effectiveness of privatisation, it that it is almost never introduced as a stand-alone reform. It is usually part of a package of liberalizing policy changes that increase openness and competition at the same time that private ownership is introduced. This makes it hard to determine the extent to which ownership change in and of itself accounts for the improvements seen. It maybe that increased competitive pressures are an equal or better explanation for the altered behaviour.

This view is supported by Omran (2001) that found that efficiency indicators in privatised and state-owned firm in Egypt in the 1990s improved regardless of ownership type or change. He thus concludes that general liberalization was more important than privatisation in explaining firm behaviour. Yet another factor that explains the general improvement in firm performance is timing. In this connection, Dewenter and Malatesa (1997) and Hodge (2000) argue that many improvements occur well before privatisation, while enterprises are still under state ownership. This is also referred to as the “announcement” effects of divestiture, supported by the fact that many long-avoided reforms were made in the run up to privatisation, including change of management, layoffs and other costs cutting measures, and enhanced competition through changes in trade regimes and pricing. The issue is whether these improvements could have been initiated and sustained had they not been precursors to divestiture. Nellis (2006) however, maintains that no matter what the underlying cause, the fact remains that firm performance most often does improve.

4.2 Macro-economic impact

Studies on the macroeconomic impact of privatisation focus on the link between privatisation and fiscal sustainability, fiscal space, in other words if more money was allocated social investment following privatisation and economic growth. Empirical studies included cross country studies and country specific studies in all the geographic regions of the world. Regarding the impact on countries' fiscal positions, Brune et al (2004) found that in a set of 18 developing and transition economies privatisation proceeds were large, that the net receipts were saved rather then quickly spent, and that governments' fiscal positions benefitted from privatisation. Gross budgetary transfers to the firms and sectors undergoing privatisation declined, as did general deficits and quasi-fiscal operations. This finding is supported by Davis (2000) that shows that the gross proceeds from privatisation were substantial at about 2 percent of GDP in a sample of 18 countries, and that the fiscal situation of governments that saved rather than spent privatisation proceeds improved over time. Privatisation also produced positive impact from the expenditure side, in the sense that government transfers to state enterprises declined substantially following privatisation and broader indicators of consolidated enterprise accounts for a number of countries indicated much smaller deficits. On whether the proceeds generated from privatisation were wisely spend is another question, and the empirical evidence tend to be weaker. The short answer is that privatisation does not guarantee that proceeds will be wisely applied. Brune et al concluded that the funds were not generally wasted, while McKenzie and Mookherjee note that government spending on social sectors in at least three countries, Mexico, Argentina and Bolivia increased significantly following privatisation.

On the link between privatisation and economic growth, the relationship is not so clear. For example, although finding a strong correlation between privatisation and growth (Davis et al, 2000) noted that it does not suggest that privatisation caused the sharp increase in growth rates of the sample countries. Rather in line with the argument that privatisation tend to be introduced with other structural reform measures, the introduction of privatisation may more than anything else signal a change in economic regime. In simple terms, while there is an association between privatisation and increased growth, the extent to which privatisation causes growth it not known. Country specific studies on the macroeconomic impact of privatisation are more nuanced in their findings. For instance, in Latin America as a whole Campos et al (2003) find that the effects of privatisation of infrastructure on regional GDP per capita was neutral at worse and most probably positive. However, it may produce a decline in public sector accounts, thus casting doubt on the argument that privatisation generates "fiscal space" For example, Macedo (2000) argues that although privatisation created huge resources in Brazil, it was mainly used on current expenditure rather than on debt relief, thus increasing fiscal deficits.

4.3 Social welfare impact

Improved firm performance does not sufficiently measure privatisation's utility. While a privatised firm might be doing better, the economy as a whole might be worse off and this is where the bone of contention is with regard to the privatisation experience. The economy might be worse off for a number of reasons including due to the firm's exploitation of a monopoly position or to government policies, protections, special arrangements or even illegal actions that give the firm an advantage. For example, the better performance of the firm might come at the expense of competitors or tax payers' money. In other words there could be an opportunity costs associated with privatisation of one firm that will be felt somewhere also in the economy. Despite this recognized importance, only a few studies on the broader welfare effects have been undertaken, in part due to the heavy data demands.

To determine the social welfare impact of privatisation, economists make use of concepts derived from welfare economics, combined with techniques drawn from social cost-benefit analysis (Nellis, 2006). For example, they will not only ask if the position of the firm or government or any single actor has improved or worsened due to privatisation, but rather: what was the impact of privatisation on the economy as a whole; what significant variables have changed as a result of privatisation only; whether changes brought about by privatisation resulted in gains or losses for relevant actors in the economy, including the general government, workers, consumers, and competitors, and how gains/losses were distributed among these actors. After estimating the total loss or gain and the distribution thereof can one calculate the overall economic impact of privatisation.

To answer the question of what changes were brought about by privatisation requires construction of a counterfactual scenario. In other words what would have happened if privatisation had not taken place, and the publicly owned firm had continued in operation. This is quite a complex exercise, and is often referred to a "crystal ball gazing" because of the uncertainties surrounding it. For the counter factual to be transparent and persuasive, the assumptions used in its construction must be plausible. Despite the difficulties associated with welfare based analysis, almost all studies so carried out reported substantial aggregate welfare gains from privatisation for the economies in question (Nellis, 2006). The same goes for a larger number of studies calculating welfare consequences with less elaborate counterfactuals or by totally different methods. One of the main reasons against privatisation is its negative impact on poverty and income inequality. The two main channels through which this occurs are the employment channel and rapid increase in prices that disproportionately affect the poorer segments of society.

Excess labour is one of the first areas addressed by reforming governments or new private owners. With respect to employment, most empirical studies show that privatisation generally result in job losses. Nellis (2006) cite the following cases: 150,000 in Argentina between 1987 and 1997; roughly 50 percent of all employees in firms privatised in Mexico in the 1990s; a reduction of more than 90,000 from peak employment levels in privatised Brazilian railways alone; and the dismissal of 15 percent of the Nicaragua's total labour force. In another study Chong and Lopez-de-Silanes (2002) show that worldwide, on average, 4 of 5 surveyed firms decrease employees further after sale. In yet another review of 17 cases, Van der Hoeven and Sziracki (1997) found job losses in 7 cases (averaging 44 percent), non change in 6 cases and increases in only 4 cases). It is assumed that this type of job loss, falling on those whose main source of income is wages, must result in increased poverty and increased inequality of incomes. It is notable that some firms ion competitive sectors with relative efficient staffing levels before privatisation, and firms in high demand sectors such as telecommunications, experienced little decline in employment. The general expectation is that downsizing will be temporary and that growth in restructured private firms will rebound. While this maybe true in some case, most empirical studies suggest firms slated for privatisation shed fewer jobs than the economy as a whole, indicated that layoff might have been a result of general weak economic conditions.

A second claim is that privatisation and private sector involvement raise the prices for essential goods and services, especially water, sewerage, electricity and transport. Nellis argues that under state ownership, government tend to set utility prices at less than cost covering levels, resulting in scarcity, rationing and lack of investment and expansion capital. Price increases are therefore, often unavoidable if the firm is to modernize, expand to meet demand, and operate without subsidies. However, critics argue that the size and speed of price adjustments imposed following privatisation are often excessive and unjustified, with an especially harsh impact on low-income consumers. For instance, in Bolivia, water prices for poorer consumers on average by 34 percent after privatisation and doubles for a small segment poor consumers. What is a bearable annoyance for upper income people might be an insurmountable, inequality enhancing financial burden for the poor.

However, latest empirical research dilutes some of the claims that privatisation adds to inequality and poverty. These studies examine the effects of privatisation on income groups and move beyond an assessment of the impact of privatisation on a neighbourhood, a city or the employees of a particular firm being privatised. They quantitatively estimate the direct and indirect, short and medium term, distributional effects of ownership change. Examining the distributional impact of 10 infrastructure privatisations in Argentina, Bolivia, Mexico and Nicaragua, McKenzie and Mookherjee (2005) found that privatisation contributed only slightly to a rising general unemployment levels, and that privatisation actually increased access to services disproportionately in lower income groups. More specifically on income equality and poverty levels, they found that privatisation has a very small effect on inequality and that it either reduced poverty or had not effect on it.

The reasons behind the findings of McKenzie and Mookherjee are twofold. One, the direct unemployment effects of privatisation are small in relation to the total workforce and tend to be offset in the medium term by increased job creation produced in part by privatisation. Two, increased access offsets negative effects of higher prices. The number of workers laid off due to privatisation is small, relative to the entire workforce. In the cases reviewed by McKenzie and Mookherjee, the number of private sector jobs created by the general reform program soon exceeded the number dismissed. Nellis also note that general and enduring increases n overall unemployment levels, in the reviewed countries although real and trouble some, came some time after privatisation and was caused by external shocks, labour market rigidities and financial indiscipline and not privatisation. Behrman, Birdsall, and Szekely (2000) go a step further and argue, that if it was not for privatisation, unemployment in Latin America would have even been higher.

In a Sub-Saharan African specific example covering eight transactions and four countries, the World Bank (2008) made the following findings with respect to impact of privatisation on different stakeholders: consumers; workers, government, and owners or operators. Notwithstanding common perception, the study found that consumers lost in none of the eight cases. It found that consumers had modest gains in all three competitive cases, and major gains in three of the five non-competitive cases. Price increases were minimal, because access to investment capital allowed expanded coverage with only moderate price increases. Results for workers showed greater variance. Workers were major net winners in two cases, where output price was not regulated and where greater profitability and capacity utilization translated into higher employment and wages. In two cases workers were net losers, while in three cases there was no significant net impact, mainly due to prior voluntary departures that offset higher wages and employment after privatisation. Government was a major winner in six cases, with only one case reporting modest losses due to annual fee payments to the management contractor. Overall the study concluded that there were substantial welfare gains in two of the cases for which a full welfare analysis was done. The key findings of the study is summarised in table 8.

Table 8 Stakeholder Impact of Privatisation in Four Sub-Saharan African Countries

Transaction	Consumers	Workers	Government	Owners/ Operators
Cote d' Ivoire, electricity	++	+	++	++
Mozambique, water	++	-	N	-
Senegal, airlines	+	++	++	++
Senegal, electricity	N	N	+	--
Senegal, water	++	-	++	N
Uganda, clay	+	++	++	++
Uganda, telecoms	+	N	++	++
Uganda, water	N+	N	-	+

++ Major net gains, + Modest net gains, N No significant impact, - Modest net losers, -- Major net losers, N+ Significant Inpact

Source: World Bank, 2008

Regarding access, Harris (2003) confirms a positive impact on sectors such as water and power in countries at various levels of development, as increased investment leads to expanded coverage and access and as sales contracts often requires that much of the expansion benefits previously unfavoured groups or regions. Moreover, Wallsten (2002) using household data from around the world to examine the performance of public utilities in meeting universal service obligations and the impact of reform found that state monopolies everywhere except in Eastern Europe failed to provide service to poor and rural households and that privatisation reforms did not harm poor and rural consumers, but in many cases improved their access to utility services.

If privatisation results in improved performance, than why is it that there is so much resistance to privatisation? Nellis suggest that it is partly because the benefits of privatisation tend to be dispersed, while the cost associated with it tend to be concentrated. In other words, privatisation's benefits for consumers at large tend to be dispersed among unstructured unorganized segments of the public, and the benefits are small for each affected consumer. Mass benefits occur in the medium term, or at least they accrue to a significant size in the medium term. By way of illustration, in several Latin American countries, post privatisation average real electricity tariffs declined by 5-10 percent, and in the case of telecommunications, reductions were even more. In aggregate, these savings are substantial and worthwhile gains for any economy. However gains of this nature rarely move masses of consumers to mobilize politically in favour of privatisation. Many of the beneficiaries of coverage increases resulting from infrastructure privatisation are the poor, who are less organized, and do not associate the gains from reduced tariffs as having anything to do with privatisation of the services. To the contrary the costs of privatisation are concentrated. They affect a visible, vocal and urbanized sector, represented by powerful public sector unions; bureaucrats in supervisory ministries that lose their authority, perks and perhaps even reason for existence, managers and board members of public enterprises removed pre-or post-sale, middle and upper income consumes about to loose a service long-furnished at a subsidized price. Though the sum of their aggregate welfare losses maybe much less than the aggregate gain, these actors, possess “voice” and access to power; and they can make their needs and views know (Nellis, 2006).

Overall with respect to broader distributional effects, there is a widespread perception that privatisation has negative effects on wealth distribution, with upper income groups gaining far more in equity shares than lower income groups, at least in the short run. In this connection, Birdsall and Nellis (2002) in a substantive review of this matter conclude that most privatisation programs have, at least in the short run worsened the distribution of assets (very likely) and income (likely). This was far more evident in transition economies than in Latin America and less clear for utilities than for bank and oil companies and other natural resource producers. In the case of Latin America, McKenzie and Mookherjee (2002) conclude that privatisation has contributed little or nothing to the growing inequality in the region and that it either reduces poverty or has no effect.

5. Resumè

This paper attempted to provide an overview of privatisation in developed and transition economies. Based on the World Bank dataset on privatisation it showed that there was quite significant privatisation activities in all geographical areas in the world. Privatisation data is hard to get by, and a huge number of privatisation deals in the former Soviet Union countries were not attached to money transfer, hence the there is a general underestimation of privatisation deals in the developing countries. Nevertheless, the World Bank figures of privatisation values are quite significant. It is expected that there will be a temporary slowdown in privatisation deals in 2008 and 2009 due the global economic crisis. Moreover due to the global economic crisis, there has been a reversal in ownership trends in many advanced economies, although this is expected to be short lived.

With regard to the impact of privatisation, this paper reviewed findings of its impact on firm efficiency, its overall macroeconomic impact, and welfare distributional issues. Surprisingly and contrary to popular believe, empirical studies suggest that the impact of privatisation has been largely positive or neutral in most cases. Although, there were job losses and price hikes following privatisation, the impact on income inequality and poverty reduction is less clear. Generally there are no overwhelming arguments for or against privatisation. However, it seems most of the fears of privatizing might be unfounded and that under certain circumstances there might be modest or even big net gains, especially at the firm level. This notwithstanding, privatisation is increasingly dislike, even in advanced economies such as the US. In this regard, many non governmental organizations, civic societies, and even novel price economist such as Stiglitz rightfully question the manner in which privatisation has been implemented. Privatisation strategies therefore should be duly informed by the lessons of previous privatisation cases. Some lessons that have been cited, include that in the first instance privatisation should be tailored to the local conditions, efforts should be strengthened to promote competition and regulatory frameworks, and transparency in sales processes should be enforced, and very important, mechanism should be introduce to ensure that the poor have access to affordable essential services.

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COMMENTS ON "PRIVATISATION CROSS COUNTRY EXPERIENCES"

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1. Introduction

Let me preface my comments on Dr Steytler's paper on privatisation by congratulating the Bank of Namibia on their choice of topic for this year's symposium. In some respects privatisation has had a lower profile globally in recent years; many of the more heated arguments took place several years ago, and privatisation is now firmly established on the policy agenda of governments around the world. Nevertheless, this does not mean that there is nothing interesting to discuss about privatisation. Indeed, the fact that privatisation has been taking place for several years means that there is now a substantial body of experience that can be analysed to determine the impact of privatisation – analysis that can perhaps help to resolve some of the disagreements regarding privatisation that have been aired over the years. Second, the global financial and economic crisis that has unfolded over the past 12 months has changed the global economic environment, and has led to an increase in the role of the state in ownership of enterprises, notably in the banking industry but also, in the USA at least, in the motor manufacturing industry. So perhaps these developments will help to provide a new perspective on privatisation.

My presentation as discussant will consist of two parts. The first will contain some comments on the paper, and some suggestions as to how it could be developed. The second will follow up on some of the points raised, but with specific reference to privatisation of banks.

2. Comments on the paper

The paper on "Privatisation – Cross Country Experiences" provides a comprehensive overview of global developments with regard to privatisation over the past few years. As the author states, good quality data on privatisation are difficult to find, and the analysis of the World Bank database on privatisation in this paper enables the presentation of a high-quality summary of privatisation trends.

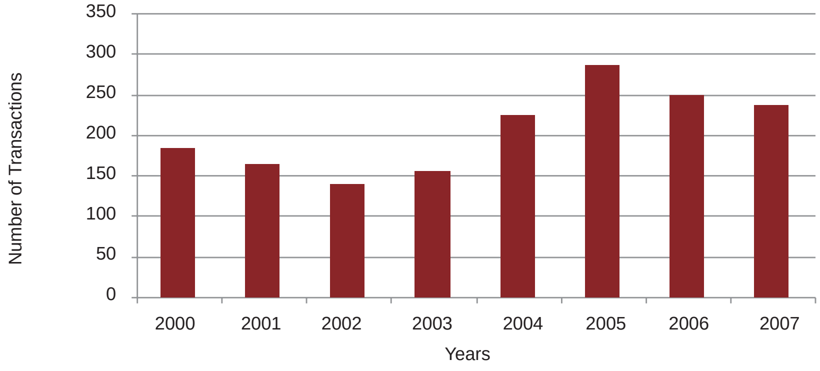
The data presented shows that privatisation is alive and well. The paper suggests that notwithstanding a lull connected with the global financial and economic crisis, privatisation is likely to continue.

Besides the survey of the recent experience with regard to privatisation, the paper provides a useful summary of the impact of privatisation impact – drawing on various pieces of analysis that are possible now that considerable time has passed since privatisations were first undertaken. This summary confirms that, in general, the impact of privatisation has been positive, whether analysed from macroeconomic, microeconomic or social welfare perspectives.

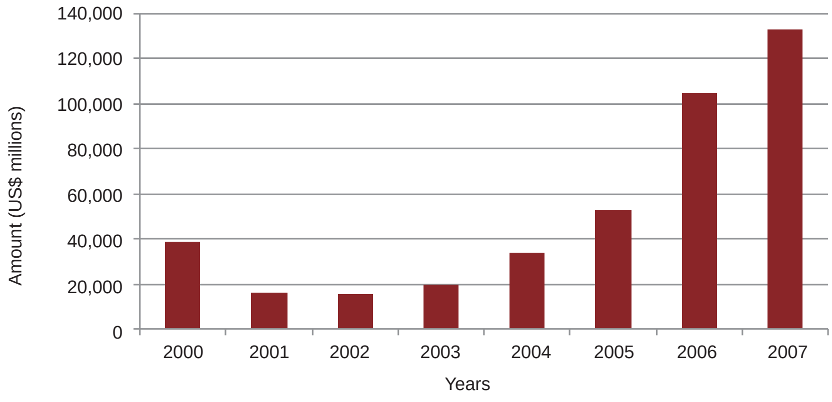
I must say that I am largely in agreement with the conclusions of the paper. I certainly do not disagree with the major conclusions. My comments therefore relate mainly to suggestions for refinement or elaboration, and I make one or two suggestions for how it could be developed or for follow-up work that could be undertaken.

The first comment relates to some presentation issues. The author had access to the extensive World Bank database on privatisation, which is summarised in tabular form. My preference would also to have presented some of the information in graphical form – such as annual regional privatisation totals over the period discussed – and to have included both the number of annual privatisations as well as the value. This would have made it much easier to get a feel for time trends with regard to privatisation in the different regions covered. Examples of the types of information that can be derived from the World Bank database are shown below.

Global Number of Privatisation transactions



Global Proceeds from Privatisation transactions



This relates to a second point relating to future privatisation prospects. The paper suggests that there has been a lull in privatisation because of the global financial and economic crisis, but that it will pick up again in due course. I am sure that there is some truth in this. But there may be more to it than just the impact of global crisis. At some point, the flow of privatisations will inevitably slow down or at least change its form. Privatisation relates primarily to selling off the stock of state-owned enterprises (SOEs). The further it proceeds, the fewer SOEs there are to sell off. If we consider countries in SADC where there were very large numbers of SOEs – such as Mozambique, Tanzania and Zambia, each of which had several hundred SOEs – many if not most of these have now been sold off. Of course there is China, which has thousands of SOEs and where privatisation is not so far advanced, and the flow of Chinese privatisations could keep the overall numbers up for some time. But closer to home in Africa, the number and value of privatisations must inevitably slow down as the number of SOEs declines. Perhaps privatisation will then change its form, to focus more on contracting out of government services and PPPs for the provision of assets.

A third point relates to the opposition to privatisation, which, as the paper acknowledges, can be quite strong. The paper also acknowledges that there is a conundrum here, as analysis suggests that privatisation has generally been successful, but nevertheless generates considerable opposition. The paper suggests that this is because the beneficiaries of privatisation – such as consumers – are diverse while the losers – public sector workers and officials – are more concentrated. But I think there may be more to it that this. One explanation is that while privatisation has been successful overall, the broad picture consists of many successes but quite a few failures. The paper could perhaps have benefited from a more detailed examination of some of the work that has been critical of privatisation. This could in turn have led to a discussion of the conditions that are necessary for privatisation to be successful – conditions that are alluded to in the paper's conclusion, but not explored in detail.

My fourth and final comment on the paper is a minor one that relates to the analysis of macroeconomic impact. My own hypothesis is that privatised firms are much more likely to be successful exporters than SOEs, and of course this is important for most African countries that are crucially dependent upon export-led growth. The example of Zambia, where privatisation of copper mines – despite its unpopularity and concerns about the terms on which privatisation took place - has been associated with massive investment in the industry, and a revival of Zambia's copper exports, and compares with the running down of the mines, loss making and falling exports under state ownership. Some research on the relative export performance of state owned and privatised firms would be very useful.

3. Privatisation in Banking

The second section of my presentation follows from the paper's identification of finance/banking as being the sector with the largest value of privatisations. In this section I will briefly review some aspects of the privatisation of banks in Africa.

Historically of course there has been a high level of state ownership in the banking sector in Africa, and in financial sector (e.g. insurance) more generally. This applies across most types of economy in Africa – whether explicitly socialist systems such as Tanzania, Mozambique and Angola, or more mixed economies such as Kenya, Nigeria, Zambia and Uganda. It is only in the SACU countries – South Africa, Botswana, Lesotho, Namibia and Swaziland – that there has been a much lower level of state ownership of banks, and this has been concentrated on more specialised entities such as development banks, although there have been other state-owned financial entities, such as the government monopoly of insurance in Swaziland.

State-owned banks originated either when governments nationalised private banks –usually foreign owned banks in the early years after independence - or established state-owned banks in competition with private banks.

In addition to extensive state ownership the banking sector has been highly regulated in many countries, with controls on interest rates, credit allocation etc.

State-owned banks have generally been unsuccessful. Typically they have been inefficient and loss-making, with high levels of non-performing loans (NPLs), offering poor service, and needing frequent recapitalisation. The high level of NPLs and the resulting losses were often worsened by forced lending to other loss-making SOEs. Privatisation has typically been part of a broader process of financial sector reform and liberalisation in Africa. These reforms have generally included:

- Removal of controls on interest rates and credit allocation;
- Move to indirect (market-based) instruments of monetary policy;
- Reduction of state ownership of banks and other financial institutions;
- Encouragement of foreign investment in the financial sector.

The objectives of these reforms have been many, and include boosting savings; enhancing the availability of funds for investment; improving financial intermediation; improving the effectiveness of monetary policy; bringing in new skills, banking practices and technologies; achieving greater efficiency and improving the level of competition in banking.

What have the results of bank privatisation been?

The results of bank privatisations have been mixed, and depend on various factors including the way in which privatisation was carried out. As has been well established by the history of privatisation, there are good and bad ways to do things.

Evidence suggests that banking privatisation has been more successful where the following conditions are met:

- Government fully relinquishes control and preferably fully divests its shareholding (empirical evidence suggests a strong negative impact of a continued government ownership stake, or of controls imposed on the privatised entity such as lending requirements or restrictions on branch closures);
- Banks are privatised to strategic investors (as opposed to being sold through IPOs / share issues that can result in widely dispersed ownership);
- When bidding is open to all bidders, including foreign-owned banks.
- Where there is a high level of competition in the banking system;
- Where there is high quality banking regulation.

The literature on bank privatisations generally supports the conclusion of Dr Steytler's paper that privatisation improves both microeconomic (enterprise level) performance and macroeconomic (financial system) performance. But it also concludes that privatisation is not always effective, and that the way in which it is carried out, and the conditions under which it takes place, are crucial determinants of the outcome.

But has the global crisis changed the situation?

To what extent has this picture been changed by the credit crunch and the global crisis over the past 12-24 months? As is well known, banks are in trouble, have incurred huge losses, and have had huge demands for recapitalisation. This has in turn led to government intervention and, in some cases, the acquisition of substantial ownership stakes. For the first time in decades, governments in developed countries have nationalised major enterprises, even if this goes against the general philosophy of promoting the private sector, and even in the USA where nationalisation has never played a major role in the policy framework. The crisis has also led to widespread negative attitudes towards banks - and bankers!

An interesting question that arises is, to what extent is this the case in Africa? And in particular, has the process of privatisation been affected?

In answering this I can report on the preliminary results of survey of selected African Central Banks carried out for the African Development Bank, which is part of a project examining the impact of the global crisis on the banking sector and in particular, banking supervision.

Amongst the issues addressed were the following questions:

- To what extent is a backlash against financial sector reform and liberalisation a problem in Africa?
- Is privatisation being affected?
- Are governments considering having a greater direct role in the ownership of financial institutions?

The results still coming in, but based on the first round of responses from seven central banks, a clear picture is emerging.

With regard to the first question, there is no evidence of any backlash against financial sector reform and liberalization, which are now quite entrenched in many countries. In none of the countries surveyed is there any suggestion that financial sector reform and liberalisation should be reversed. The success of reform and liberalization is such that the benefits are generally appreciated, notwithstanding further reforms that are needed.

With regard to the second question, there has been no major impact on privatisation programmes. In countries where privatisation was undertaken some time back, the benefits have been significant and noticeable, and there is evidence that the efficiency and performance of the banking system has improved, not just in terms of profitability, bad debts etc., but also in terms of the range and availability of financial services. Hence there is public support for privatisation because the benefits compared to the old state-owned banks are clear. Within SADC, for instance such benefits are apparent in Zambia, Tanzania, Angola and Mozambique. In the latter three countries, where banking systems were dominated by state-owned banks prior to privatisation, the banking sector has been completely transformed – for the better - by privatisation and the entry of foreign banks. In Uganda, where the formerly state-owned Uganda Commercial Bank was privatised through a sale to Stanbic of South Africa, the privatised bank has actually expanded the branch network, despite earlier concerns that it would seek to close a number of loss-making rural branches. Public support for privatisation is strong, due to the obvious benefits that have resulted, and banking privatisation is ongoing.

Perhaps it is also important that banks in Africa have in general avoided the problems that have engulfed banks in parts of the developed world. Balance sheets have generally remained in good shape, and have not faced problems of “toxic” assets, major losses or threats of bankruptcy, and governments have not faced demands for intervention. Of course this is not universally the case – the recent high profile interventions by the central bank in Nigeria being the major exception – but the problems faced by the Nigerian banking system have been due mainly to domestic practices and inadequate supervision rather than the impact of the global crisis.

However, continued support for banking privatisation is not universal. In countries where privatisation is less far advanced – perhaps because there were fewer state–owned banks in the first place and hence less understanding of the problems they can cause – the situation is somewhat different. In Botswana concerns have been raised over the privatisation of a development bank – which is politically unpopular in any case but arguments have been raised that "the time is not right", and it appears that this may be used by opponents of privatisation to delay the process. .

With regard to the third question there is no evidence (apart from Nigeria) that governments are considering having a greater direct role in the ownership of financial institutions, despite the increased government ownership stakes in financial institutions in the west. This is partly because banks in Africa have been somewhat less affected by the crisis, and are not in need to recapitalization and hence there is less of a pressing need for government to inject funds, which could be the basis for a higher ownership stake. Also there is some understanding that the appropriate role of government in the financial system is to ensure proper regulation and facilitate development such as through ensuring broad-based ownership and enhancing access to finance. Hence the responses of governments to the global financial crisis has been primarily to deal with regulatory issues rather than consider direct intervention – again with Nigeria being the main exception. The emphasis has therefore been to review regulatory structures, taking account of international regulatory developments such as raising capital requirements, and to introduce new regulatory functions such as macroprudential supervision, which considers risk indicators at the level of the financial system and not just for individual institutions.

What are the future prospects for the privatisation of banks in Africa?

Firstly, it is encouraging that there is no evidence that the process is being disrupted, in that privatisation programmes that were in place before the global crisis are still being pursued. However, much of the process has been completed, in that the state-owned commercial banks have already been privatised in many countries. As a result, future privatisations may be more difficult, for instance, when they relate to more specialised institutions such as development banks and postbanks or savings banks that have particular mandates that governments may wish to preserve. This is not always easy, for instance development banks are required to take a different perspective to commercial banks – perhaps focusing on SMME finance, agricultural finance or longer-term lending - and the new owners may not be happy with restrictions placed on their activities.

4. Conclusions

The experience of banking privatisations in Africa provides support to Dr Steytler's conclusions regarding the pre-requisites for successful privatisation in general. That is,

- Privatisation should be informed by the lessons of previous privatisation cases;
- Privatisation should be tailored to local conditions;
- Efforts should be made to promote competition and regulatory structures;
- Transparency in sales processes should be enforced.

It is also important to ensure that the poor have access to affordable essential banking services, meaning that privatisation should be accompanied by related initiatives to improve access to finance.

OVERVIEW OF PRIVATISATION IN NAMIBIA

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Abstract

This paper provides an overview of privatisation in Namibia through a review of available literature. It does not offer any critical analysis of privatisation in Namibia; it merely sets the tone for more substantive papers to be presented at the Bank of Namibia Symposium 2009. However, it highlights some pertinent issues such as such as the current debates and controversies surrounding public-private partnerships (PPPs). The paper concludes that despite the measly performance of the SOEs, government is not prepared to embark on a full privatisation and rather prefer the current government ownership and participation of the private sector through PPPs. Given this situation the immediate and pressing task at hand is for government to improve efficiency and productivity in SOEs, if it is to achieve its stated objectives.

1.1 Introduction

> “We can privatise, there is nothing wrong with that. But the insecurity created for the people who will not be able to find other jobs could lead to total chaos. Each country should try to solve its own unique problems in its own way”
> (Senior SWAPO MP, Ben Amadhila. Nampa, May 2003)

The past two decades have seen extensive public sector restructuring in industrialized and developing countries alike. While the form of and justification for restructuring has differed from country to country, the effects have largely been the same - the reduced scope and quality of services, the undermining of public sector unionism, the downsizing of the public sector labour force, and cuts in the pay and employment conditions of public service workers (LaRRi, Feb, 2002).

The LARRi study puts the advent of Namibian government privatisation drive squarely on the shoulders of the World Bank (see also Maclune, 2004). The papers quoting a World Bank (1999) Report states that the World Bank suggested that government spending should be at the level of an OECD country, and more than twice the average for an industrializing country. This is said to have been necessitated by the need to reduce expenditure and exercise fiscal restraint. Simply downsizing and commercialising is not going to necessarily help matters argues LARRi. While it will relieve the fiscus, it won't necessarily improve service delivery, especially to the poor and very poor. In fact the opposite is often true. While one of the key (stated) objectives of privatisation is to improve service delivery, privatisation (and related downsizing and price increases) often worsens the plight of the poor. Given the high levels of unemployment, poverty and inequality in Namibia, any attempts to restructure the state must, therefore, ensure the extension of basic needs services to the poor who depend heavily on the state (health, welfare grants etc) for their livelihoods.

Despite these fears restructuring picked up steam at beginning of 2000s and has continued unhindered with Namibia boasting a total of 52 State Owned Enterprises (SOEs). Despite the measly performance of the current model, Sherbourne (2009:299) states that rather than pursuing the logical next step of partial or full privatisation hand in hand with better regulation, Government appears to have reached the conclusion that more not less political involvement is required to improve corporate governance and corporate performance. He further states that given that privatisation is unlikely to occur in the foreseeable future, many SOEs are finding innovative ways of working more closely with private investors and businesses and this may prove a politically more acceptable way of attracting the vast amount of investment and new technology Namibia requires in these critical areas to foster higher longer-term growth. Vehement opposition to this type of privatisation is coming from different quarters of the Namibian public. Namibia Wildlife Resorts has for example been accused of "selling off" Namibia in its PPPs deals. The merits of such arguments are beyond the scope of this paper.

This paper does not attempt to examine or offer any critical analysis to the privatisation debate; instead the paper provides an overview of privatisation in Namibia. The paper is prepared to set the tone/ground for a more substantive papers on privatisation for the Bank of Namibia Symposium 2009. However, critical issues surrounding the Namibian privatisation debate are highlighted.

1.2 Privatisation defined

The experience of privatisation around the world reveals that it comes in many shapes and sizes, necessitating a broad definition which can account for the various forms which privatisation can take. LaRRI (2000) quoting Heymans (1991) and Oestman (1994) offers the following definitions: the *'replacement of state management and planning by competitive markets' and as 'the introduction of a market-like spirit into public activities'.*

As opposed to the narrow definition which refers only to a transfer of ownership, the broader definition refers not only to the sale of state assets but also to the delegation of government functions to private companies (a process referred to as out-sourcing or contracting out), and even to the running of public activities on a market-like basis (a process referred to as commercialization). Thus privatisation comprises of a number of distinct processes, any one of which or any combination of which may be realized at any given time, depending on the social, political and economic objectives of the privatisation program.

1.3 The big debate

Neo-liberalism: The World Bank and the IMF have coerced countries in need of money to liberalize their economies as a condition for qualifying for a loan. Borrowing countries, particularly in Africa, often have loans tied to a program of economic reform (a structural adjustment program). Public sector reform and privatisation has been key conditionalities of SAPs. That privatisation has been adopted at such a rapid pace in sub-Saharan Africa is largely a consequence of World Bank/IMF pressure (LaRRI, 2000).

Other countries were coaxed to adopt neo-liberal economic principles may come in the form of 'technical expertise and capacity' World Bank/IMF and donor agencies provided to governments. Countries penalized choosing particular economic policies. , Donors have at times fund public sector restructuring programs. So many countries self-impose a neo-liberal economic framework based on the assumption that individual countries cannot on their own resist globalization, and in the belief that there are no viable macro-policy alternatives (ibid).

Efficiency: Another argument in favour of privatisation is based on efficiency. When run on business principles parastatals were going to operate efficiently. Urging the Namibian government to privatise Professor Niels Westengaard-Nielsen argues that privatisation will make parastatals competitive. Quoted by Nampa News Agency he claims that: "…the only sensible motive for a business in competitive market is the profit motive… this lowers the competitive edge of a company if it has to take too many social decisions – it becomes a burden on productivity" (22 May 2003). However, the creation of what became State-owned Enterprises (SOE) did not improve efficiency and productivity, but came with a huge personnel bill, with CEOs of these institutions drawing astronomical salary packages. Chronic bailouts have become a trend rather than an exception. With Air Namibia and NWR been kept on this financial drip year-in and year-out. Individuals serving on Boards of Directors have also been a drain on SOEs resources without ensuring efficiency. Cabinet has for instance (2008) placed moratorium on Board fees until the SOE Act which creates a Council to oversee the SOEs is operational.

1.4 The Namibian experience

Privatisation as already mentioned is driven by a deliberate government policy to make SOEs profitable and also as a means to downsize the public sector. The ground for privatisation has been properly prepared with policy papers and legislation. Schedule 1 of the State-owned Enterprises Governance Act lists 52 SOEs. Sherbourne (2009) classify them as follows:

1. Commercial enterprises - these are companies that have been established by Government to deliver services to consumers in direct exchange for payment in the same way as would be the case for a private company.

2. Lending and other financial institutions - these are institutions that lend money and charge interest for this service or operate in the same way as an equivalent private financial institution albeit with an element of subsidy.

3. Regulatory agencies and boards - these are bodies established by Government to regulate the activities of particular sectors in the economy rather than provide services to consumers.

4. State-owned media - these are media companies that are owned by the State. In theory these operate along commercial lines charging consumers for their services. The NBC is included here although it is unusual in that it benefits from a mandatory license fee levied on all owners of television sets.

5. Welfare - these are organizations established by Government to provide specific welfare services to the population which could not operate along commercial lines and could not be expected to ever be privately owned.

6. Educational and cultural establishments - these are bodies that provide education and cultural services to individuals and the country as a whole.

7. Other state-owned organizations - these are bodies that do not clearly fit into any of the above categories.

1.5 The current status (Commercialization vs. Privatisation/ Outsourcing)

LaRRI (2000) presents three case studies of restructuring processes in the Namibian public service which illustrate how policy formulation is implemented. Most of these companies (SOEs) are registered under the Companies Act (Act 61 of 1973) and are liable to pay tax. They also have to pay dividends to their shareholder, the Namibian government. PPPs which is Namibia's main brand of privatisation have of recent created waves in the media and policy circles about the privatisation of "people's assets". It should first be clearly demonstrated that restructuring has brought about or is going to bring about increased consumer welfare in terms of employment (increased incomes) and/or lower prices for it to be acceptable to the "people".

The case studies below which are mainly from studies by LaRRi describes the cases and attempts to look at the implications of restructuring on employment and prices. Although these studies are not that recent, the situation has not changed much as is demonstrated by recent newspaper reports. All these cases have one objective in common and that is lowering cost and hence increase efficiency. Evidence of sporadic bailouts does not bear witness to this noble cause.

Case 1: Restructuring in the Ministry of Works (MWTC 2000)

The Ministry of Works Transport and Communication was established at independence and became the largest ministry in terms of employees, with a total of 10 500 persons - 3 800 in the Department of Works (DOW), 4 200 in the Department of Transport (DOT), and 2 500 in the Department of Posts and Telecommunications (DOPAT). At this time there was one parastatals which fell under the auspices of MWTC - TransNamib Ltd which had been established in 1988 as a statutory corporation to manage the railway, the country's major airline (Air Namibia), the Port of Luderitz (and Walvis Bay after 1994) and a road haulage operation (MWTC, 1998 as quoted by LaRRI, 2002).

According to the LaRRi study the overall objective of MWTC 2000 was "to enhance the efficiency and effectiveness of the operations of the MWTC and SOEs under its auspices and create an enabling environment for the provision of effective private operator services in the sector, through restructuring of Government intervention and participation in the Transport and Communications sector and the promotion of open competition among service suppliers in the sector".

The specific objectives of MWTC 2000 were as follows:

- lower costs for maintaining the road network at given standards;
- road sector run on a full cost-recovery basis through the collection of road user charges;
- lower costs for the state for hiring of vehicles;
- airports run on full cost-recovery basis;
- lower costs for maintaining government buildings at given standards;
- lower costs for supplying security, cleaning, stores and printing services

This restructuring created a number of State-owned Enterprises (SOEs) - commercial entities which could be ultimately privatised[10]. Such entities will include the Roads Authority, the Civil Aviation Authority, the Maritime Affairs Authority, the Airports Company, the Roads Contractor Company, the Government Garage, the

Meteorological Service, as well as SOEs which existed before MWTC 2000 such as Namibian Ports Authority, Transnamib Holdings (Pty) Ltd, Transnamib Transport (Pty) Ltd, Air Namibia, Namibia Post and Telecommunications Holdings Ltd, Namibia Post, and Telecom Namibia. In addition to these SOEs, others are the Road Fund Administration under the auspices of the Ministry of Finance, and self-regulatory bodies such as the Operators and Professional Drivers Association, and a Road Safety Board of Namibia.

The transfer of "non-core" services and activities to the above entities meant MWTC focus was now on "core" activities such as developing policy, and regulating and monitoring the above entities and administrations to ensure that they perform efficiently and according to their mandates.

Case 2: Namibia Wildlife Resorts

The transfer of the management of resorts to NWR grew out of the concern that the resorts were not being well run. In terms of the input-output equation which is at the heart of the Efficiency and Charter Unit's outsourcing policy, government was not getting value for money (in terms of what it invested in the management of the resorts). The main objectives were among others to develop, with or without the participation of the private sector, commercially viable enterprises or projects concerning the wildlife resorts service or tourism industry in general; and to promote the development of environmentally sustainable tourism (NWR Act, Section 6).

NWR is a wholly government-owned company with the state as the sole shareholder. This is said to reflect government unwillingness to sell off national assets. Government, as sole shareholder, has vested the function of managing its wildlife resorts in NWR. NWR does not own the resorts and therefore cannot sell them. But, in terms of section 34 of the Companies Act (Act 61 of 1973), NWR can "establish subsidiary companies or acquire an interest in any other company or enter into a partnership or joint venture with any person", and following this "effect transfer or assignment of any assets, liabilities, rights or obligations to any of its subsidiaries [NWR Act, Section 7 (2)(b)(d)]. Thus, this allows NWR to get involved in PPPs, as well as allow the involvement of the private sector in the management of government resorts.

NWR was to run on a complete cost-recovery basis. While it has received a working capital grant of N$ 20 million from government (for initial capitalization), the transfer of funds from government to NWR will not be an ongoing budget item. On the contrary, it is envisaged that NWR will be a profitable company, and actually generate dividends for government. This has not been the case and NWR with its counterparts, Air Namibia and Windhoek Country Resorts are still continuing to receive millions of dollars in bail outs.

[10] LaRRi quoting (MWCT, 1998:15) "will be appropriately structured, where relevant, to be (partly) privatised".

Without getting in the merits of the complaints against NWR, there has been serious resentment of NWR in handling the contracting out of services at its resorts. NWR has been criticized in the local media for having leased Von Bach recreational resort for 100 years without having the legal right to do so. Partners were also sought to develop the Reho Spa, Shark Island and the West Coast Recreational Area (The Namibian, 17 June 2009). Serious allegations of "selling off Namibia" have been leveled against NWR[11].

Case 3: Namwater

Namibia Water Corporation was established as a wholly-owned government corporation following restructuring in the Ministry of Agriculture. In line with the policy of commercialisation, Namwater took over the activities and services of the Department of Water Affairs (within the Ministry of Agriculture). The rationale behind its establishment was to save the government money. It is said that it was losing money through subsidising the price of water for big business and municipalities, and this was by default rather than policy approach. Furthermore, while the Department of Water Affairs was responsible for billing for bulk water consumption, money was paid into and received by the Treasury, which meant that it became very difficult to know whether the cost of water was actually being recovered. For these reasons the Namibia Water Corporation was established in 1997, and has since taken over the bulk water supply function of government (with the exception of rural water supply which is still undertaken by the Ministry of Agriculture). Namwater is a wholly-owned government company, with the Ministry of Agriculture being the shareholding Ministry. The company is registered under the Companies Act (Act 61 of 1973), and is required to pay tax.

Maclune (2004:85) ties the restructuring in the water sector to the policies of World Bank as it echoed the World Bank Strategy Paper: African Water Resources: Challenges and Opportunities for Sustainable Development. The author claims that "the ostensible aim of circulating the document was not to deliberate on the matter and to finalise a policy position, but rather the participants were *'to use the analyses and action-oriented recommendations in the paper as a starting point from which to develop consensus on national and regional policies and programmes'*."

Unless the Act is changed Namwater cannot fully privatise. However, like in the case of NWR, Namwater can establish subsidiaries (which can be (partly) privately owned, and can enter into joint ventures with private companies as long as they are within the water sector (LaRRi, 2000). Namwater's primary function is *'bulk water supply to customers in sufficient quantities, of a quality suitable for the customers'*

[11] *Selling the Family Silver: NWR Joins the Pack by ALEXACTUS T KAURE. The Namibian 26.06.09; Namibia's Winter of Discontent by Alexactus T Kaure. The Namibian 14.08.09; Namibian sellouts: Cashing assets in for crumbs by Henning Melber. 2009-07-16, Pambazuka Issue 442*

purposes and by cost-effective, environmentally sound and sustainable means.' The first performance contract for Namwater set out five-year financial targets and grants Namwater the power to 'determine and levy, in consultation with the minister, tariffs on a full cost recovery basis for water supplied (Maclune, 2004).

The commercialization of Namwater sparked fireworks from many quarters of the Namibian society. On 2nd December 2002 a new company that has been formed to operate the water reclamation plant at Goreangab dam, Windhoek Goreangab Operating Company (WINGOC) is owned by an international consortium composed of Vivendi Water (France), Berliner Wasser Betriebe (Germany) and VA Tech WABAG (Austria). The fear of such international water giants driven by profits has raised serious concerns that they are not sensitive to the plight of the poor, but more interested in making profits. Hence they could charge tariffs not affordable for the majority of the people. Cut-offs could also be done without due consideration to the plight of the poor.

For example, Maclune (2004) concluded that the privatisation of basic services, such as water provision, is not as innocent as it appears at first. The installation of the prepayment water system in the poorest areas of town and country impacts negatively on the communities concerned. The argument has been made that the prepayment water system is hostile to the public health and negatively affects the social and environmental conditions of the poorest sections of society, exposing the most vulnerable people to preventable diseases and death.

This discontent was summed succinctly by a participant of a round table discussion organized by Friedrich-Ebert Stiftung in 2004: "Are we saying it is more important to the Namibian people to have a national airline than water? Is it more important to subsidise the water of Ramatex than provide the people of Goreangab with water?"(The Namibian, 24.08.04).

Case 4: Electricity Sector (The Reds and their discontent)

The reforms have been focusing on the distribution sector. NamPower remains in the electricity generation, transmission, imports, and exports and directly supply to large customers such as mines (Andersson, 2006).The distribution restructuring started in 1996. Northern Electricity a private company was contracted to operate the existing distribution infrastructure in Northern Namibia. This experiment led to the creation of the REDs in 2002. NORED, the first RED was formed by Nampower, regional councils and northern local authorities. There are five REDs viz. Northern regional Electricity Distribution Company (NORED), Central Northern Regional Electricity Distribution Company (CONORED), Erongo RED, Central RED and Southern RED.

The creation of the REDs faced rejection from municipalities which saw their revenues dwindling. The arrival of Erongo RED which coincided with increase in the price of power has elicited strong opposition. In theory, the municipalities, which fall within the range of a RED, are shareholders of the distributors and are supposed to receive a percentage of the profits derived from electricity sales. That has hardly materialized, except with Nored, the first electricity distributor, which was established in the north-central region several years ago. The Windhoek Municipality has so far refused to become part of a RED (The Namibian, 11.07.07). Strong opposition to the REDs has necessitated the tabling of new legislation which omitted any reference to REDs which saw the enactment of Act No. 4, 2007 Electricity Act, 2007. The act allows for the issuing of licenses to independent power producers (IPPs) which could end Nampower's monopoly with implications for tariffs.

1.6 PPPs, the Hallmark of Namibian Privatisation

The growth of contracting out or outsourcing as a form of privatisation reflects policy shifts around privatisation in the late 1990s. This is what is known as public-private partnerships (PPPs), and is the hallmark of Namibia brand of privatisation. In PPPs emphasis has been shifting from the privatisation of enterprises to the privatisation of public services. In this arrangement, the state retains ownership of the utility and regulates the performance of the private company providing the service (LaRRI, 2002). This brand of privatisation is what is the dominating the Namibian privatisation landscape. It has its supporters, as well as its opponents.

Public-private partnerships (PPPs) take a number of forms including (ibid):

- Service contracts - in which the government, municipality or parastatal signs a service contract with a private company to render a particular operation and/or maintenance function (e.g. security, meter reading, waste collection). This is the simplest form of contract and is usually short-term (1-5 years).
- Management contracts - medium term contracts (5-10 years) in which the company takes on responsibility for the management and operations of a specific government or municipal works or service (e.g. the running of a waste treatment plant). The private company gets paid a certain amount by the government/municipality to run the works or service and is not responsible for collecting fees and tariffs.
- Lease contracts - longer term contracts (10-15 years) in which the private company not only takes responsibility for managing and operating a government or municipal works or service, but actually leases the relevant assets from the government/municipality. Here the company assumes responsibility for billing and tariff collection, as this is the primary source of income for the company.
- Concessions - long term contracts (15-30 years) in which the private

company takes on responsibility for operating and managing a government/municipal works or service, as well as for financing and facilitating further infrastructure development. The company receives its income directly from end-users through charges such as tariffs and connection fees.

As mentioned earlier there has been vehement opposition from some quarters to PPPs, which is seen as a way the Namibian elite is apportioning national assets among themselves without any noticeable benefits to the majority of Namibians.

1.7 Implications for prices and profitability

Given the monopolistic nature of many of these companies, Government has generally felt the need to regulate prices. Thus the Namibia Communications Commission regulates MTC, the Electricity Control Board regulates NamPower, and Nampost, Namport, NAC require approval from their line ministries for any price increases Sherbourne (2009). Regulation means that the strict profit motive is compromised and since most of the SOEs concentrate on the small domestic market, it makes it hard to judge whether they are profitable in the real business sense or not. The two largest SOEs, Telecom and NamPower, are the only ones putting real effort into exploring regional markets. Telecom owns 44 percent of Angolan operator Mundo Startel which is rolling out a national network starting in Luanda this year, and 25 percent of CommuniTel, a consortium with Two Communications and Tata/VSNL, which owns a controlling 51 percent of the Second National Operator in South Africa. NamPower owns 100 percent of the Independent Power Producer (IPP) Kudu Power which, if the Kudu gas-to-power project involving Energy Africa and Namcor gets off the ground, will sell most of its electricity to Eskom in South Africa. NamPower also owns a fifth of Gaborone-based Westcor, which could see power being distributed all over southern Africa from massive hydroelectric power stations at the Inga Falls in the DRC. However Nampower has been an exception in that despite its main source of income (bulk electricity sales) been tightly regulated by the ECB, it has sought other ways to increase profitability e.g., NamPower had a 37 percent shareholder in Powercom along with other partners such as Norwegian Telecom Management Partner (TMP), NAM-MIC, Old Mutual (ibid:308).

Sherbourne concludes that there is no reason in principle why the other SOEs should not become similarly involved in tapping external markets. However, he hasten to qualify the success by Telecom and NamPower's which he suspect that they due to their monopoly positions in the Namibian market could have built up the financial and management capacity which enabled them to make these regional moves.

1.8 Namibia – where to from here?

While Namibian companies are generally open to foreign investment, government owned enterprises (parastatals) have to date been closed to all investors (Namibian and foreign). Foreign investors have participated in joint ventures with parastatals in certain sectors (i.e., mobile telecommunications). There has been some debate on whether to list parastatal companies on the Namibian Stock Exchange (NSX), but there are no plans to do so in the near future. Parastatals provide most of the essential services such as telecommunications, transport, water, and electricity. Although the Government underscores its commitment to privatisation, the process remains slow and many parastatals remain in the hands of the Government. In 2006 Government sold its 34% share in its state-owned mobile phone company, MTC, to Portugal Telecom. In 2007, a second cellular operator, Cell One, entered the market, with Nampower as an important shareholder. In January 2009, Orascom Telecom's subsidiary Telecel Globe acquired 100% of Cell One (http://www.state.gov/e/eeb/rls/othr/ics/2009/117250.htm). This shows that government is indeed willing to engage in PPP or in some cases to let go to private investors.

As mentioned in the preceding section PPPs has become the characteristic feature of the Namibian government's privatisation drive. Comprehensive studies are needed to compare the "before" and "after" scenario in many of the SOEs to assess their viability. However, one thing is for sure, and that is that there is no going back. The most rational thing for government to work on is to improve efficiency and productivity in SOEs so as to achieve the stated objectives. With SOEs been bailed out year-in and year-out, it becomes a drain on taxpayers money, many of whom are the poorest of the poor. This will mean only one thing and that is the subsidization of the elite who are the deal brokers in PPP, by the poor.

Accusation levelled against SOEs that management of these companies in the guise of privatisation. Henning Melber (2009) summing up Moeletsi Mbeki's deliberations on the *'architects of poverty'* concludes that the elite is selling national assets to others and *'have no sense of ownership of their country and are not interested in its development. They view the country primarily as a cash cow that enables them to live extravagantly … as they attempt to mimic the lifestyles of the colonialists… With the lack of ownership goes the pillaging of resources, neglect of the welfare of the people, corruption, capital flight and, ultimately, brutality against dissenting voices.'*

In defense of PPPs Iyaloo ya Nangolo in an opinion piece in The Namibian newspaper he claims that few SOEs appreciate alternatives and efficient ways to achieve effective and appropriate financing models, for sustainable developmental opportunities such as PPP. PPP in a nutshell is an economic reform strategy to deliver high quality services in an initiative that leverages the innovations and efficiency of private sector within the society. PPPs thus allow each partner to concentrate on activities that best suit their respective skills. For in the public sector the key skill is developing policies on service needs and requirements, while for the private sector the key need is to deliver those services at the most efficient cost (The Namibian, 25 June 2009).

Melber came out strongly against this *“kind of ‘outsourcing’ which allows private capital to generate long-term profits with public property, while the ordinary citizens – as taxpayers, users of privately-operated ‘public’ utilities or in any other way dependent on commercially-traded commodities for their daily life – have to foot the bill”* (Pambazuka, 16 July 2009).

This shows that the privatisation debate is alive and well in Namibia. This debate should be encouraged if Namibia is to come up with a privatisation model that could uplift Namibians who are reeling under the joke of unemployment and deepening poverty.

1.9 Conclusions

This paper provided an overview of privatisation in Namibia. It can be concluded that despite the measly performance of SOEs, government is not prepared to fully privatise. These could be because of equity consideration and not wanting to sell off the nations assets. It instead encourages PPPs which in some quarters is seen as what government claims not to want doing i.e., selling off national assets to the elite and foreigners. Without going into the merits of the latter argument, there is a need for the Namibian government to improve the efficiency and productivity in SOEs if its objectives of increased efficiency and improved service delivery are to be realized.

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SUMMARY OF COMMENTS ON “OVERVIEW OF PRIVATISATION IN NAMIBIA”

By

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PRIVATISATION: WHAT ARE THE REAL ISSUES?

In discussing the Paper that gave an overview of the privatisation status in Namibia, the below were listed as real issues that usually arise relating to privatisation and on which Mr Thieme provided his view.

1. Fear of job losses resulting into total chaos;
2. Privatisation at the expense of the poor and very poor;
3. Restructuring should ensure extension of basic needs services;
4. Seen as “selling off” Namibians’ assets or privatisation of “peoples assets”;
5. Will change to profit motive only;
6. Individuals on SOE boards draw major salaries and are a drain;
7. NWR, Air Namibia and Windhoek Country Resorts not seen as success;
8. The commercialization of Namwater could be at the expense of the poor;
9. Second cell operator sold as a privatisation initiative.

DISCUSSION ON THE ABOVE-MENTIONED ISSUES

Mr Thieme questioned the above issues and provided his suggestion on what the way forward should be.

1.Are we really concerned about job losses or are we protecting jobs of certain more privileged individuals or even fearing loss of control over certain institutions?

The way forward is to commit to a phased approach with key deliverables, analyze non-conformance and adjust if necessary by a strong and capable supervisory board and commit to a full transparent process and communicate to the people in an honest way.

2. Are inefficient services not at the expense of the poor through paying for something not market related or contributing indirectly in terms of taxpayer’s money to certain loss making or underperforming institutions and individuals running these? Or are we confusing privatisation with the “traditional or old” profit motive which can be

adopted anyway and anywhere (i.e. telecommunication in Namibia – one of the most expensive in the world)?

The way forward is to develop a sophisticated triple bottom line reporting approach and a sophisticated triple bottom line taxing system to direct behaviour of institutions to ensure that a balance between the "traditional" profit motive and corporate social investments incentivized.

3. Is the extension of basic needs services not a separate topic and should we not start to get right what we have first?

The way forward is to clearly identify areas of restructuring and execute such plan first. Then execute the extension of basic needs separately and again execute with a robust plan.

4. Are the real assets of people not education, health etc.? Or are we even not confusing "selling off" with a way of "management"?

The way forward is to be more consultative when we restructure or privatise and then any executions must be accompanied by a strong communication plan.

5. Is it not important that we understand the real costs of services and do we know that we can regulate a number of these issues from preventing that we are profit driven only?

The way forward is to adopt sophisticated triple bottom line reporting and taxing approach.

6. Have we made the market analysis to test whether SOE boards are earning too much and have we not already disempowered them with all these requirements from the various line ministries and have we followed a robust and transparent selection of board members and are they evaluated on a regular basis?

The way forward is to adopt transparent policies and procedures and report at least in terms of IFRS or even more.

7. Are Air Namibia and Windhoek Country Resorts not seen as success? In other words, is Windhoek Country Club not profitable and how do we measure success? The fact that we are not self sufficient in terms electricity, is this success or no success? Is Air Namibia not partially successful if it is seen as part of Namibia's infrastructure?

The way forward is to set clear goals, measure and evaluate and then potentially determine whether it was a success or not.

8. Is it really that the commercialization of Namwater could be at the expense of the poor or should services not be levied at the real cost? Should the poor not be addressed separately which would be focused and would help to understand some of their plight?

The way forward is to address the poor and very poor by at least providing free public transport, education and access to health facilities.

9. Is it really that the second cell operator was sold as a privatisation initiative or was it to get out as fast as possible? Would it have been sold if it was very profitable?

The way forward is to pave the way for fair competition in the telecommunication industry in order to bring down the cost and no longer operate at the expense of the poor and the economy.

CONCLUSION

In conclusion, Mr Thieme was of a view that a Namibian dream as a nation is that we need not confuse privatisation with a wrong value systems applied and look at the merits of each case. We should be proud Namibians with ambition, pride and guts that can look into a mirror; celebrate good behaviour such as being disciplined, hardworking and honest; build or rebuild our roads with our own people; upgrade our infrastructure (schools, clinics etc.); and build Kudu, get green scheme going; we need to learn to focus on the future and the positive and you will see that the positive will arrive.

PRIVATISATION STRATEGY FOR NAMIBIA: LESSONS FROM KOREA

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Abstract

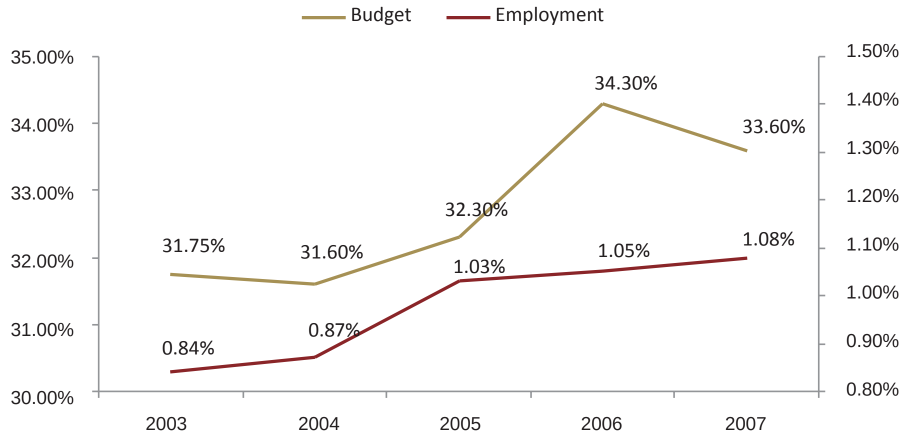
I would like to suggest that infrastructure-related industries and network industry should not be privatised for some time in Namibia. For those neither infrastructure nor network industries, however, we can consider privatisation, for which success the following strategies are worth noting. (1) Ask for SOEs' self-help first, and if there is no progress, privatise them (2) Utilize the audit office in finding inefficient management cases so that the general public understands the need of a strong reform. (3) Reform the reformer first (4) Set a deadline for each step towards privatisation (5) Create a driving force within a relevant line ministry, and make them accountable to the reform driver. (6) If you cannot private a whole SOE, privatise function by function in each SOE. However, for a privatisation to be successful, the most important factor is the political commitment.

1. Definition of SOEs in Korea

There are 305 public entities in Korea defined by the Public Entity Management Act. Public entities have two features. First, they should be government-affiliated organizations in the sense that their budgets or mandates are controlled by the government. Second, they are not a part of the government though many of their codes of conduct follow the one of the civil servants.

The 305 public entities are very significant part of the economy. Their total 2008 budgets amount to 300 billion USD compared to a little more than 200 billion of the central government's. The level of the total budget of public entities is somewhat misleading because it includes input costs such as coal imports of KEPCO (Korea Electricity Power Corporation) and apartment construction costs for Korea Housing Corporation. The total employment of public entities is 0.26 million, which is 43% of central government's which includes teachers and police. The ratio of their total budget out of GDP is 33.6%, and their total assets is 85% of the GDP. And these shares have been increasing in the recent years as the following figure shows.

Figure 1: Relative importance of public entities



An SOE is a part of the public entities. If its own revenue is more than 50% of the total revenue (own revenue + revenue from government budget), it is defined as an SOE, and if it less, it is called semi-government organization. As shown in table 1, there are 24 SOEs and 77 semi-government organizations as of 2008. A common aspect of these two types is that they all have employees more than 50. If an organization has less than 50 employees, it is called 'the other public entities', of which number reaches 204 out-numbering the total of the other two types.

The 24 SOEs are all stock-companies whose shares are owned by the government or by the Korea Development Bank, one of 77 semi-government organizations. Depending on its own revenue share among the total revenue, the SOEs are again categorized into two: Market-type SOEs with 85% or more, semi-market type with 50%~85%. All of the market-type SOEs have assets more than 2 billion USD, and generally bigger in terms of its revenue and employment than the SOEs in the semi-market type. These market-type SOEs are generally considered candidates for privatisation. However, there are many SOEs in the semi-market type or even in the semi-government type that can be privatised either entirely or partially.

Table 1: Public entities and its size

	Total	SOEs		Semi-government organization	Other public entities
	Total	Market	Semi-market	Semi-government organization	Other public entities
Number of organization	305	6	18	77	204
Employees (thousand)	259	28	60	66	105
'08 Budget (billion USD)	300	50	70	100	80

Table 2: List of 24 SOEs in Korea

	Name	Ministry
Market-type	Incheon International Airport Agency	MLTM
	Korea Airport Agency	MLTM
	Korea Gas Corp.	MKE
	Korea Electricity Power Corp.	MKE
	Incheon Port Authority	MLTM
	Busan Port Authority	MLTM
Semi-market type	Gwang-Yang Container Port Authority	MLTM
	Korea Housing Corp.	
	Korea Land Corp. (To-be integrated after Oct. 1)	MLTM
	Korea Expressway Corp.	MLTM
	Korea Oil Corp.	MKE
	Korea Water Corp.	MLTM
	Korea Heating Corp.	MKE
	Korea Railway Corp.	MLTM
	Korea Housing Trust Corp.	MLTM
	Korea Workers' Injury Hospital	Ministry of Labour
	Jeju Development Center	MLTM
	Korea Appraisal Board	MLTM
	Korea Horse-Racing Agency	MCST
	Korea Broadcasting & Advertisement Corp.	MCST
	Korea Tourism Organization	MCST
	Korea Mint Corporation	MOSF
	Korea Coal Corp.	MKE
	Korea Mineral Resource Corp.	MKE

MLTM: Ministry of Land, Transportation and Maritime Affairs
MKE: Ministry of Knowledge-Based Economy
MCST: Ministry of Culture, Sports and Tourism
MOSF: Ministry of Strategy and Finance

2. Privatisation in Korea

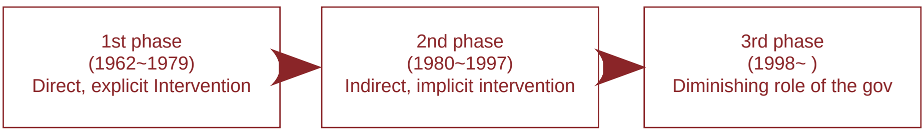
2.1 Background: The changing role of the government

During the history of economic development in Korea in the past 45 years, the role of the government has been replaced by the private sector. In the first phase (1963~1979), the government led the economic development either by orchestrating the private companies or by owning many SOEs. The government-led development was very effective in mobilizing resources such as labour and capital. The government not only picked leading industries but also influenced winning companies through allocation of financial resources by banks.

In the second phase (1980~1997), the style of the government intervention changed. Excessive government intervention in the promotion process of heavy and chemical industries raised a question about the role of the government which as a result became rather indirect and implicit rather than explicit (see Figure 2). It was more of a change in the style not in the scope or depth of the intervention. The private sector, on the other hand, rapidly grew in its size and diversity creating many business activities out of government controls especially in the financial sector.

The third phase (1998~now) made a real change in the role of government. After the economic crisis in 1997, Korea actively started reducing the role of the government based on a hard-earned lesson that the government failure could be more dangerous that the market failure. The reform is still under progress up to this moment, and there are still many ways to go.

Figure 2: The change of government's role



Throughout the development process, the source of growth has changed from labour and capital inputs to productivity increase as the following table shows. When resource mobilization is important during 60s~70s, the role of government was essential, but its role should be replaced by the private sector because companies are main players who improve productivity, not the government. Markets are growing even in the fields where SOEs used to be the sole supplier.

Table 3: Growth decomposition in Korea

(%)	1971 ~ 1980	1981 ~ 1990	1991 ~ 2000
Real growth rate	7.4	8.6	6.1
Irregular factors	-1.0	1.0	-0.7
Pot. Growth rate (A+B)	8.4	7.6	6.8
Factor inputs (A)	**5.6**	**4.6**	**3.4**
Labour	**3.2**	**2.5**	**1.5**
Capital	2.4	2.1	1.9
TF Productivity (B)	**2.8**	**3.0**	**3.4**
Economies of Scale	1.4	1.4	1.5
Resource allocation	0.8	0.7	0.7
Technological prog.	0.6	0.9	1.2

2.2 Reduced Roles of SOEs

There are four reasons why the government needed SOEs. Most of the reasons are losing its logical ground with economic development. First, SOEs was necessary because there was not enough capital and technology in the private sector for massive investment projects. The government therefore established and have SOEs do the investment with borrowed foreign capitals. POSCO and Namhae Chemical Corporation are those examples. Currently, however, there is no SOE with such excuse for existence.

The second reason for establishing SOEs is to raise government revenue in the early stage of development when there is not much of tax revenue. There is no SOEs in this category now after Korea Tobacco and Ginseng Corporation (currently KT&G) was privatised early 2000.

Third, SOEs are necessary in the areas where private companies are reluctant to enter into the business because of unprofitable or long-term or risky nature of the investment. Many SOEs such as Land Corporation, Housing Corp., Tourism Corp, Agriculture Infrastructure Corp. fall on this category. Much of those needs are still to be met, but a problem is that many of the SOEs are making profits in the market using either superior or monopolistic position in order to meet those needs. Duty-free shops in the airports run by Tourism Corporation are a source of their tourism promotion activity. The Housing Corporation is constructing commercial apartments to finance their main mission, rented apartments for the needy. However, those market activities are eroding private suppliers' market share, and should be abolished. This abolition of certain functions can be called partial privatisation. Of course, the government should fill the loss of revenue by providing budgets, and this is why this partial privatisation could be more difficult than privatisation of SOEs.

Fourth, there are cases that government established SOEs to prevent private monopoly. Typical examples can be found in network industries such as electricity, water or gas supply, telecommunication, railway, highway, in which industries there are possibility of natural monopoly due to economies of scale. A typical government effort to absorb the potential private monopolistic surplus was to establish SOEs. As the economy gets matured, however, the possibility of natural monopoly decreases thanks to multiple potential private suppliers and to expanded domestic markets. The privatisation plans of Korea Telecommunication and Korea Railway are examples though only the former was implemented.

Fifth, there are cases that the government had to take over bankrupted private companies shouldering their debts. Though those companies' major shareholder is the government, they are not quite SOEs in its true sense of the word. Rather, they are in the temporarily custody of government, and will be privatised soon as the Korean government announced August 2008.

2.3 Overview of Privatisation History

Privatisation has been a continuous effort since late 1960s though not all those efforts were successful. The most important privatisation drive in the recent years was made under President Kim Dae-Jung (1998~2003) right after the economic crisis of 1997. President Roh (2003~2008), however, stopped many of reform measures that were planned under his predecessor. The privatisation plans of electricity, gas, heat, railways were stopped or postponed under President Roh. President Lee (2008~2013) revived many of President Kim's plan, and is very active in privatisation. But many of his ambitious plans were rather tarnished by the candlelight vigil or demonstration touched off by government's hasty decision of the beef import from the U.S.

Table 4: Privatisation Efforts in Korea

Phase	What has been done	Main objective and evaluation
1st Phase('68~73)	Qsjwbujt bujpo pg22 TPFt Lpsfb Nbdi jofsz Korea Transportation Korea Shipping Korea Ship-building Incheon Heavy Manufacturing Korea Steel / Korea Airline Korea Mining Refinery Korea Saltern / Commercial Bank Lpsfb Gjti f sz Efwf mpqn f ou	Cjsui pgqsjwbuf dpn qbojf t → n bslf uf dpopn z Tvddf t t gvmqsjwbujt bujpo
2nd Phase('78~83)	Qsjwbujt bujpo pg8 TPFt Daehan(Korea) Reinsurance Daehan(Korea) Oil Daehan(Korea) Dredging Corp. Hanil Bank / Jale(First) Bank Seoul Trust Bank / Choheung Bank	Gjobodjbmn bslf uqspn pujpo Since government's intervention did not stop, the objective of the privatisation was not fulfilled
4se Qi bt f ('98)	Qsjwbujt bujpo pgLpsfb Tupdl Fydi bohf Sf evdjoh hpwf son f out i bsf jo TPFt KEPCO(Korea electricity Corp.) POSCO(Pohang Steel Corp.)	Nbjoubjot hpwf jogmf odf f wf o vq up opx Sf ejt usjcvujpo qpmjdz; Tbmf pghpwt i bsf up individuals rather than companies (not a privatisation)
4th Phase('93~'97)	Qsjwbujt bujpo Ebf i bo(Lpsfb) Uvoht uf o Kookmin Bank / Housing Bank Other 7 subsidiaries of SOEs Sf evdf hpwt i bsf pg33 TPFt	P sjhjobmubshf u qsjwbujt bujpo pg69 TPFt f ydf qu some infrastructure-related SOEs such as telecom, electricity etc. P omz qbsujbmmz t vddf t t gvm (Conglomerate's dominance was raised along with stakeholders' resistance)
5th Phase('98~'02)	Qsjwbujt bujpo pg9 TPFt (original plan was 12 SOEs) Qsjwbujt bujpo pg78 t vct jejbsjf t pgTPFt (original plan was 77) Sf t usvduvsjoh boe epx ot j{ joh	Fyuf ot jwf qsjwbujt bujpo qmbo up sf evdf qvcmjd sector after the economic crisis ('97) 4 of ux psl joevt usjf t bsf opuqsjwbujt f e zf u (Electricity, Gas, Railway, Heating)
6th Phase('08~'10)	Qsjwbujt bujpo pgn boz t vct jejbsjf t Qsjwbujt bujpo pggvodujpot	t ujmmvoef s qsphsf t t

Source: Ministry of Strategy and Finance, 2008.8.11 (modified)

3. Issues in Privatisation

3.1 Problems of SOEs

3.1.1 Inefficiency

It is a cliché to say that the SOEs are not efficient as private companies. From the labour union's point of view, more staffs means less work and more union members. A private company cannot sustain such inefficiency, but SOEs can because they have no possibility of bankrupt. A survey by the government shows that per capita value addition has increased by annual average 1.8% during 2002~2007 whereas per capita personnel cost has jumped by 6.6% for 35 big SOEs and semi-government organizations in Korea. The fact that a labour union strongly resists to any privatisation plan shows that there are some compensation differentials for SOEs.

SOEs are relatively slow in adapting themselves to the changing environment. In many cases, they have weak incentive to change, and when they want to, it takes a long time because the change should be discussed with the government and stakeholders and even with the legislature for a possible need for revision of laws.

The third reason why SOEs are inefficient lies in the collusion scheme between the CEO and labour union. The goal of a CEO of an SOE will be one of the following three: good performance, longer terms in office, next position to say, ministers or vice-ministers. A conflict with the labour union could be a hindrance to achieving his goals. In order to attract labour union's support, a CEO tends to be generous to union's request since the budget comes from the government not from his pocket.

3.1.2 Eroding private sector

Even when private suppliers emerge in the industry where an SOE has been a sole player, an SOE generally continue their business activity which inevitably blocks the potential growth of the private sector. To make things worse, SOEs tend to start a new business without much deliberation on its risk to create more positions. In order to protect its monopolistic power in the market, SOEs actively put on regulations, which is also another way of market erosion.

3.1.3 Political decision

Some of SOEs in Korea have serious debt problems: The debt of Housing Corp. and Land Corp. combined is now increasing every year by almost 20 billion USD. It is because the government makes SOEs issue bonds .rather than gives them enough budget. The government has a tendency to start a big project without much deliberation when it is done by SOEs, for it does not need a budget.

Low pricing for many services provided by SOEs such as electricity, water, gas is aggravating the financial status of SOEs. This pricing scheme is also a result of political decision. An investment decision in a private company is mainly based on the profit prospects, but that of an SOE is in many cases relies on political decision. Many under-utilized airports in Korea are examples of such political intervention.

3.2 Defending Arguments for Privatisation

3.2.1 Possibly higher price for the public service

The strongest argument from the anti-privatisation group is that privatisation will increase the price of the service or goods provided by SOEs. We need to think about whether the low price is beneficial to the economy. First, a low price is applied to all the people regardless of their income level. A low electricity price, for instance, is enjoyed by the rich and the poor. Though there is a progressive nature in the pricing scheme, heavy users are subsidized by the other people. Second, a low price brings about a waste of resource as we can see in the case of water consumption in Korea. There is a Korean expression that shows how wastefully Korean people use water: spend money as if it is water meaning spend money too lavishly. Third, a low price is one of the back-ground of the heavy debt of SOEs, and it is a way of passing current generation’s burden to the next generation.

However, a lower price level can also be achieved through privatisation. A privatised company can reduce input costs, and increase revenue by more active marketing. If there is still a need for a low price after the privatisation, the government can maintain the price regulation even after the privatisation. And the price will not increase very much if the privatised company exhibits higher efficiency and better performance.

3.2.2 Protect the needy

Some people say that a profit-driven company may neglect the protection to the needy. However, the protection should be provided by social welfare policy not by SOEs. One example is a train station in a remote area which has only around 20 customers every day. There are people saying that if the Korea Railway is privatised, the station will be shut down, which will be most likely true. For the government, however, it is much more efficient ‘protection’ to the people around the small station to offer a bus service than to maintain the station and to suffer from lower average train speed. Protecting the needy is an important policy goal, but it is the role of the social policy, not of SOEs.

3.2.3 Foreign Ownership

When SOEs are turned over to the hands of foreign capital, it may create a problem of economic dependency. This worry is not groundless especially when it comes to key industries such as electricity, water. Therefore, one can put on a regulation for foreign capitals such as ceiling of share allowed to foreigners in some industries. The U.S. also imposes such restriction on foreign capital in the nuclear industry. Of course, the government should understand that more restriction will make the privatisation less attractive to foreign investors.

3.2.4 Concentration of economic power and favouritism

It is a reality that only a big company can afford to buy SOEs. There are people who say that privatisation will widen the gap between companies by making the big even bigger. There is also a public opinion that a buyer of an SOE is to get some special favour from the government. With a view to avoiding the political burden, the government may consider mass privatisation: share-holding by many individuals without making a dominant holder. However, we need to understand that the mass privatisation method creates a private company without the owner, which may not be as efficient as the one with a owner. Therefore, the issue of economic concentration and favouritism is not challenging the privatisation itself, but it poses a need to set a policy priority.

3.2.5 Possibility of employment cut

A possibility downsizing is the main reason why the labour union is such strongly against the privatisation in every country. Some even says that SOEs need to alleviate unemployment problem, which is true in the short run. In the long run, however, if public sector absorbs much of the eligible human resource which is very scarce in most of developing countries, the over-employment in SOEs will undermine the growth of the private sector.

The magnitude of the employment adjustment will vary depending on the nature of each industry. A privatisation of financial institutions will entail significant employment cut since personnel cost is a dominant part of input. However, infrastructure or network industries may not need such a serious downsizing because for such industries facility-running costs are relatively more important and because they may have higher demand induced by more active marketing and diverse price scheme after the privatisation. Many private companies guarantee employment protection around 3 years after the M&A. The SOEs to be privatised may consider such bargaining chips when they negotiate with labour union.

3.3 The Benefits of Privatisation

Though there are contrasting views on the benefits of privatisation, the Korean experience supports pro-privatisation arguments.

During 1998~2002 right after the economic crisis, the privatisation drive under Kim Dae-Jung administration introduced additional revenue of 15 billion USD together with higher country rating, which significantly helped Korea overcome the crisis. On top this macro effects, there are several micro-level benefits in the case of POSCO, National Textbook Corporation, Korea Technology Finance, Korea Oil Pipeline, Korea Heavy Corporation, which were privatised around year 2000.

First, the prices were either lowered or maintained at the pre-privatisation level thanks to cost minimization and process innovation. The POSCO and National Textbook Corporation were the examples.

Second, their core activities became more competitive. Korea Heavy Corporation enjoyed drastic rise in volume of orders after privatisation, and Korea Oil Pipeline has higher market share after privatisation. Korea Technology Finance dramatically expanded their financial supports to venture companies though it was mainly due to government's drive for IT industry.

Third, the service has been improved as in the case of POSCO who reduced the lead time thanks to the new integrated system established after privatisation, and National Textbook's product was better received in terms of consumer satisfaction after privatisation.

Fourth, the profit has increased as a result of more active marketing activities and cost cuts. All four privatised companies turned from the negative to positive profits after the privatisation. POSCO couldn't quite reach to the positive profits, but reduced the deficits significantly whereas the other competitors in the U.S. and Japan had to face more deficits.

Fifth, all five privatised companies showed a more sound financial standing after privatisation. It is not surprising that the stock prices have been doubled on average reflecting their better performance in various aspects.

4. Recommendation for Namibia

4.1 Privatisation strategy

Among many SOEs in Namibia, commercial SOEs deserve a consideration on privatisation. Those include Nampower, Namwater, Nampost, Namport, TransNamib, Air Namibia, Namibia Airports Company, Telecom Namibia, Namibia Wildlife Resorts, Roads Contractor Company etc. (These names are from Sherbourne 2009, p. 307). The government may need to have clearer guidelines regarding the commercial SOEs.

Among those arguments opposing privatisation, transfer of ownership to foreign capitals is a more serious problem in Namibia than in Korea. I would like to suggest that infrastructure-related industries and network industry should not be privatised for some time in Namibia. If these industries are to be privatised, foreign capital's dominance in the economy will be much more serious. For Namibia, encouraging domestic capital accumulation is an essential policy objective.

For those neither infrastructure nor network industries, we can consider privatisation, and there is at least one candidate among Namibian SOEs. When there are potential domestic buyers, the decision will be easily made towards privatisation. When there seems to be no such domestic buyer, and when the foreign capital is the only viable option left, we need to weigh the benefit of higher efficiency and the costs of transferring ownership to foreign capital. Since the ownership issue is not a big problem in these non-infrastructure and non-network industry, the final decision should depend on the magnitude of the inefficiency that the SOE has, which can be measured by its current deficit.

For a privatisation to be successful, the most important factor is the political commitment. It is better not even try to consider privatisation without strong political determination. If there is a political will, there are some of the strategies that Namibia wants to apply.

First, the most serious problem of the privatisation will be unemployment. Without the employment flexibility, we won't be able to find any prospect buyer. In this case, the government should make a contract with the SOE: Instead of giving the SOE a deadline year for a surplus, the contract should specify that the SOE will have to accept privatisation if the SOE cannot meet the deadline.

Second, utilize the audit office in finding inefficient management cases so that the general public understands the need of a strong reform including privatisation. The investigation of the audit office should be of course widely publicized through news media.

Third, form a temporary team that consists of both civil servants and experts from the private sector under the SOE Governance Council (SGC). SOE reform should be a responsibility of SGC, not that of line ministries nor of the Ministry of Finance in charge of national assets. When the team formulates a reform plan, let the team talk with the line ministries. But we should make it clear that the final decision should be made in SGC not by the agreement between the team and the line ministries. It is therefore very important to invite reformative experts in the private sector and members from line ministries in the SGC

Fourth, the plan may take phased approach, but the final step should be completed within the same President's term. Each step proposed in the plan should have a clear deadline for each step, and measures to judge whether or not one step is over. It is a good idea to make a privatisation of a certain SOE clearly stated in a law.

Fifth, create a driving force within a relevant line ministry, and make them accountable to the SGC. The government should be ready to punish the line ministry for a possible delay. Providing an incentive for the line ministry is a good strategy: one example could be to establish a new policy department within the line-ministry after privatisation.

Sixth, if you cannot private a whole SOE, privatise each function the SOE has. When an SOE has both market and public functions, the existence of the public function is an excuse not to be privatised. We can get away with this issue by examining each function.

Seventh, EBO (employment buyout) or MBO (management buyout) is not an ideal way of privatisation. When the labour union wants EBO, let them understand the risk involved after privatisation. If the labour union still wants EBO, we can grant the EBO as form of privatisation.

Eighth, try to create tangible effects out of privatisation as quickly as possible, and share them with the public. Quick win is always important as Kotter (1996) says.

4.2 Driving force for SOEs Reform

Namibia has SOE Governance Council (SGC) which has wide range of authority to reform SOEs. However, its power has not been much utilized. It may be better to reconsider the structure and members of SGC. Here are some of the features that a reform driver needs to have.

First, it should be powerful, and should focus on reform, not anything else. In the history of privatisation in Korea, Planning and Budget Commission (PBC) under President Kim was the most powerful driving force. It was directly under the President, and its mission was to formulate fiscal planning and government reform. With a help of the fiscal planning function, the reform could be more easily implemented. When the PBC set the basic principle of annual budget in a macro level, the Budget Office attached to PBC, formulated the annual national budget. Since PBC was a little aloof from day to day, item by item budget issues, it could concentrate its energy on the government reform.

Second, the reform driver should have wide spectrum of responsibility and better to have staff composition mixed of private and public sector people. The government reform Office (GRO) in PBC was led by a head on a par with Assistant Minister, Permanent Secretary level. It's work scope was 'government reform' which was very wide enough to cover privatisation of SOEs, integration of ministries, reducing teachers' retirement age, e-government, handling complaints to the government etc. The legislature and judiciary were outside of the constituency of GRO, but all of the function and branches of the administration was within GRO's coverage. GRO also recruited many people from the private or quasi-government sector. This mix of staffs generated both competition and synergy.

Third, the privatisation should be led by an organization without an incentive not to privatise. Before 1997, privatisation was driven by the co-work between the relevant line ministries and Ministry of Finance (MOF) who was in charge of managing national assets. MOF had little incentive to privatise SOEs because they viewed privatisation as a policy to reduce national assets. The line ministries of course had no incentive to privatise SOEs under their umbrella because privatisation meant loss of their policy tools and employment opportunity after retirement. This institutional arrangement was one of the reasons why privatisation was slow during 80s~90s.

Fourth, the SOE Governance Council in Namibia needs to have members from the line ministries and the private sector to make it a final arena for significant decision making. Since privatisation was trans-ministrial work, PBC established SOE Privatisation Committee (SPC) chaired by the Minister of PBC. As a face-saving gesture, the vice chairmanship was given to the Vice-Minister of MOF. Members of the SPC were Vice-Ministers of relevant ministries, an advisor to the President and head of GRO which acted as a secretariat for SPC. Two experts in the private sector were also invited as members as a way to provide a neutral view. For line ministries, the decision making process of SPC was not as democratic as it looked. Basic privatisation plans prepared by GRO were consulted with the relevant ministries. GRO tried to accommodate comments suggested by the line ministries but not all. Vice-Ministers could make their voice in SPC regarding their unaccepted comments, but in fact it wasn't easy for them to do so in the face of the chairman of MPC and the advisor of the President both of whom already agreed upon every agenda forwarded to the SPC. Two experts from the private sector were also in line with the PBC. Since SPC was fully empowered by then President Kim, it made controversial consensus building process much easier. Though the labour union was not happy with this swift process, the social pressure right after the economic crisis made them relatively silent.

4.3 SOE Management System

I would like to suggest an annual evaluation system for SOEs that links the result to the bonus for employees in each SOE. One important management scheme by the OCPE is the evaluation for public entities. Every year, the OCPE organizes evaluation board that consists of around 100 experts in the private sector. The board evaluates CEOs and SOEs separately. The SOE evaluation is divided into quantitative and qualitative evaluation. The qualitative evaluation is again categorized into leadership and strategies, major performances, and management efficiency. The consequence of the evaluation is rather harsh: the worst four members in CEO evaluation will have to resign and the bonus level ranging 100~500% of each employee's monthly salary depends on the result of SOE evaluation. There is a criticism that the evaluation on CEO and SOE should not be separate.

In Korea, there are three management mechanisms for SOEs facilitated by the government: direct supervision by the Operation Committee for Public Entities (OCPE), internal checking system, monitoring by NGOs and media. The OCPE is to determine all the important decisions for managing public entities including SOEs chaired by the Minister of the Strategy and Finance with vice ministers in relevant ministries and experts in the private sector. Decisions on projects are under the responsibility of line ministries.

Table 5: The Management Scheme for Public Entities by the Government

		Coverage		
		24 SOEs	77 semi-government bodies	204 other public entities
supervision by OCPE	n bobhf n f ouejsf dujpo	○	○	×
	f wbmvbujpo	○	○	?
	f wbmvbujpo po bvejups qf sgpsn bodf	○	?	×
	ejt n jt t bmsf r vf t ugps ejsf dupst	○	○	×
	sf wjf x gps b of x f t ubcmjt i n f ou	○	○	○
	gvodujpo bekvt un f ou	○	○	○
Internal checking	Cpbse n f f ujoh	○	○	×
	t f mfndujpo qspdf t t gps cpbse ejsf dupst	○	○	×
Monitoring by NGOs	qvcmjd opujdf gps dpsqpsbuf jogpsn bujpo	○	○	○
boe n f ejb	dpot vn f s t bujt gbdujpo t vswf z	○	○	○

The management scheme has been developed over the years in Korea. Before 1984, SOEs were controlled by each ministry. Two government officials one from budget ministry and the other from line ministry participated in the board meeting. In 1984, the evaluation system for SOEs was first introduced. It was only year 2004 that semi-government bodies and the other public entities got started to be evaluated by the government, and in 2007, the law was enacted to manage all the public entities under one law on Public Entity Operation. By OCPE, the division of labour between the Ministry of Strategy and Finance (MOSF) and the line ministries are cleared: management supervision by OCPE chaired by the MOSF, and project supervision by corresponding line ministry.

I also would like to suggest more transparent information sharing regarding the SOE management with the public. An important scheme in Korea is the Internet-based Information Open System for Public Entities called Alio (www.alio.go.kr), which mandates public entities to open 27 information through the Internet, which is accessible to everyone. The 27 information includes staff number, number of division, personnel costs, important financial indexes, major performance indicators, minutes for board meetings, consumer satisfaction survey result etc. The MOSF reviews the adequate provision of information on an annual basis, which is reflected in the evaluation which again is linked to bonus compensation. The number of Internet connection to (www.alio.go.kr) reached over 2 million last year.

4.4 Other Reform Measures

Though this paper mainly covers privatisation, we need to understand there are other measures of reforming Namibian SOEs as follow.

4.4.1 Corporatisation

Some of government branches can better serve their functions if they are turned into SOEs. For instance, Korea Railway Corp. used to be a government agency under Ministry of Transportation, but it has been changed into a SOE in 2005. KT&G (Korea Tobacco and Ginseng Corporation) also used to be a government agency, which became a SOE, and was privatised. KT (Korea Telecom) followed the same foot-step with KT&G.

4.4.2 Integration

Other than privatisation, integration of SOEs could be an effective measure to enhance productivity and quality of service. Integration is a big shock to relevant SOEs, and the government can start massive restructuring using that opportunity. Integration, of course, entails many side effects such as creating a dinosaur SOE, internal conflicts after integration, chaos before and after the integration. These costs are, however, rather temporary considering the permanent benefits, which as follow.

First, when continuous business procedures are performed by two separate SOEs, integration of those two will reduce loss of information in the course of procedure shifts between two SOEs and relevant transaction costs. A typical example is the Land Corporation and the Housing Corporation. The integration of two SOEs, which becomes in effect from October 1st 2009, will reduce the construction period and costs. Another example is Korea Workers' Injury Hospital and Korea Workers' Insurance.

The second case is when two or more SOEs are conducting similar functions, in which case integration of those will bring about economies of scope. One example is three promotion agencies for Internet, Information Protection, International IC Cooperation respectively. Another example is three promotion agencies for cultural contents, game industry, media and movies. The employees working those organizations have a lot either in common or in complementariness in terms of their specialties, therefore, can benefit each other when the organizations are integrated..

Third, there are even cases where much of two SOEs' functions are redundant. Some people defend the redundancy mentioning possible competition between SOEs. However, competition is a productive pressure only when the result of the competition has serious impact on the winner and the loser, which is not the case in SOEs. One example is the National Computing Agency and the Government Computing Centre which are now integrated, and another example is the Land Corporation and Housing Corporation in the field of the housing estate development.

4.4.3 Other efficiency measures

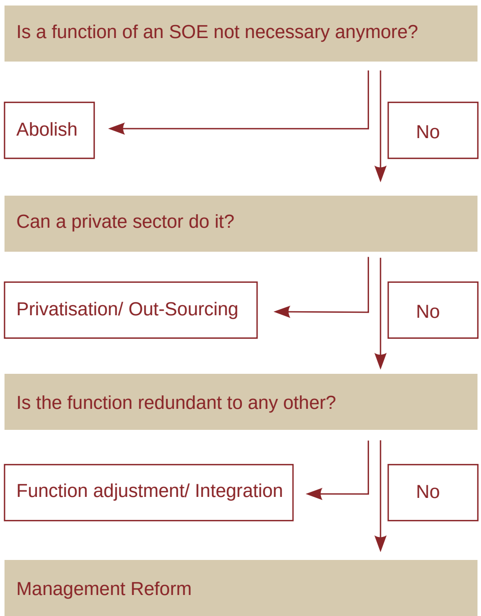
Not all SOEs can be privatised. But all SOEs' function should be analyzed, and adjusted as follows. First, asset should be applied to all SOEs. Some of Korea's SOEs own golf courses, sports centre, duty-free shops etc. These facilities are making revenue which is used for the public cause, which is the main mandate of the corresponding SOE. However, as we have discussed previously, these business should be conducted by the private sector.

Not all SOEs can be integrated. But all SOEs' function should be analyzed to be transferred, if necessary, to the other organization for a more clear division of labour and for a synergy effects. The promotion for exports by SMEs has been performed by three organizations in Korea: KOTRA (Korea Trade and Investment Agency, a semi-government organization), SME Promotion Agency (a government agency), IC International Cooperation Promotion Agency (export promotion for SMEs in the field of ICT, a semi-government organization). The overlapping roles have been cleared last year: export-promotion within Korea is by the SME Promotion Agency and that outside of Korea is by KOTRA.

Many SOEs are trying to start a new business while maintaining the old, which results in bloated public sector. Differentiating core functions from the less important functions, therefore, is an important first step in streamlining the public sector. The second step is of course to discriminate resource allocation to those core and none-core functions.

Finally, internal management efficiency should be applied to all SOEs including SOEs to be privatised, for it will enhance the market value when sold. The efficiency measures include downsizing, out-sourcing, streamlining local branches, privatisation of subsidiary companies of SOEs, performance management (Figure 3).

Figure 3: Flow Chart of SOE Reform



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COMMENTS ON "PRIVATISATION STRATEGY FOR NAMIBIA: LESSONS FROM KOREA"

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Korea has 305 public entities governed by the Public Entity Management Act. They have significant budgets and employ significant numbers of people. Interestingly in Korea if a public entity's own revenue makes up more than 50% of its total revenue it is termed an SOE and less than 50% it is termed a semi-government organisation while if an entity employs less than 50 people it is termed an other public entity. In 2008 Korea had 24 SOEs, 77 semi-government organisations and 204 other public entities. SOEs themselves are divided into two types: market type and semi-market type. Park's discussion of privatisation centres mainly around the market type SOEs.

Namibia's SOE Governance Act lists approximately 52 SOEs but no distinction is made between the very different characteristics which define their operations. Clearly privatisation is only really relevant for market-based SOEs which generate the lion's share of their revenues by charging customers for the services they deliver. These would include the following (excluding media enterprises):

Namibian Airports Company
Air Namibia
August 26
Fishcor
Namport
Nampost
NamPower
NamWater
Namibia Wildlife Resorts
Roads Contractor Company
Telecom Namibia
TransNamib

Park observes that the role of the Korean government in the economy has changed over the last 45 years.

- first phase 1963-1979: government led economic development
- second phase 1980-1997: style of government intervention changed while the private sector experienced rapid growth
- third phase 1998-now: government intervention declined and reform is still underway

Since 1990 the Namibian government has carried out a long-term reform programme during which central government operations have been commercialised and completely new SOEs required for the functioning of an independent state have been established. The role of government has steadily increased but government has not involved itself directly in the creation of new industries. There has occasionally been talk of privatisation but it has never been and is still not clear that the process of commercialisation will be followed by a process of privatisation.

Park identifies four main reasons why SOEs are required:

- Not enough private capital and technology for massive investment projects
- Raise government revenue
- Government intervention required in areas which private companies are reluctant to enter
- To prevent private monopolies
- To bail out bankrupted companies

The Namibian government has not created SOEs as a way of creating new industries, of raising revenue or of preventing private monopolies but it has justified the creation and maintenance of SOEs as necessary because private companies would be reluctant to enter particular markets. In a very few cases it has acted to bail out bankrupted companies.

As the Korean economy matured, the potential for natural monopolies declined leading to privatisation plans for Korea Telecommunication and Korea Railway. While privatisation has been ongoing since the late 1960s, the most important drive was made by President Kim Dae-Jung following the economic crisis of 1997. This was stopped by President Roh but is being revived by President Lee.

The flowering of multi-party democracy in Korea appears to have helped promote a more vigorous debate on privatisation. Namibia has a dominant party which has no unified view on privatisation and very little debate on the issue.

Park highlights several problems with SOEs:

Inefficiency: SOEs are generally overmanned and unionised, slow to innovate and bureaucratic, and exhibit collusion between management and unions.

Eroding the private sector: SOEs can block the growth of new private business activity.

Political decision-making: SOEs funding from government and investment decision-making can be highly politicised and can lead to uneconomic pricing structures;

There is certainly ample evidence that Namibian SOEs display all three of these characteristics, something which commercialisation and the creation of the SOEGC does not appear to have changed. The overall performance of most SOEs has been modest at best and woefully bad at worst. However, this record appears less significant to policy-makers in comparison to the fact that SOEs represent almost all of Namibia's largest genuinely Namibian-owned companies which can be used as a training ground for a new cadre of Namibian managers, especially black Namibian managers.

Park puts forward arguments against privatisation:

1. Higher prices for public services: privatisation can lead to higher prices but this tends to be untargeted, wasteful and lead to excessive debt which is borne by future generations. Furthermore, greater efficiency and competition can often lead to lower prices and price regulation remains an option even after privatisation.

2. Protect the needy: profit driven companies may fail to protect the needy but this can better be achieved through social welfare policy.

3. Foreign ownership: greater foreign ownership can create dependency but ceilings can be placed on foreign ownership although this will make privatisation less attractive to foreign investors.

4. Concentration of economic power and favouritism: Since only big companies can buy SOEs, privatisation can widen the gap by making the big companies even bigger and more powerful. Furthermore, buyers of SOEs are in a good position to get special favours from government. Mass privatisation has not been particularly successful.

5. Reduction of employment: Creating a more efficient privatised business can involve cutting employment. This is a difficult issue to deal with.

These arguments have all been present in Namibia's (limited) debate on privatisation but the key issue may be that the Namibian government is reluctant to see key industries and companies fall into the hands of foreigners. Given the lack of local private investors with the management and technical skills to run such companies, these companies may be better off left in the hands of the state. The key issue then is to work out how their performance may be improved while remaining in state hands rather than move towards privatisation. The SOEGC represents Namibia's attempt to do precisely this.

Park goes on to highlight several benefits of privatisation stating first that the Korean experience supports pro-privatisation arguments:

1. Privatisation helped Korea generate revenue for government which helped improve its sovereign credit rating.
2. Prices have either been maintained or reduced by privatisation due to cost minimisation and innovation as well as competition while service has improved.
3. Profitability has improved due to better marketing and cost cutting and all five privatised companies are now on a sounder financial footing.

These experiences are worth highlighting since they constitute considerable benefits to any country including Namibia. Namibia's own experience in telecoms shows that private sector involvement, more players and more competition can lead to lower costs, greater service provision and improved profitability leading to greater revenue for government.

Park then recommends a privatisation strategy for Namibia which includes the following points:

1. Privatisation should focus on commercial SOEs.
2. Infrastructure industries should not be encouraged as this will lead to foreign dominance but where local buyers are available privatisation should be considered.
3. Political commitment is a precondition for successful privatisation.
4. Government should set an ultimatum that SOEs will have to accept privatisation if it cannot meet a deadline.
5. The Auditor General should identify inefficient management cases and this should be widely publicised so that the general public understands the need for reform.
6. A temporary team consisting of civil servants and private sector experts under the SOEGC rather than the line ministry should take charge of SOE reform.
7. Any privatisation plan should take a phased approach with the final step completed within the same President's term.

8. Government should punish line ministries for delaying privatisation plans and consider establishing new policy departments within the line ministry after privatisation.
9. Government should consider privatising separate functions if entire SOEs cannot be privatised. These should be market functions.
10. If Employee Buyouts are considered, labour unions must understand the risks involved.
11. Tangible and visible benefits should be created as quickly as possible to create momentum and credibility.

These recommendations are well taken but Namibia is clearly not yet at the stage where there is political commitment to a process of privatisation and what the aims of such a process might be. Perhaps it is time to reconsider the mandate of the SOEGC and to tweak it such that a process of privatisation might be contemplated with greater urgency.

Park suggests that the structure and membership of the SOEGC be reconsidered to create a real driving force for SOE reform. A driver of reform should have the following features:

1. The body should focus exclusively on reform;
2. The body should consist of people from both the private and public sectors.
3. Privatisation should be led by an organisation without an incentive not to privatise meaning that line ministries should be excluded.
4. The SOEGC should have members from the line ministries and the private sector to make it a final arena for significant decision-making.

Park also suggests that a system of annual evaluations should be introduced for SOEs that link results to employee bonuses. Park also proposes that information on SOE management be shared with the public in a more transparent manner such as Korea's ALIO.

Park ends his paper by suggesting a number other reform measures:

1. Corporatisation: changing government departments into corporation can improve performance.
2. Integration: merging certain SOEs can enhance productivity and service quality.

Namibia's process of corporatisation has been well under way since Independence but appears to be moving away from rather than towards greater integration, especially in the areas of development finance where a plethora of institutions is coming into existence.

All in all, Park's paper represents an interesting and thought-provoking contribution to the debate on privatisation in Namibia. His emphasis on the three phases of Korean government *involvement in the Korean economy and on full government commitment to privatisation is important to note. Given the limited size and experience of its private sector, one of- if not the - most important issue in the Namibian context is whether privatisation would not entail selling key enterprises to foreign multinationals for whom Namibia is always likely to be a small market and which is therefore always likely to receive limited attention. This argument could, however, be turned on its head. One way of developing Namibia's small private sector might be through privatisation, any sell-off being constrained by an option for Government to buy back in case of failure. Although Park comes out against privatising infrastructure network industries (natural monopolies), the evidence and arguments presented in his paper could be used to justify reform in Namibia's telecoms sector where a degree of government ownership could coexist with private investment and genuine competition by splitting Telecom from MTC and selling down government shareholdings in both to a common threshold. Furthermore, Namibia's policy in the electricity sector already implicitly assumes a degree of privatisation with the promotion of Independent Power Producers (IPPs). A more fruitful approach may involve looking at joint ventures between SOEs and private companies, following the lead set by, for example, Namport and NamWater.*

CONCLUSION AND ISSUES EMANATING FROM THE SYMPOSIUM

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Conclusions

The 11th Bank of Namibia Annual Symposium focused on the theme of "Privatisation in Namibia. Various speakers delivered mind-provoking presentations on the theme to set the stage for a lively debate. Although, speakers did not explicitly take extreme sides on whether they are "for or against" privatisation, there appeared to be a general agreement in favour of privatisation. In all studies presented, there appeared to be no overwhelming argument against privatisation.

The good thing about privatisation is said to be the fact that it can stimulate economic growth depending on how it is done. In this connection, privatisation could be a source of job creation and could provide more competition for the goods produced and consequently lower prices while providing more choices for the consumers. However, negative outcomes may occur such as loss of employment, increased prices of products and make it difficult for the poor to access the highly priced goods. For example, privatising water resources could harm the poor by making them to access basic necessities at high prices. Therefore, if privatisation has to take place there must be specific special programs to take care of the poor in order to avoid the negative impact that can arise.

Namibia was rated favourably by the global competitiveness index in terms of infrastructure development, institutions and sound macro economic management while other sectors like education and health were among the lowest ranked. Against this background, Namibia needs to invest heavily in the areas of health and offer scholarships for people to study science and technology. There is also a need to develop research institutions and encourage innovative activities. Privatisation needs to target the SOEs that are not performing well and turn them around. On the other hand, in order to ensure that such privatised SOEs provide efficient and affordable services that are needed to take care of the poor, preferential loans from development banks to finance the investment of SOEs could be acquired. This could assist them to be able to charge lower prices and at the same time reduce input costs and increase revenue by more active marketing. If there is still a need for low prices after privatisation, the government can maintain price regulation even after the privatisation and the price might not increase very much if the privatised company exhibits higher efficiency and better performance. It was further discussed that if the option for privatisation is taken, creation of jobs for those who might be retrenched during the privatisation process should be planned for.

The Korean experience advocated that privatisation opens the door for good performance and employees' welfare improves and advances economic growth; especially when it comes to the market based SOEs. However, it became evident that the reasons behind privatisation and commercialization could be different between Namibia and Korea. Korea had a multiparty democracy, political competition with the president's term of office limited to a one-term of five years, as well as strong economic reforms which could have favoured the privatisation move. Namibia, on the other hand, has one dominant party and has no unified view on privatisation and very little debate on the issue. Furthermore, Namibia has a small market and private sector, have not shown political will and/or commitment while the issues of moral hazard might arise and be a disadvantage for privatisation.

The Symposium provided a platform for an exchange of views on strategies and possible policy issues that could ensure that should Namibia take the move to privatise, the country's privatisation process is based on its comparative advantage. The following are the key policy issues which emerged from the three key presenters and their discussants as well as the overall discussions during the Symposium.

1. The need to formulate and facilitate discussion on the privatisation agenda

Evidence from around the globe points to the existence of a dichotomy of views with regard to the net welfare impact of privatisation. Many analysts, however, pointed out that privatisation has positive net effects on national welfare. Furthermore, since the benefits of welfare gains are widely distributed amongst various economic agents, and whereas the welfare losses seem to affect a relatively small and specific group, the group at the loosing end is likely to cry out loud against privatisation.

It has also been found that the associated welfare losses (e.g. job losses) are largely of short-term nature as privatised firms usually create employment later, at levels that would have not been realised if they remained under state ownership. It has been emphasised that privatisation could go ahead, while at the same time, Government put in place measures to mitigate against negative effects especially relating to access/affordability by the poor and for the retrenched workers. This approach will be consistent with some strong views that government should get out of business and rather facilitate business. In that way, it is believed that government will enhance revenue through taxation.

Two options to privatisation were provided:

(i) Privatise some State Owned Enterprises (SOEs) (excluding natural monopolies)
(ii) Privatise functions that can easily be provided by the private enterprise

An important aspect that came out of the Symposium and that needs to be taken into account is the fact that privatisation needs to have a purpose, i.e. determine why the need for privatisation and what should be achieved by privatisation.

The above gives an indication of the important role that the Bank of Namibia, together with other stakeholders i.e. government, the private sector, civil society and academia have to play in engaging into a discussion and developing appropriate strategies towards privatisation. The Bank should initiate the process by drafting such strategy. The strategy should include measures to mitigate against expected job losses and price increases for services.

2. The need for de-bureaucratisation of the operations of State Owned Enterprises (SOEs)

As an alternative to the first key policy issue above, international experience (especially from the Republic of Korea) has shown that SOEs can still be made efficient by removing any bottlenecks hampering their smooth management. Most of such bottlenecks are believed to emanate from political interference in the day-to-day affairs of SOEs. Government could still own the SOEs but not operate them. Subjecting SOEs to stringent but enforceable performance targets is an additional way of enforcing efficiency in the sector.

While the privatisation process is likely to be delayed, partly because the implementation of the SOE Act has just started, de-bureaucratisation could possibly happen earlier. This would include the alignment of performance objectives, which are found to be conflicting in many instances. This approach will be consistent with some views that we need to think about creating efficiency within the current system before contemplating on whether we need something new or not. Furthermore, it is also easy for the same political leadership to show continuity rather than retract on what it has just formulated (e.g. the SOE Act).

The restructuring strategy (not only privatisation) could have de-bureaucratisation as the next phase, to be followed by privatisation later. Furthermore, the Government should also reconsider the mandate of the SOE Governance Council (SOEGC) as a starting point before considering the process of privatisation. The Korean experience suggests that the structure and membership of the SOEGC be reconsidered to create a real driving force for SOE reform. In particular, the involvement of private sector expertise is necessary. Listing of efficiently commercialised SOEs on the stock exchange was also mentioned as the one other idea that would yield benefits to the Government and the economy as a whole.

3. Other reform measures as a privatisation process

The Symposium further deliberated on other reforms that helped Korea on its path to success through the privatisation process and which where identified as corporatisation and integration. Turning some of government branches or departments into SOEs and integrating the SOE, seemed to have been a good strategy to achieve quality and better service delivery as well as an effective measure to enhance productivity. The Korean experience of changing Korea Tobacco and Ginseng Corporation to a SOE and subsequently to a private company, was a success story.

The Symposium debate also emphasized the big size of the public sector in Namibia as compared to the limited size of the private sector. Therefore, the way forward of developing Namibia's small private sector might be only through corporatisation of some government departments and integration of SOEs as well as privatisation of SOEs. Restructuring is needed in Namibia; and changing relevant government departments into corporations can improve performance and service delivery in Namibia.

4. The role of Government in the privatisation process

It was learnt from the Symposium that government involvement matter for successful privatisation. In the case of Korea, the role of the Government in the economy has changed over the last 45 years. Government led economic development during the period 1963-1979, changed to excessive government intervention during the period 1980-1997 and this led to private sector rapid growth. Since then, government intervention has declined in Korea and the process of privatisation is still underway. Since independence, the role of the Namibian Government has steadily increased and completely new SOEs have been established in the process. Furthermore, government has carried out a long-term reform programme during which certain central government operations have been commercialised but it has not been clear whether the process of commercialisation would be followed by the process of privatisation. Therefore, there is need for Government to revisit its earlier deliberations on privatisation. However, Government's role should only be to devise strategies for an efficient and functioning market and to create a conducive environment for the private sector growth. This refers to the notion of "Leave Business to the Market".

5. Political commitment

The Symposium informed that for privatisation to be successful, the most important factor is political commitment and will. In other words, without strong political determination, privatisation should not be considered as it is guaranteed not to work. Namibia is clearly not yet at the stage where there is political commitment to the process of privatisation, although PPPs were acknowledged to have taken ground as the main privatisation drive. Therefore, Namibia should learn from the Korean experience that demonstrated the importance of political will in privatisation as the key determinant in the policy becoming successful or followed through.

6. Skills development to create a strong case for successful privatisation

Speakers and discussants noted that despite the Symposium deliberations on this topic, privatisation exercises have failed in many African countries, while the Asian experience did show that privatisation was not a complete failure. However, from the problems with privatisation in African countries, a need to examine the cases for successful privatisation has emerged. Lack of skills was one of the problems identified that could hinder the successfulness of privatisation even in Namibia.

The Symposium taught a lesson from the Republic of Korea that the country promoted the spirit of skills development which made them a knowledge-based economy. As a result, the Korean Government has been in favour of local private partnerships rather than foreigners and that strategy has worked well in Korea as the country's market is now efficient and knowledgeable. However, a fundamental question is: "Can this also work for Namibia"? According to the recent global competitiveness report, the lack of skills in Namibia was identified as one of the biggest problems. Therefore, core reforms should start to address the skills shortage in Namibia and the target should be that of turning Namibia into a knowledge-based economy. Thus, investing in research and development is important and the private sector and government need to go flat out into the promotion of education. The issue of both government and private sector providing scholarships rather than loans was specifically emphasised.

7. Impact evaluation of current policies and practices

Various presenters raised the questions as to (i) whether the Namibian private sector is ready to take over the provision of services currently provided by SOEs and provide them more efficiently (given the current situation of low technology and low skills) and (ii) whether commercialisation has provided Namibians with management skills and experience. Evaluation of successes and failures of the SOE sector could be undertaken and that may provide answers on whether we can enhance efficiency within the current system (commercialisation) or whether we need another system (privatisation).

In summary, lessons for Namibia were offered by various speakers and discussants so as to serve as guidelines in the process of privatisation. However, the success of privatisation was said to depend on various prerequisites, which need to be considered at the initial stage. These mainly relate to the following:

- Differentiation between SOEs that can be privatised and those that the Government still needs to take care of;
- The creation of conducive environment for business growth by Government;
- Cultivation of the political commitment to support the process;
- Development of appropriate policy frameworks;
- The need to have a “reformer” in place to direct the process;
- Transparent processes; and
- Clear performance targets and criteria for evaluating achievement.

Generally, there appeared to be consensus that for Namibia, the telecommunications sector should be fully privatised with the view to expose it to more competition. Namibia’s own experience in telecoms shows that private sector involvement, more players and more competition can lead to lower costs, greater service provision and improved profitability leading to greater revenue for government.

NOTES