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ALTERNATIVE METHODS OF SERVICE DELIVERY

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1. Overview of Alternative Methods of Service Delivery

This session provides an introduction to the alternative forms of service delivery including: contracting out services to private firms, franchising services to the private sector, the use of grants and vouchers, mobilizing community groups and developing self-service measures as well as the privatization of government enterprises that have provide urban services.

Private sector involvement in public service functions can take a wide range of forms. When considering the role of the private sector in the provision of services, it is important to carefully appraise the costs and benefits of alternative organizational arrangements before selecting the most appropriate type of private sector involvement. Alternatives may be evaluated against a selection criteria such as cost-effectiveness, opportunity to introduce competition into the service market, attractiveness to the private sector, ease of administration and post privatization regulation, and capacity to service customers. Depending on the particular circumstances, some options will be more suitable than others. The main alternatives for private sector involvement are summarized below :-

Contracting out the Service to the Private Firms and Non-Profit Organizations (competitive tendering).

Contracting out is the most widely practiced form of privatization. Under this method of privatization, the government maintains control of the activity but contracts out to the private sector the production of the goods or services. Instead of using government employees, private firms are paid from government funds to perform specific tasks or supply goods. Price competition is introduced through the open invitation of tenders from firms. Government maintains responsibility for determining the quality, timing and quantity of services to be provided. At the local government level, a wide range of municipal services can be put out to contract. These functions include the provision of solid waste refuse collection, street cleaning, maintenance of public sports facilities, parks, gardens and public lands, road construction and maintenance, ambulance services, fire prevention services, engineering services, town planning consulting services, legal services and building construction.

Franchises and Leasing

This option involves the government granting a private firm an exclusive franchise to supply a particular service in a particular defined locality. Governments may maintain control over the price of the goods or service to be sold by the private firm. Franchise arrangements are often used by governments to regulate the private provision of public utilities such as gas and electric power distribution, telephone services, cable television and water distribution. Retail shop concessions in publicly owned airports, sporting stadiums, and railway stations are sometimes leased under a franchise arrangement. Competition is introduced by competitive tenders or bids for the franchise. Franchises are granted for a defined time period and may be revised and re-negotiable at regular intervals.

Grants and Vouchers

Governments undertake many welfare activities themselves to achieve the social objective of providing public services to low income groups on the basis that these groups would not be able to afford to pay for these services in the private market. An alternative to the direct provision of these services by government is the use of grants, subsidies and vouchers.

Under a grant system the government pays a private firm a sum of money to subsidize the cost of providing goods or services to selected consumer groups. For example, government may subsidize private bus companies for providing transport services to school children, and to welfare recipients or pensioners. Grants may be provided to first home buyers to subsidize the cost of private housing, rather than governments providing subsidized public housing. Grants may be given to private nursing homes to subsidize the cost to patients rather than government operating its own nursing homes.

Grants enable the government to withdraw from directly providing subsidized services to target groups through subsidizing the private provision of such services. Grants may be given to non-government organizations and community groups to assist them to undertake activities that are traditionally thought of as government responsibility. For example, grants are given to private church schools, old people homes, orphanages, and to clubs to subsidize the cost of construction of community sports facilities, to volunteer fire fighting services, and to social welfare support groups. Also, grants are given to support cultural groups such as drama groups, symphony orchestras, dance and opera companies and museums.

Vouchers are an alternative means of subsidizing the price of goods and services to selected groups in the community. A voucher is a piece of paper given by government to consumers which entitles them to purchase goods or services from private sector producers at a subsidized rate or in some cases for free - in exchange for the voucher. The private firms then claim back from the government the value of the vouchers. Vouchers are simply a mechanism for targeting publicly funded subsidies to selected groups of consumers for the purchase of specified goods and services. Vouchers have a set money value and consumers have choice in the spending of the voucher in the market place. For example, rather than government directly providing government housing at a subsidized rental it can issue rental vouchers to qualifying consumers who can rent private housing at a rate subsidized by the value of the voucher. The level of subsidy can be adjusted according to the welfare needs and financial situation of voucher recipients.

Build-Own-Operate-Transfer Projects (BOOT)

Under a BOOT arrangement, the private sector is directly involved in the construction and operation of public infrastructure such as toll roads. A BOOT scheme is a contractual agreement between the a private enterprise and government. The private enterprise is given a concession to construct and operate an item of infrastructure for a specific period of time such as 30 years or more. The private firm gains a return from its investment in the project by charging customers for the services provided through tolls and user charges. At the end of the contract period, the ownership of the infrastructure asset is transferred to the government, typically at zero cost. This BOOT approach has become increasingly popular and has financed the construction of power generating plants in China and the Philippines, highways in Malaysia and Mexico and urban highways, mass transport projects and the Sydney Harbour Tunnel in Australia.

Mobilization of Non-Government Organizations, Community Groups, Residents Associations, Charitable Organizations

In some situations, governments can hand over some of its functions/activities to voluntary community associations. For example, a government child day care centre could be privatized by transferring the ownership and control of it over to a parents' association. Responsibility for refuse collection in some urban areas is handed over to home owners' associations who then collect levies from members and hire private firms to provide collection services.

In some situations, it may be more efficient for government to provide residents associations with a grant and hand over responsibility to the association to arrange with private firms for the service provision. Residents are often in a better position to monitor the efficiency of the private contractor in the delivery of the service than governments that need a complex and often expensive monitoring system.

Self-Service and Self-Reliance.

In small town and rural areas it is sometimes more efficient to promote self-service and self-sufficiency than government provision of some public services. For example, in small town and rural areas, residents are often responsible for taking their garbage to the local "dump" or "tip". Also rural dwellers often provide for their own household water from roof collection systems, bores and storage tanks; generate their own electricity from small diesel generators or solar power systems; provide their own fuel for heating and dispose of sewerage by septic tanks etc. Individuals and community groups in rural areas may also be involved in rural road maintenance, bush fire fighting, eradication of pests and noxious weeds, provision of schooling, provision of health and social welfare services. Many rural villages in developing countries traditionally have had a very high level of self-sufficiency and have received very few government services. Some of the principles of self-reliance and self-sufficiency have been translated into modern urban areas. For example, users who gain benefits from government services can be organized to assist with the running and maintenance of government services. Parents and students can assist with school cleaning, staffing of the school canteen, mowing of school lawns, beautification of the grounds by tree planting and gardening, painting of school furniture and buildings, acting as unpaid teachers aids, supervising sporting teams, coaching students, providing food for boarding school meals, and cooking school meals etc.

Transfer of Ownership and Control from the Public to the Private Sector. Over the last decade there has been a global trend for governments to sell public utilities to the private sector. The transfer of ownership, may be "complete", "partial" or "selective" Privatization.

Complete Privatization involves transferring the entire ownership of a government enterprise to the private sector.

Partial Privatization involves transferring a portion of the ownership of a government enterprise to the private sector. Control may or may not be retained by the Government depending on the percentage of the equity sold to the private sector. If the government retains more than 50% of the equity it will maintain control whereas if the private sector has a majority of the equity, control will pass over to it.

Selective Privatization refers to the situation where the government sells or leases to the private sector separate parts of its operations or selected services while still retaining other services under government ownership and control. Distinct sections may be sold as complete entities. In some situations, two or more sections may be combined together to make a viable entity for the private purchaser.

Employee Buy-out Scheme: Selling an Enterprise to the Workforce

This method of privatization involves selling a government organization to the employees. The employees purchase shares in a new company and elect directors to manage the company. Employee-owned firms have a strong incentive to eliminate restrictive work practices as the new owners personally stand to gain from the introduction of measures to increase labor productivity and reduce costs. This option has been successfully implemented in many countries. Often following employee buy-outs, labor productivity improves dramatically and strikes, demarcation disputes and overtime bans vanish.

Management Buy-outs

Management buy-outs are similar to employee buy-outs in that the new owners are former public employees of the enterprise. The managers of government businesses are more likely than the average employee, to have the financial resources and motivation to put together a financial package to bid for the purchase of a government enterprise. Their detailed knowledge of the government business may give them at a competitive advantage in bidding for the enterprise and managing it after the purchase.

Liberalization and Deregulation

This method of privatization involves introducing private sector competition into areas which were previously reserved for a government monopoly. Liberalization may involve encouraging private sector firms to enter markets where the public sector has had a monopoly. Examples include the private provision of public housing estates, private parcel services, private hospitals and health care, private universities competing with public institutions. Deregulation may also encourages greater competition. Regulation of markets by government is a costly activity and transferring some regulatory functions to the industry organizations may reduce government costs through self-regulation.

Combination of Methods

In some situations it is desirable to use a combination of methods to achieve the governments objectives in effectively involving the private sector in the provision of public services. For example, the privatization of an urban public bus transport system may involve franchising of zones, an employee buy-out method, leasing of equipment, and the use of grants and vouchers. The city may be segmented into transport zones and competitive tenders called for the supply of bus transport services to each of the zones under a concession or franchise arrangement. Government-owned buses, bus depots, maintenance workshops and other associated facilities such as bus interchanges may be leased to the successful bidders. The government may issue vouchers to school children and welfare groups to reduce the cost to them of using the private bus services to cover this community service obligation. Also specific grants may be provided by the government to the private bus companies to cover other community service obligations such as servicing uneconomic routes or providing late night services. The government could also decide to assist the former public bus drivers establish their own consortium or enterprise to bid for the bus zones under an employee buy-out method.

2. Reasons for Increasing the Role of the Private Sector and NGOs In the Provision of Public Services

- **To Reduce the Cost of Public Services to Consumers**

Research studies on the economic impact of privatizing government activities have found that in many cases substantial cost savings have resulted after privatization. This is usually achieved by the private sectors more efficient use of resources in the production of goods and services motivated by the desire to minimize costs and maximize profits in a competitive market situation.

- **To Relieve Government Debt**

The demands on Government for the provision of more and improved services often exceed their capacity. Many governments are faced with rising deficits, heavy debt servicing on loans, limited borrowing capacity, backlog and delays in the provision of new urban facilities and community resistance to further tax increases. Greater use of the private sector, community groups and non-government organizations (NGOs) in the provision of urban services is seen as a means of relieving the pressure on government.

- **Satisfying Unmet needs for Public Services**

In situations where local governments are unable to provide some services, these unmet needs could in some cases be met by community groups and NGOs. There are many examples where voluntary community groups have provided recreation facilities, libraries, community halls, street cleaning, fire protection, security patrols, refuse collection, tree planting, maintenance of playing areas and parkland, tree pruning, lawn mowing, cleaning of roadside gutters and drains, provision of bus shelters, parking lot operation and school bus transport. Also many non government organizations provide social services such as child day care, foster-home care, group home care, adoption, institutional care for the sick, elderly and incapacitated, rehabilitative services, family crisis centres, women's shelters, youth centres, sheltered workshops, retraining centres, family counseling, family planning, child protection, home maker services and legal aid for the poor.

- **To Increase Productivity and Raise Efficiency through Promoting Competition**

Many government functions are performed in a non-competitive environment which can result in slackness and general inefficiency, mis-utilisation of resources, lack of responsiveness to the needs of consumers and to technological change and result in low levels of productivity. In comparison, in the private sector firms are constantly exposed to competitive forces that create an environment where cost-efficient performance is rewarded by profits while inefficient performance can lead to either bankruptcy or takeover. Private sector involvement in the provision of public services can introduce the benefits of competition into areas previously reserved for government monopoly.

- **Encouraging Entrepreneurship, the Formation of New Businesses and the Acceleration of Economic Growth**

The transfer of selected services which have traditionally been provided by the Government to the private sector can create new business opportunities for local entrepreneurs and could be directed towards stimulating a faster rate of small business development. The resulting increase in entrepreneurial activity may have multiplier effects as the new businesses formed through privatization reinvest profits to other diversified business activities.

3. Planning and Selection of Alternative Methods

Because of the wide range of options available to government, it is desirable to analyze the alternative methods and approaches to private sector involvement in a comprehensive and planned manner. When evaluating major privatization projects it is useful to apply a multi-criteria framework for assessing the financial, economic, social and political impacts of the privatization of specific enterprises.

A framework which appears promising is the planning balance sheet approach (PBS) that was developed by Professor Litchfield. Using this PBS approach, it is possible to identify the major groups that are affected by the privatization of an enterprise and to analyze the distribution of costs and benefits to the major stakeholders.

In assessing alternative methods of service delivery it is desirable to analyze the distribution of costs and benefits of each alternative on the stakeholders including: taxpayers, investors who purchase the enterprise, the employees and the consumers. The impacts of privatization on government finances may result in gains or losses to the taxpayer. These financial impacts on government may be both immediate as well as long term.

An important factor is the level of price at which the enterprise is sold to the private sector. The price may be said to be too low where the actual price received is lower than what could have been obtained or where the price received is lower than justified by the estimated future earning power of the enterprise. In some cases, the government may accept a lower price from preferred buyers such as employees, or locals as against foreigners. Under some employee buy-out projects the government has accepted a lower price than it could have realized by selling the enterprise on the open market.

Table 1 illustrates the application of the Planning Balance Sheet framework for the analysis of the distribution of the costs and benefits of privatization projects. It shows how the impacts of a privatization project may be distributed across the main groups affected by the project. The Planning Balance Sheet (PBS) approach stresses the importance of recording all impacts, whether a monetary value can be placed on it or not, and analyzing the distribution of impacts among different community groups. It is a form of disaggregated cost benefit analysis (CBA) and shares with CBA its basic theory of valuation and methods. PBS extends a traditional CBA in two ways. First, it records detailed information on the distribution of costs and benefits among different groups of people affected by a proposed privatization project. Secondly, it accommodates the recording of intangibles and other unmeasured impacts by designating symbols for recording them in the PBS table alongside monetised impacts.

The PBS provides the decision maker with a large balance sheet which tabulates all of the impacts and also can be used to illustrate cross-impacts and cross-subsidies. It can illustrate the groups that benefit in net terms from privatization projects and those that are the losers. In this regard it provides a useful tool for policy makers for identifying the potential for introducing user charges to ensure that those that benefit from the proposed project contribute towards the cost of its provision. Also, the identification of those groups that lose, may lead to the development of measures to compensate the losers or to measures which reduce the negative impacts of the proposed project. The PBS table provides an excellent summary of project impacts in a concise format.
Professor N. Litchfield, who was responsible for developing the planning balance sheet approach, first applied it to a number of urban development proposals which had complex distribution effects on several different community groups.

Advantages of Using the Planning Balance Sheet to Analyze Privatization

- The major groups affected by a privatization proposal are clearly identified and the distribution of economic, social and environmental impacts of proposals on the different groups is indicated.
- The PBS clearly shows the groups of citizens who stand to gain from privatization and those who stand to lose. It can be used to identify pressure groups which are likely to develop and who are likely to use all their political leverage to influence the privatization project or to have change accepted which improve the project from their point of view.
- The PBS requires decision makers to examine the objectives of the major groups affected by a privatization project and enables them to compare the objectives of different groups with the overall privatization objectives.
- The PBS provides information which is likely to help government when it is required to consider the effects of a privatization proposal on the community as a whole versus the costs imposed on groups of the community adversely affected by the proposal.

Table 1 Cost Benefit Analysis of Privatization Proposal - Analysis of Winners and Losers

Groups affected	Objectives of each group	Costs	Benefits
	Impacts of Privatization Proposal		
Customers	• Quality services which meet needs • Reliable service • Convenient payment system • Minimum cost to consumers		• Cost reduction after privatization • Service better meets individual needs • Greater reliability of service
Taxpayers in general	• Minimize taxes • Receive quality public services at minimum cost		• Reduced need for subsidy • Services more cost-effective
Government Employees made redundant by proposal	• Maintain employment, salary and other benefits at present level or higher • Job satisfaction • Promotion prospects	• Reduction in salaries • Reduced employment benefits • Higher labor productivity required • Reduced workforce	
Public Enterprise managers	• Maintain employment, favor MBO • Retain control of enterprise	• Potential loss of employment	• May retain employment under a Management Buy-out
Politicians, Political Party	• Win votes at next election • Stay in power • Provide service to electorate		• Increase popularity with voters • Gain support from business sector from firms who receive contract
Private Sector (owners/ Investors in privatized enterprise)	• Maximize profits • Maximize growth rate		Gain new business opportunities to make profit

Planning and Analyzing the Privatization Process

Over the last decade many developing countries have announced ambitious plans to privatize their State-owned enterprises. There is evidence that many governments have underestimated the complexity, cost and time required to implement the privatization of state owned enterprises. Often substantial costs are involved for financial restructuring, physical rehabilitation of the enterprise's plant and facilities, redundancy and severance payments to employees, restructuring of debts and the cost of advisory services.

Successive Australian Commonwealth governments have tended to adopt a piecemeal, case-by-case approach to selling assets. It has not been their practice to announce a comprehensive privatization policy and long-term implementation plan that provides a detailed blueprint and timetable for the privatization program. Other countries such as Malaysia have adopted the comprehensive planned approach. For example the Malaysian Privatization Plan explicitly defines the government's privatization policy objectives, guidelines and the criteria used to identify and select organizations targeted for privatization, and the means of privatization as well as the timetable. The development of a privatization plan involves assessing opportunities and scope the for privatization; analyzing areas of highest potential benefit; identifying major constraints and the political implications; assessing political, economic and social costs and benefits of alternative privatization strategies; and identifying legal barriers as well as developing program guidelines and sales strategies.

In contrast the privatization programs of Australian governments, Commonwealth and state, have tended to evolve over time with governments annually announcing their list of asset sales in the annual budgets. However, once it is apparent that a major sales program is under way, a government is well advised to establish a specialized agency or authority to manage that program. This has been the role of the Australian Commonwealth's Asset Sales Task Forces, later Office of Asset Sales. The approach pursued for individual sales varies from case to case, to take account of the characteristics of each sale.

The complexity of privatization is illustrated below by considering the large number of activities and tasks to be undertaken in implementing a program of privatization of public authorities. In undertaking the analysis of the privatization of enterprises, we have found it valuable to apply a checklist of the main activities and decision points in the full cycle of the privatization process. The following checklist illustrates the main steps which should be undertaken in a well organized approach to privatization. It is divided into four phases.

Phase 1 - Preparing for Privatization
Phase 2 - Detailed Planning on selected Government State-Owned Enterprises and Activities targeted for Privatization
Phase 3 - Implementation
Phase 4 - Monitoring and Evaluation

The steps involved in these phases are outlined below:

PHASE 1 - Preparing For Privatization

(1) Develop and define Privatization Policy
- clarify objectives
- establish task force for preparation of guidelines, strategies, programs and projects.

(2) Assess opportunities, threats, and scope for privatization
- assess political support and limitations
- identify areas of highest potential benefit
- identify major constraints and the political implications
- assess political costs/benefits of alternative privatization strategies
- identify legal barriers
- assess strength/weakness of coalitions

(3) Create Private Sector Interest
- announce privatization policy objective
- education of public
- consult with private sector associations, chamber of commerce to develop interest

program

(4) Develop Program Guidelines and Strategies

PHASE 2 - Detailed Planning on Government State-Owned Enterprises to be Privatization

(5) Enterprise Diagnostic Analysis
. review of management and operating systems
. corporate financial analysis of capital structure and past financial performance
. physical condition and value of assets
. review human resource management system
. identify strengths/weaknesses/opportunities/threats
. review future market demand situation and competitive environment
. identify any comparative advantage of enterprise

(6) Audit of Legal Obligations
. ascertain legal rights of existing creditors, shareholders, and other third parties.
. review any outstanding government loan guarantees mortgages, liens, loan agreements and provisions prohibiting the sale of assets
. review commitments, contracts with employees, superannuation, pensions, allowances, commitments to contractors, suppliers, customers.

(7) Examine Need for Conversion of the Legal Form of the Enterprise
. review need for legal restructuring

(8) Review Need to Modify Regulatory System
. new needs for licensing systems
. deregulation measure to increase level of competition

(9) Financial Restructuring
. undertake balance sheet restructuring
. write-down of assets
. alleviation of excessive debt liabilities
. recapitalisation

(10) Review of Situation of Enterprise Workforce
. private sector employment opportunities
. redeployment
. employee participation in ownership

(11) Determine Future Ownership Options
. partial versus total privatization
. review scope for commercialization prior to privatization to increase value of entity
. review scope for management contract, leasing employee buy-out scheme
. review options with respect to foreign ownership joint venture ownership

PHASE 3 - Implementation (Privatization Transfer)

(12) Undertake any necessary legal requirements for sale of enterprise, or shares, franchise agreement, management contracts, legislation enabling change of enterprise form, ownership, etc.

(13) Estimate market value of entity or services to be performed.

(14) Issue conditions and undertake solicitation for transfer to the private sector.

(15) Evaluate proposals against criteria and select successful bidder.

(16) Negotiate with bidder and execute legal transfer.

(17) Announce transfer arrangements and educate public on implications for consumers.

(18) Implement industrial relations employee transfer or redundancy, early retirement agreement.

PHASE 4 - Monitoring and Evaluating Privatization

(19) Refine monitoring and evaluation methodology and develop performance appraisal systems.

(20) Establish data base to enable the comparison of the quality and of service provision before and after privatization.

(21) Undertake surveys and collection of private and public sector indicator data.

(22) Compare performance data against targets, standards, milestones and identify shortfall and possible corrective measures.

(23) Evaluate effectiveness of privatization program in terms of efficiency and effectiveness as well as the degree to which consumer needs are met.

(24) Modify and adjust program and regulations in light of findings of monitoring and evaluation program.

(25) Continue with any further privatization projects.

4 Processes Involved in the Trade Sales of Government Enterprises

Trade sale is probably the most commonly encountered method of divestment in recent world history of privatization. The Thatcher government's early divestments took this form, though as the decade of the 1980s progressed the public float came to be favored for the sale of large enterprises that could be glamorized to attract wider interest. In New Zealand in the later 1980s, where the aim was 'to maximize the return on the sale' rather than 'to create a property-owning democracy', few had any doubt that the best course was to pursue a trade sale through a competitive tendering process (Mascarenhas 1991, p. 45).

As Chart 1 (drawn from the annual reports of the Australian Department of Finance and its outrider, the Office of Asset Sales) indicates, the bulk of divestments of the Australian Commonwealth government in the period 1988-1998 followed this method.

Chart 1: Australian Commonwealth Government Asset Sales Program: Trade sales and public floats

Year	No. of trade sales	No. of public floats
1988	2	0
1989	1	0
1990	0	0
1991	2	0
1992	2	0
1993	1	1 (Commonwealth Bank II)
1994	2	1 (CSL)
1995	1	1 (Qantas)
1996	1	1 (Commonwealth Bank III)
1997	17	1 (one-third of Telstra)
1998	12	0
Total	41	5

Note: 1998 report up to April only. Also the sale of Belconnen Mall is not counted, as it preceded the establishment of the special asset sales task force/office; and the office did not handle the sale of the first tranche of Commonwealth Bank shares.

As shown in the Chart, the seven assets sold by the Asset Sales Task Force over the period 1988 to 1992 were all undertaken through the trade sale approach. The first public float managed by the Task Force came with the second Commonwealth Bank share offer in 1993. The trade sale method has now accounted for a total of 41 disposals handled by the Commonwealth's Asset Sales organization; this number includes sales of surplus land and stockpiles of material such as uranium and phosphates. Trade sales have also been popular in the Australian states, accounting for some of the larger disposals e.g. banks, insurance offices, gas pipelines and sectors of the electricity industry.

Trade sale procedures

Managing the sale of assets

The approach typically involves the following four steps.

The first step in any divestment is to assess key sales-related issues. This involves identifying precisely what is to be sold, any ownership restrictions or other continuing government constraints and controls and the timing the method of sale. Usually a scoping study or pre-sales review is undertaken to address these matters. An important part of this procedure is defining what parts of the business are to be sold. In some cases (e.g. the major airports previously vested in the Federal Airports Corporation) the Commonwealth has retained ownership of the assets and sold a lease to the assets rather than the assets themselves.

The second step is based on the findings of the scoping study and involves determining the objectives of the sale, as well as the post-sale regulatory provisions to govern the assets of enterprise disposed of. The third step involves conducting the sale as efficiently and effectively as possible. And the fourth step involves reviewing the sales process and outcome; the Asset Sales Office is likely to be joined by other administrative agencies such as the Australian National audit Office.

Preparing enterprises for privatization

In the lead-up to divestment, it has been common for public enterprises to go through a process which is variously described as 'a pre-privatization clean-up' or 'fattening up for sale' (though we think 'slimming down' would be a more accurate description!). Most of the enterprises have been subjected to one or more management reviews, organizational restructures and staff 'downsizing' or 'right-sizing', and some have had their accumulated debt written off by government—this is where Hood's 'privatization dowries' are likely to emerge. The management reviews have typically involved an enterprise diagnostic analysis resulting in a series of management reform recommendations. They have generally addressed: the management and operating systems; corporate finance, capital structure and past financial performance; physical condition and value of assets; human resource management system; future market demand situation and the competitive environment; and generally how to make the enterprise more attractive to private-sector buyers.

Corporatising is part of this process (McMaster 1996b). The notion of corporatisation was originally developed to justify and assist the process of managerial reform in enterprises intended to remain in the public sector. As the New Zealand experience indicated, privatization came as a second-wave reform, with the commercializing and corporatising that had taken place in the mid-1980s now being recognized as an important part of the preparation for divestment. However, some of the commercializing and corporatising objectives had been built into that much earlier round of management reforms which had, in many other countries including Australia, produced the public or statutory corporation as the preferred instrument for government in business. In these cases, preparation for sale involved the completion of the process of corporation, i.e. ensuring that all and not just some of the corporatisation principles applied in the subject enterprise.

Sale objectives

One of the more frequently expressed concerns in the privatization debate relates to the lack of clear government objectives: often there appears to be a multiplicity of objectives and conflict among objectives. Governments at various times have emphasized the importance of privatization as a strategy to reduce debt, especially in Victoria, South Australia and Western Australia. On other occasions, governments have promised to allocate the funds from sales towards priority areas such as environmental, education and health infrastructure investment projects.

At the project level, the Commonwealth has in recent years explicitly stated its objectives, though there still may be several of them. For the 1997 airport sales, they were to:

- optimize sales proceeds within the context of broader sales and policy objectives;
- minimize the Commonwealth's exposure to residual risks and liabilities:

- ensure the lessees have the necessary financial strength and managerial capabilities to operate and develop the airport over the lease term;
- ensure majority Australian ownership and control of the airports; and
- ensure fair and equitable treatment of FAC (Federal Airports Corporation) employees, including preservation of accrued entitlements (ANAO 1998b).

Due diligence process

One of the most complex and resource-consuming activities is called 'due diligence'. This is 'a process undertaken to verify the accuracy and completeness of information provided to prospective purchasers ... it usually involves the gathering of information to assist the vendor disclose all the relevant facts about the enterprise and to enable potential purchasers to undertake their own review of the sale entity' (ANAO 1998b, p 10). The due diligence process may involve conducting an audit of the legal obligations of the enterprise and reviewing all the current contracts the enterprise has with other parties for the provision of goods and services. It may involve: ascertaining legal rights of existing creditors, shareholders, and other third parties; reviewing any outstanding government loan guarantees and mortgages, liens, loan agreements and provisions prohibiting the sale of assets; reviewing ongoing financial commitments, contracts with employees, superannuation, pensions, allowances, and commitments to contractors, suppliers, and customers. In some privatization cases, a vast number of documents need to be made available for the potential bidders to inspect so that they can prepare their bids with full knowledge of risks and ongoing responsibilities that form part of the business entity for sale. The agency managing the sale may establish a data-room which contains the documents. The data-room approach is designed to facilitate the inspection of a large number of confidential documents.

Information memorandum

An important element in a trade sale is the preparation of an information memorandum about the enterprise or business for sale. It contains a comprehensive summary of relevant facts, and should provide a convenient guide to all the contracts and business documents available to bidders to help them with their inspection and analysis. In most cases the government agency responsible for the sale employs a team of specialist consultants to prepare this advice. An information memorandum committee may be established to coordinate the work of the various legal firms and business advisers.

The marketing campaign and bidding process

An important success factor in a trade sale is mounting an effective marketing campaign to stimulate interest from possible investors and to convert them to bidders. Usually the sale involves a staged approach to bidding. Interested parties are invited to lodge expressions of interest and there is a progressive short listing of bidders. The 'request for expression of interest' document usually outlines the requirements that must be met by firms or consortia interested in participating in the bidding process and announces the criteria that will be used for short listing and selecting the successful bidder.

Valuation of Enterprises

Our case studies illustrate the complexities surrounding the valuing of GBEs for sale and the activities undertaken by the bidders to determine the attractiveness of the privatization investment opportunity. Both the government owner and the bidders devote considerable resources to gaining professional advice on the value of the enterprise for sale. Defining exactly what is for sale is a first step in the due diligence process. In some cases the Government sells the business but maintains ownership of the land and improvements which it leases to the purchaser, in other cases the Government writes-off large accumulated debts at the time of privatization and in other cases it transfers responsibility of guarantees and contingent liabilities to the buyer of the enterprise. These factors and a host of others are taken into consideration when the bidders prepare their of market projections of future revenues and operating costs, financial analysis of the capital structure and feasibility studies.

Three methods are commonly used to place a valuation on business enterprises:

• **The Net Tangible Asset method** (NTA). NTA is a balance sheet-based method and does not take into account the potential future earnings of assets or goodwill of the business.

• **The Price Earnings Multiple method** (PE). The PE method is based on a weighted average of the historical and prospective earnings. In some cases , the average historical earnings of the enterprise are of little use for valuation purposes since, under the sale agreement, the privatized enterprise is likely to be granted far greater freedom than its publicly owned forebear to sell it services in new markets and to develop new services and products. The estimation of prospective earnings is also highly subjective. Future earnings are affected by a multitude of factors such as the impact of seasonal weather conditions , the impact of deregulation on the industry, and the influence of competition on the share of the market gained by the privatized enterprise, unpredictable fluctuations in international demand and currency crisis impacts, and the likely impact of new management on the productivity and profitability of the enterprise

• **The Discounted Cash Flow method** (DCF). This method involves projecting the enterprise's cash flows well into the future over ten or more years and then discounting them back to a net present value. The discount rate applied in business valuations corresponds to the annual rate of return that the investor would like to receive on the privatization investment, taking into account the cost of capital, the rate of inflation and the level of risk involved in the acquisition. The discounted cash flow method is also extremely subjective in practice. There are usually substantial uncertainties associated with long term cash flow projections.

The valuations of government business enterprises is often complicated by the special conditions that are associated with the sale, especially where there is to be dramatic changes in the industry structure and competitive environment, introduced through deregulation simultaneously taking place with the privatization. Some of these factors are:

- The degree of support that the Government may provide the privatized enterprise in the post-privatization environment which can take the form of industry regulation, control of entry of new competitors, licensing, length of lease or concession periods, limits on tariffs and price controls.
- The impact of the deregulation on the future profitability of the enterprise. For example, the sale price offered for the Sydney Fish Market reflected the uncertainties that deregulation of fish marketing in NSW might have on the monopoly position of the Market. The bidders had to take into account the possibility of the market collapsing completely or it losing a substantial market share to the big supermarket chains who could bypass it in the deregulated environment.
- Contingent liabilities that the purchaser is required to accept under the conditions of the contract that may include responsibility for employee entitlements such as accumulated sick leave, long service leave and any costs associated with requirements to continue to employ the enterprise workforce for defined periods. The impact of these liabilities are illustrated in all our case studies.
- Provision of loans by Government to the enterprise buyer that may assist the purchasers to finance the purchase. For example the industry privatization of GrainCorp to an enterprise owned by the wheat growers of NSW was greatly assisted by the provision by the NSW Government of a long-term loan to wheat growers enterprise.
- The potential future earnings of assets under new market structures with increased competition. Also the enterprise may have a strategic value to the investor that is not reflected in the historical revenue performance of the GBE. It may not have taken advantage

of a strategic location that it occupied. The recent privatization of the airports illustrate this valuation issue. The sales prices of the airports reflected the strategic locations of airports as gateways to Australia's cities and their potential for retail shopping development.

- The financial costs of any guarantees, warranties and indemnities accepted by the purchaser. Privatization often involves the transfer of risks formerly accepted by government. For example, Commonwealth Government divested itself of all obligations when it privatized of the Moomba to Sydney Gas Pipeline in June 1994.

Our case studies provide illustrations of the complexity of valuation issues. The evidence of both Australian and international experience demonstrates that the best way of ensuring the Government secures the highest possible price for the enterprise, is to ensure that there is a truly competitive bidding process through a trade sale process and that the sale of the business is undertaken in a professional manner supported by an effective advertising and marketing campaign to attract the widest range of bidders who will make their own evaluation on the worth of the enterprise.

Bid evaluation

In assessing competing bidders, the selling agency is involved in evaluating the financial strength and managerial capability of the bidders to ensure they have the capacity to operate and develop the business. The past track record of the bidders, their industry experience, financial capacity and commitment to implement new innovative developments may be important factors in the ranking of bidders in addition to the purchase price they offer. Also an assessment has to be made of whether the bids meet all of the tender requirements and stated sales objectives. Sometimes an offer may not conform with the requirements set out in the Request for Proposals. Assessing a foreign ownership component may also be important. After short listing in the first round, discussions might take place with the short listed bidders, and the government might decide to negotiate with one or more bidders.

5 Recent Australian Experience with Privatization

Since the election of the Howard Liberal-National Coalition government in March 1996 the scale of the privatization program has accelerated rapidly. There was now no ambiguity about the relevant policy, for the Coalition's privatization policy and plans for asset sales were announced prior to the 1996 election in a policy statement entitled 'Privatization: In the Public Interest and for the Public Benefit' (Liberal and National Parties 1996). There has been no major political dispute about most of the new divestments, and indeed several were being planned before the change of government. Labor did strongly oppose the Coalition government's plan to sell off one-third of Telstra Corporation, the publicly owned telecommunications enterprise; but many asked why it should feel so strongly about that particular divestment given its own active role in processing so many others.

The privatization of Australian airports represent the largest trade sale program undertaken in the world. There has been considerable debate on the merits of airport privatization and the potential of the private buyers to exploit the monopoly element in airport services. In April 1994 after years of planning studies, the Keating Labor Government initiated the privatization of the Federal Airports Corporation (FAC) by announcing its in-principle decision to sell the 22 airports under the FAC control and the proposed Sydney West Airport. A year later in April 1995 the Government announced its decision to sell the airports in two phases. When the Coalition government came to power it swiftly implemented the airport privatization in two phases through a trade sale process. Brisbane, Melbourne and Perth airports were privatized in July 1997. In May 1998, Adelaide, Alice Springs, Canberra, Coolangatta, Darwin , Hobart, Launceston and Townsville airports were privatized through long- term leases.

Most of the divestments to date have been either by trade sale to an established private organization or by public float after listing on the stock exchange, although in one notable case (that of the Snowy Mountains Engineering Corporation) the method was a buy-out by managers and a group of senior staff. Where whole enterprises have been divested, they have, in their final stage of public ownership, been rearranged as government-owned companies, facilitating the transfer of shares. In some cases, the sale has been processed over several stages: e.g. three tranches of Commonwealth Bank shares sold by public float, and a trade buy-out (by British Airways) of part of the Qantas shareholding before a public float of the remainder. The trade sales have sometimes taken the form of industry takeovers, in which the industry the public enterprise was established to serve (e.g. a grain elevators enterprise serving the wheat industry) acquires all the assets.

Chart 2 lists the Australian Commonwealth enterprises and related shareholdings disposed of since the divestment program got under way, and indicates the gross proceeds from each sale:

Chart 2: Australian Commonwealth public enterprises sold and gross contribution to budget revenue 1986-97

	$A million
1986: Belconnen Mall shopping complex, Canberra	87
1988: Williamstown Naval Dockyard	102
1988: Commonwealth Accommodation & Catering Services Ltd. (hostel & food service for Commonwealth agencies)	14.9
1988: Defense Service Homes Corporation (residences for ex-servicemen)	1,515.7
1989: Commonwealth shareholding in AMDEL Ltd., a provider of laboratory research and testing services to the mining industry	0.9
1990: Avalon Airport (sold to the still publicly owned AeroSpace Technologies of Australia Pty Ltd.)	90
1991: Commonwealth Bank (1st share offer)	1,292 [a]
1992: Australian Airlines (sold to the still publicly owned Qantas)	400
1992: Qantas (25% equity to British Airways)	665
1993: Commonwealth Bank (2nd share offer)	1,700
1993: SMEC Ltd. (Snowy Mountains Engineering Corporation)	2
1994: CSL Ltd. (Commonwealth Serum Laboratories)	299
1994: Moomba-Sydney Pipeline System	534
1995: Qantas, 2nd stage (public share offer)	1,450
1995: AeroSpace Technologies of Australia Ltd. (not including Avalon Airport)	36
1996: Commonwealth Bank (3rd share offer)	5,165
1996: Commonwealth Funds Management Ltd.	62.5
1997: Avalon Airport (left over from AeroSpace Technologies: lease)	1.5 [b]
1997: Phase 1 (three metropolitan) airports (50-year leases)	3,308
1997: Housing Loans Insurance Corporation	108

1997: Australian National Railways Commission	95.4
1997: Telstra (1st share offer)	14,300
1997-98: Business units of the Department of Administrative Services	435.7
1998: Phase 2 airports (50 year leases)	730.8
1998: AIDC Ltd., the investment banking subsidiary of the Australian Industry Development Corporation	155
1998: Australia Multimedia Enterprise Ltd., a provider of investment finance to the Australian multimedia industry	29.3
1998: Auscript, a business unit of the Attorney-General's Dept providing reporting and transcription services for federal courts and tribunals	1.1

a. Retained by Bank to finance takeover of State Bank of Victoria.
b. Plus annual airport lease payments.

The Australian states have only fairly recently begun to orchestrate serious divestment programs, and only the practices of the Kennett Liberal/National Coalition government in Victoria go close to matching the record of the Commonwealth. However all states have now sold some enterprises, and other divestments are under consideration.

Victoria, South Australia and Western Australia have all faced monumental problems with blown-out debts resulting form the financial mismanagement of the 1980s, and that has propelled them towards fairly vigorous sale programs. Thus Victoria has sold its State Bank and State Insurance Office, its Totalizator Agency Board (one of our case studies), its Grain Elevators Board, the onshore assets of several of its ports (on which see Everett 1995), and several of the distribution companies established after disaggregation of the former State Electricity Commission in 1994, among others. In the most dramatic case, that of the state's ongoing electricity privatization, the proceeds were reported early in 1998 to total $22.9 billion, enabling the state to pay off about two-thirds of its debt.

On the other hand, resource-rich Queensland, having mostly escaped such problems and with only a small debt, has found itself under far less pressure. Privatization has not been a major issue in Queensland although a number of assets have been privatizes. In 1994 the Government privatized the Gladstone Power Station selling it to a consortium associated with Comalco to assist the expansion of the aluminum smelter at Boyne Island. Gladestone is a conventional coal-fired generation facility and combustion turbine with a design capacity of 1,680 MW. It provides electricity to the Queensland Transitional Power Trading Corporation, under a long-term power purchase agreements and to the Boyne Island Aluminum smelter. Also the State Gas Pipeline was privatized

The establishment of new competitive arrangements for the power generation and distribution industries has placed particular pressure on the state electricity enterprises. The major restructuring of the Australian electricity industry commenced in the early 1990s and has resulted is most State governments implementing reform measures involving disaggregation and corporatisation. State governments have been forced to reconsider the role of government and the private sector in the industry. Government-owned vertically integrated monopolies have been broken up to form separate competing generation and retailing entities and regulated transmission and distribution entities. All electricity entities have been corporatised or in the case of Victoria privatized. Victoria has done much selling, and similar action is contemplated elsewhere. The NSW Labor Government broke up Pacific Power that was formerly the Electricity Commission of NSW.

The major issue on the privatization agenda in New South Wales in 1998, has been the Government's proposal to follow Victoria and privatize its electricity industry. This proposal has caused heated debate on the costs and benefits of this proposed privatization. It has been estimated that the NSW could sell it electricity businesses for about $25 billion in comparison to the $21.7 billion that Victorian Government received from the sale of its electricity businesses. The proposal met by considerable opposition from the public sector unions and the left wing of the Labor Party and concerned citizens. In recognition of the growing public opinion against further privatization of State assets, Premier Carr confirmed on 27 August 1998, that his Government had scrapped plans to go to the State election in March 1999 advocating the privatization of the industry.

A central issue in the campaign for the 1998 Tasmanian election revolved around the Liberal Government's proposal to privatize the Hydo Electric Corporation. The Corporation has been a major public enterprise in the Tasmanian economy for nearly 70 years as well as being one of its major employers. To a large degree, the election was a referendum on the future of the Hydro Electric Corporation. Liberal Premier Rundle, had announced plans to lease its generation assets and sell the distribution and retail divisions. He claimed it would clear the State's $3.2 billion debt and provide a recurrent injection of $200 million per year to the annual budget. Labor opposed the sale or lease of the Hydro and won the election, with the Liberals receiving their lowest percentage of votes since 1972. (Bennett, 1998,p2)

The South Australian Liberal Government, which took up office in December 1993 has pursued an active privatization policy. Between December 1993 to May 1998, it sold-off almost $2-billion worth of public assets. These included: the South Australian Gas Company for $417 million, the Pipeline Authority for $304 million, the State Government Insurance Commission for $175, the State Bank of South Australia for $720 million and a number of other smaller entities. The State has also privatized it's the water supply to a private company, United Water, which is responsible for the supply and servicing of water. Since privatization, consumers have experience an increase in water rates of 6.5% despite the Government's expectations of cost savings to consumers of up to 20%.

On February 17 1998, Premier John Olsen announced the Government's intention of selling one of its largest asset, the state's electricity generation authority, ETSA and its power distributor Optima Energy. At the same time, the Premier also announced that the Government was considering the sale of the SA TAB and State Lotteries Commission, Ports Corporation, Workcover, the Motor Accident Commission and Homestart Finance. He stated that 'scoping studies on those agencies have already begun to determine if a sale is the best option for the State.' (Olsen, 1998a,p4)

The Premier John Olsen has stated the objective of the State's privatization program is to reduce the level of State Debt. In a Ministerial Statement on 29 October 1998, Premier Olsen stated:
' These decisions will help reduce the burden of our debt and our exposure to commercial risk.' (Olsen, 1998b, p1)
It is expected that the privatization of the State's electricity assets would realize in excess of $4 billion that would more than halve State Debt. In February 1998 the State's debt was $7.4 billion and it was paying an interest bill on the debt of nearly $2 million a day. Debt as a percentage of Gross State Product is estimated to have declined significantly from 28% in 1993 to 21% in 1997 due mainly to the allocation of privatization sales funds of about $2 billion to debt reduction. (Olsen, 1998b, p1)

The major asset privatized by the Western Australian Government has been the 925-mile Dampier to Bunbury Natural Gas Pipeline that resulted in a sizeable contribution to State debt reduction, halving State debt. The pipeline brings gas supplies from the north west portion of the state and serves several large industrial companies including Western Power, the State's electricity generator, Alcoa Aluminum, Worsley Aluminum and Wesfarmers. The State has also sold 100% of its equity in the 260-mile Western Australian Natural Gas (WANG) Pipeline near Perth to CMS Energy Corporation in May 1997. At the time of the sale the WANG pipeline was capable of transporting 120 million cubic meters of natural gas to industrial users in Perth. Other privatization that have been completed in the nineties include the State Government Insurance Commission, the State Printer, Bank West and Health Care Linen Service.

Premier Richard Court in his 1998-99 Budget Speech stated that:
'This government has not squandered the proceeds from the sale of the gas pipeline to win short-term votes but, instead, has looked to the long -term interests of the State and used the majority of the proceeds to reduce debt.
Indeed, $1.8 billion of the $2.4 billion proceeds will go to reducing net debt.'(Court, 1998,p1)

The Court government has placed a high priority on debt reduction. At the commencement of his 1998-99 Budget Speech Premier Court also noted the State's achievement in debt reduction.
'The State's debt five years ago was almost $20,000 per family, today it is less than $11,000. The annual interest burden per family has almost halved from $2,251 to $1,137. ' (Court, 1998,p1)

Premier Court claimed in 1998 that the success in reducing the State's net debt level is one of this Government's most noteworthy achievements. In five years, net debt has been reduced from $8.3 billion to $4.8 billion.
The Government has announced that partial privatization of Western Power will be considered some time after the year 2000 and that the Bunbury Power Station will be sold. (Court, 1998,p1)

6 Role of the Private Sector in the Provision of Public Infrastructure Services

Over the next 10 years there is likely to be a substantial investment in public infrastructure in all developing countries. In the past public infrastructure has been planned, constructed and operated by the public sector. Many countries around the world are now looking to involve the private sector in the provision of major infrastructure projects such as highways, bridges, railways, electricity generation and telecommunications. There are three basic approaches to involving the private sector:

- **Public Ownership with Contracting Out**

Under this approach the public sector retains ownership of the infrastructure but involves the private sector in the design of the infrastructure, the construction of the facilities, the operation of the facilities and maintenance. The private sector participates under a system of contracting out. The public sector retains control over the infrastructure but contracts out various functions to the private sector. Usually competition is introduced because the public sector invites a range of private sector firms to bid for the contracts in a competitive environment.

- **Full Private Provision**

In many sectors of mixed economies governments are now reducing their level of involvement with infrastructure provision by allowing the private sector to operate in markets which were formerly government monopolies. For example, in Australia, until recently, all of the universities were owned and operated by the government. However, a few years ago the government has allowed the private sector to build and operate universities such as Bond University. In this example Bond University is permitted to charge fees to both Australian undergraduate and international students. The university if fully funded through the fees it receives. In the health area, Australian governments have owned and operated hospitals in all of the capital cities and major towns. However, the government has permitted the operation of private hospitals which compete with the government hospitals. Also in the transport area, there is quite a large amount of private sector involvement, particularly in bus transportation and in the airline industry. There are no private railways however. Many governments around the world are looking to increase private sector provision of health services in the areas of hospitals and nursing homes. In the education sector private schools are relatively common.

- **BOOT Type Schemes**

Over the last 5 years many governments in mixed economies have entered into BOOT type schemes for the construction and operation of highways, airports, tunnels, railways and bridges. This type of infrastructure has traditionally been constructed and operated by governments. Under the BOOT schemes the private firms enter into an agreement with the government to build a public facility at their own expense. In return for the right to operate the facility and charge users a fee. For BOOT schemes to operate effectively the private firms must be able to collect the fees for use of the facility from the users. BOOT schemes are particularly suitable for urban highways. The highways are constructed as toll roads and motorists are charged a toll fee. There are three variations of BOOT schemes:

(i) BOO projects

Under this scheme the private sector builds a facility and owns the facility and operates it charging users for the services. The infrastructure facilities remain in the ownership of the private sector permanently. Examples are private hospitals, private schools, private nursing homes, private recreation facilities, private sewerage treatment works, private bus transport systems.

(ii) BOOT projects

BOOT projects are similar to BOO schemes, the difference being that at the end of an agreed period, usually about 25 years, the assets transfer back to government ownership at the end of the contract period. For example, a private company may construct a tollway which it owns and operates for 25 years. At the end of the 25 year period the ownership reverts back to government without the government paying any compensation or fee for the assets. The private operator must therefore must make their profit and return on the capital in the first 25 years. Normally, there are requirements that the assets be well maintained so that when they are transferred to the government they are in good condition. When the transfer occurs the government may decide to continue to collect a toll or fee for the use of the facility, or it may decide to provide free access to the infrastructure. BOOT stands for Build Own Operate and Transfer.

(iii) BTO projects

Under this approach the private sector constructs the facility under a contract for the government. On completion of the construction phase, the public sector takes ownership of the project. The public sector then may lease the facility back to a private company to operate. Under this approach the private sector retains ownership of the assets but involves the private sector in the financing and operation of the project, usually fees are charged for the use of the facilities and the fee income is used to finance the capital investment.

Advantages of BOOT Type Schemes

An analysis of Australian experience with BOOT schemes in New South Wales and Victoria reveals that there are three main advantages in using these schemes:

- Construction costs of BOOT schemes are lower than construction by the public sector. For example, the M2 Tollway in Sydney was privately constructed for 50% of the cost estimated by the Road Traffic Authority.

- There is a greater incentive for private firms to complete the construction ahead of time. For example the M4 Motorway in Sydney was completed 9 months ahead of schedule and the M5 Motorway was completed in 2 years compared with 4 years in the construction program of the NSW Road Traffic Authority.

- Under BOOT schemes there is an incentive for the private firms to minimize the capital construction costs of new infrastructure. There are many examples where government has constructed infrastructure which is over designed and more costly than necessary. An example is the grain loader constructed at Wollongong by the NSW government. The investment in this facility has been estimated to be well above what was necessary to achieve the grain loading task. The grain loader was constructed to the highest standards and is a Rolls Royce model where a more basic design would have achieved the same result.

Australian Experience with Infrastructure Provision

Over the past decade there has been a very substantial increase in private sector involvement in the construction of public sector infrastructure. In the state of Victoria in Australia, 85% of road construction is now contracted out to the private sector. Also 50% of road maintenance is undertaken by the private sector under contract arrangements. Most capital works go to tender and outsourcing by the private sector. Whereas formerly much public infrastructure was constructed by public works departments using their in-house design and construction facilities and their own labor force, now all aspects of construction, including the design and project management are contracted out by the private sector. The private sector has played a major role in Victoria in the construction of the natural gas pipeline, in the water industry, the ports and the electricity industry.

In New South Wales BOOT type arrangements have been entered into by the government for the following projects:

- The M2 Motorway which is a privately operated toll road in Sydney between North Ryde and Baulkam Hills which is expected to be completed in December 1997 at a cost of $644,000,000.

- The M4 Motorway which is a privately operated tollway in Western Sydney. This project was completed in May 1992 at a cost of $230,000,000.

- The M5 Motorway which is a privately operated tollway in Sydney connecting Moorebank with Beverly Hills which opened in 1992 and was extended in 1994.

- The Sydney Harbour Tunnel which was completed in September 1992 at a cost of about $700,000,000.

- The Pyrmont to Ultimo Light Rail Project in Sydney which is currently under construction and is estimated to cost $50,000,000.

- The Airport Rail Link in Sydney between the Central Business District and Sydney Airport which is estimated to cost $600,000,000. This project is a joint venture with the NSW government and a private sector consortium which will undertake the project and own and operate four railway stations on the route.

- In the electricity sector BOOT schemes have been applied to many hydro schemes in NSW and the Eraring Power Station and electricity generation facilities in Victoria and the Northern Territory.

- In the water and sewerage sector BOOT schemes have been applied to the Blue Mountains Sewerage Transfer Scheme and private water treatment plants which are being constructed in Sydney at Prospect and Macarthur. Also BOOT projects are being applied in Victoria for water treatment.

7 Contracting-out and Contract Administration

There is a growing body of evidence which demonstrates that contracting-out the provision of public services to private firms is the most straightforward and practical form of privatization.

Country studies have clearly demonstrated that there is still considerable scope for increasing the amount of contracting-out. The main areas where contracting-out of functions is likely to lead to cost savings include:

(1) **Central Government General Support Services**

- Government printing
- Maintenance of government buildings, public housing, quarters, schools, and hospitals
- Maintenance of government vehicles, plants, and equipment
- Office cleaning services
- Road maintenance

(2) **Minor Construction Works**

- Alterations and extensions to government buildings
- Rural road construction
- Minor civil engineering works

(3) **Major Infrastructure Construction**

- Construction of new roads
- Bridges, airports, ports, and buildings
- Industrial estate construction
- Rural and urban infrastructure development

Local Government

There is scope for the greater use of contracting out public services, especially municipal services in urban areas. The main functions that offer opportunities for further privatization are:

1. Public works and physical environment:

   - solid waste collection (residential and commercial), and
   - waste water and sewerage treatment

2. Transportation:

   - road/street maintenance and repair
   - maintenance of government vehicles and plants, and

- construction of new urban subdivision roads

3. Parks and recreation/cultural and sporting facilities:

    - maintenance of recreation facilities
    - operation of sporting complexes, and
    - park maintenance

4. General municipal services:

    - buildings and ground maintenance
    - street cleaning and grass cutting
    - legal services
    - urban planning services
    - ambulance services, and
    - fire prevention services

Government authorities which privatize through contracting out their work often need to establish entirely new systems for contract administration, monitoring of contractor performance, selection of contractors and the evaluation of tenders etc. The on-going costs of contract supervision and monitoring can be substantial and needs to be fully accounted for when analyzing the alternative modes of privatization versus direct provision of services by government. The cost involved in survey, investigation and design work, estimates of quantities, specification of precise requirements etc., which are needed for the preparation of many contracts, should not be underestimated. The fast track method of construction of projects further complicates contract administration and if not carefully controlled can lead to substantial cost-overruns on contracted work.

8 LESSONS FROM EXPERIENCE WITH PRIVATISATION

Some of the main policy issues associated with the implementation of privatization are summarized in the following section These lessons are drawn from a research project on privatization conducted at the Pacific Islands Development Program at the East-West Center, Hawaii (McMaster 1992).

Privatization at the Local and Regional Government Level:
Increasing the Local Private Sector Absorptive Capacity

A fundamental issue is the extent to which the local private sector is able to effectively respond to local and regional government privatization initiatives especially in rural regions.

In most rural areas, the capacity of the local private sector to purchase and operate the government business enterprises may be limited. Several factors need to be considered when assessing the capacity of the private sector to participate in privatization activities. These are:

- the cost and availability of finance to the local private sector and the extent to which domestic savings can be mobilized to finance privatization;

- the extent to which private sector entrepreneurs have the managerial skills and access to technical and professional skills necessary for effective participation in privatization activities;

- the extent to which the domestic private sector can provide a competitive environment through which the economic efficiency gains expected to be achieved through privatization can be realized;

- the extent to which the private sector is interested in participating in the different forms and sizes of privatization activity.

Linking Privatization to Integrated Private Sector Development Programs

Research undertaken at the Pacific Islands Development Program, East West Center, in 1992 (McMaster, 1992) recommended that privatization projects should form an important part of an integrated approach to private sector development to facilitate the achievement of maximum benefit from such activities.

The main components of an integrated approach to private sector development are to:

- improve the availability of credit to the private sector
- improve the effectiveness of small business advisory services
- strengthen entrepreneurial development
- encourage a higher level of staff training and development
- assist the establishment and growth of new firms and small established enterprises
- assist with technology acquisition and development
- encourage new local and foreign investment in productive enterprises
- assist with export market development

Many of these recommended approaches could assist to increase the capacity of the private sector to respond to government's privatization initiatives. For example, a move towards greater use of private contractors for provision of services such as government building maintenance could create opportunities for the establishment of new small businesses. This process could be assisted by the services of development finance institutions and the small business advisory bureau.

Conflicts in the Objectives of Privatization

Most governments have a variety of different objectives for their privatization programs. However, situations have arisen where there is a conflict between the objectives and as a consequence the benefits of privatization activities have been reduced from those originally anticipated.

For example, in financially difficult times an overriding goal of privatization is often the reduction of the size of the government deficit through the quick sale of government business enterprises. This objective may clash with the basic rationale for privatization of enhancement of efficiency. Experience over the past decade in the developing countries has shown that often only the more profitable government business enterprises are able to be sold as these are the most attractive to private sector buyers. However, in many cases they have been sold at prices well below their real value to a small group of entrepreneurs. This practice conflicts with another privatization objective of broadening the base of share ownership by the general public. Thus privatization can sometimes result in a further concentration of ownership of business enterprises by a small elite group of entrepreneurs.

In other cases, privatization has resulted in the sale of government enterprises in monopoly situations to foreign-owned companies. This may result in a government-owned monopoly being converted into a foreign-owned monopoly with potential to exploit its market power. This conflicts with the objective of using privatization as a means of accelerating the development of the local business community and broadening its base.

Legal Aspects

Privatization proposals often involve a whole host of complex legal issues which require careful assessment and planning before decisions on privatization are finalized. Laws and regulations may require amendments through Parliament. Redrafting of Statutes is a complicated and time consuming exercise. Many Government authorities function under their own specific legislation and revision to such legislation may be required to implement a privatization proposal. Also, government employees who are likely to be made redundant by the transfer of activities to the private sector may have their employment rights and benefits protected by an employment contract, Employment Act and Pensions Act. The National Constitution may also contain articles which protects the existing pension rights of employees and other employment rights with regard to redundancy notice and payments.

Industrial Relations Issues

The privatization of government functions and the resulting contraction of public employment is usually strongly resisted by trade unions whose members' welfare may be adversely affected. The transfer of government employees to the private sector is a complex process. Private sector employment conditions may not be as favorable as those provided by Government. Private firms may expect their staff to perform at a higher level of productivity, and may not tolerate some of the restrictive work practices which are common in public services. The private sector firms involved in privatization may not wish to absorb public servants made redundant by privatization. They may instead prefer to recruit extra staff with private sector work experience. Many privatization schemes have attempted to include provisions which aim to protect the welfare of employees by insuring they do not lose any of the benefits they received in government employment on their transfer of ownership of an agency to the private sector. However, these provisions often place difficult constraints on the new private owners who may wish to reduce the size of the enterprises workforce, implement new work arrangements and introduce new management systems.

Retrenchment of public servants affected by privatization may necessitate specific compensatory measures that may involve considerable costs to government. Such measures may include:

severance pay packages
bonuses for employees who voluntarily elect to resign
adjustment to pension benefits
early retirement schemes
relocation assistance schemes for employees who elect to move to rural areas or other towns
special funds to assist employees establish their own small businesses
retraining schemes
obtaining a commitment by the private purchaser to take over public employees for a given period for a fee or as part of the conditions of the sale.

Redeployment

Government authorities which put out to contract a large amount of work that was formerly undertaken by their own staff often attempt to redeploy surplus staff rather than make them redundant. The surplus staff members often require retraining before they are able to be successfully integrated into other sections of the organization. However, the redeployment of surplus staff may defeat the primary purpose of the privatization which is usually to gain overall expenditure reduction through cost savings. The cost savings may only occur if the redundant staff are dismissed or transferred to the private contractor's payroll.

Organizational Change

Privatization may lead to a rapid reduction in the workforce of the participating government authority. The entire organizational structure of the streamlined authority may need to be reorganized as a result of shedding part of its workload to the private sector. Most organizations strongly resist such changes. The introduction of organizational change requires skilled planning, and consultation and negotiation with all staff involved to gain their support. The morale of staff can easily be adversely affected if staff feel threatened by proposed changes, resulting in less commitment and lower productivity. Staff are more likely to be committed to the proposed changes if they are directly involved in the decision making processes and the reorganization planning.

Costs Associated with Privatization

The arguments put forward in favor of privatization often emphasize the substantial cost savings to the government budget that will result from privatization. However, when countries commence the actual implementation of privatization programs they soon realize that in the short term often extra funds are needed to prepare state owned enterprises for privatization. In many cases governments have been forced to absorb the outstanding liabilities of loss making public enterprises. Other costs involved in preparing government agencies for privatization include the cost of studies and consulting advisory services, cost of the physical rehabilitation of enterprises building and equipment to bring them up to standard, the costs of special redundancy and severance payments to compensate employees, the costs associated with various forms of financial restructuring, writing off bad debts and legal conversion of the enterprise into a limited company.

When governments are proposing to privatize public enterprises, it is important to include in the analysis the transaction costs of divestiture. These costs can be quite substantial (Collyer,McMaster and wettenhall 1998). The costs fall into four categories:

- the costs of conducting the privatization transaction include flotation and underwriting commissions, legal costs and consulting fees

- costs of restructuring enterprise and undertaking a pre-privatization clean up. This may involve writing off past debts and investing in new infrastructure as well as paying out redundant employees

- the cost of preferential arrangements to stimulate buyer interest to achieve government objectives of creating a wider range of ownership or of supporting an employee buy-out scheme in preference to sale to a private company

- the cost of regulation in the post-privatization phase.

Transparency

A common element which is often missing in privatization is transparency and access of the general public to information. There have been numerous complaints in many countries about seeming lack of transparency regarding issues such as the terms of sale of the agreement, concessions of different kinds to the buyer. Irregularities and scope for corruption in privatization and the close link between the new buyer and the ruling political party are matters of concern in some cases.

Analyzing Financial Performance

The analysis of the financial performance of an enterprise before and after privatization presents a number of complex challenges. In most privatization cases, before-after comparisons of financial performance of the enterprise are made difficult by the following types of factors:-

1 Expenditure by government to prepare the enterprise for privatization, which is sometimes called a pre-privatization clean-up may increase costs and thus reduce the profits performance prior to privatization. This may involve writing off past bad debts, debt restructuring, investing in new equipment, and refurbishment of plant. Additional expenditure prior to privatization may also be incurred on job reduction schemes and redundancy packages. The pre-privatization period sometimes involves laundering of figures, capital reconstruction, balance sheet adjustments, revaluation of liabilities such as long service leave, sick leave and other commercial liabilities which reduce the comparability of performance statistics in the pre and post sale periods.

2 Deregulation of the industry with the elimination of government monopoly and the introduction of competition may occur following privatization. Studies have shown that increased competition has had more influence on enterprise performance than changes in ownership through privatization divestiture.

3 Prior to privatization, the public enterprise's profitability may have been negatively affected by being required to undertake unprofitable community service obligations, cross subsidization of certain groups of consumers, and servicing unprofitable market segments etc.

4 Some enterprises may have been parts of large public enterprises and/or were absorbed at the time of sale into large private companies so that evidence of pre-post privatization performance is difficult if not impossible to construct.

5 Adjusting for external market demand factors is another complication in comparing enterprise financial performance. Netting out the influences of market periods of boom and recession make pre-post comparisons more complex. Comparisons with the industry trends over time in average enterprise performance is one way of using a Bench marking approach to assess enterprise performance pre-post privatization. An alternative approach could involve constructing appropriate counterfactuals by forming hypotheses about the performance of the firm in the event that privatization had not taken place. Under this approach a with-without model could be applied to hypothetically assess the impacts of privatization on enterprise performance over time. The with-without scenario approach is often used in cost-benefit studies of proposed projects and can be applied to assessing the likely impacts of privatization projects and their alternatives.

Post-Privatization Regulation and Evaluation

One of the more complex tasks associated with privatization and corporatisation is the development of an effective system of regulation for the post-privatization environment. This is especially important in situations where a government public utility monopoly, is transferred to the private sector as a private monopoly.

Some governments which have implemented privatization and corporatisation programs, have neglected to put in place effective systems for monitoring and evaluation. In these cases, it is very difficult to accurately quantify the real costs and benefits of privatization and corporatisation because of the lack of data on the full costs of the provision of services prior to the implementation of the changes. Also in the post-privatization period it is necessary to take into account the extra contract administration costs associated with the greater use of contracting-out of services.

Without effective data collection and cost analysis of the alternative modes of service delivery, it is difficult to demonstrate in quantitative terms, the merits of private sector versus public sector provision of services. A comprehensive analysis of the costs and benefits of privatization also requires the use of output measures or performance indicators to measure the quality as well as the quantity of the services. There are well documented cases where contractors have reduced the quality of the service but still remained within the specifications set out in the contract. For some services it is very difficult to define the quality of the service and to describe it in the contract document. Also, the move to greater contracting-out requires the implementation of systems to monitor the activities of contractors to ensure that they are meeting the terms of the contract. There are reported cases of contractors undertaking devious means to cut costs and/or increase their revenue. For example, the privatization of household garbage collection in a Asian town experienced a problem with its payment system. Contractors were paid on the weight of refuse collected and were required to take their trucks over a weighbridge before dumping it at the landfill tip. It was detected that an unscrupulous contractor added water to the garbage to increase its weight and his payment.

Governments that are moving in the direction of contracting-out more services, should establish a system for monitoring and quality control and collect the type of data that will enable them to accurately compare and quantify in monetary terms the benefits and costs of the alternative modes of service delivery. Unfortunately very few governments have undertaken this type of activity in a comprehensive and rigorous manner.

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9 Group Exercises

No 1 Privatization of Refuse Collection Services

Background

This fictional city has a population of 400,000 people and its local government is the City Council. For a number of years the council has been faced with a problem with regard to its residential refuse collection service.

Presently all household solid waste refuse is collected by council workers operating council-owned trucks and taken to one central garbage tip where the rubbish is compacted and covered with soil. The land fill rubbish tip is owned and operated by the Council. The Council provides two collection services per week to each residential household which is permitted to put out one large bin per collection day.

The council refuse collection is done in two shifts per day. The first shift is from 6.00 a.m. to 2.00 p.m. and the second is from 2.00 p.m. to 8.00 p.m.

The council operates 200 compactor system trucks with rear-end loading facilities. Each truck is staffed by a driver, and six runners who pick up bins and empty them into the rear of the vehicle's compactor system. The same set of vehicles is used for the morning and afternoon shifts.

The council employs 440 drivers, 200 for the morning shift, 200 for the afternoon shift and 40 reserve drivers to replace drivers on sick leave or holiday leave.

The Problem

The Council has experienced a range of problems in providing its garbage service:

(1) The vehicle fleet is old and frequent breakdowns cause total disruption to scheduling the services. The average age of the trucks is 8 years old.

(2) Spare parts for the trucks are becoming more difficult to get quickly from the manufacturers local agents and often take 7 working days to arrive at the Council's repair and maintenance depot. The Council only stocks a limited range of spare parts in its own store.

(3) The new replacement cost of the trucks is US$100,000 each and the Council has no depreciation reserves to purchase new vehicles. It is experiencing increasing annual deficits and its borrowing capacity is limited due to its already high debt service ratio caused by heavy borrowing for capital developments over the last four years.

(4) The Council has a problem with the labor productivity of its refuse collection workers. Sick leave and absenteeism is high. Also, it feels the number of bins collected per worker is well below the average of some other provincial cities that have introduced private contractors.

(5) The Council has attempted to reduce the manning levels of the trucks from a driver plus six runners to a driver plus four runners. This resulted in a strike which lasted for 10 days before the Council backed down and agreed to maintain six collectors for each vehicle.

(6) There is a constant stream of complaints from rate payers regarding the irregularity of the service, spillage of garbage and failure to collect garbage.

(7) Rate payers have served a petition on the Council requesting that the service be privatized.

Analysis of Options

The elected members of Council have decided that the Council's senior staff should thoroughly evaluate all the options for the Council and present the elected members with an implementation plan for improving the service. The options to be considered are as follows:

(1) continue with Council collection with the purchase of new vehicles and improved management;

(2) contract out collection to a private firm using a competitive tendering process;

(3) divide the municipality into four collection zones of about 100,000 residents each and contract out the work to four separate contractors using a competitive tendering system;

(4) Council to maintain collection services for half the municipality and the other half to be contracted out to private firms on the basis of a competitive tendering system;

(5) A franchise option: the council to award a territorial exclusive privilege to a private firm for each of the four (100 000 residents) collection zones. Contractors compete for zones based on the lowest household collection charge. The winning contractor services all households and bills them directly for the services provided. (Council rates to be reduced by the equivalent amount).

(6) Move to a free market system where individual households choose one of several private garbage collection firms and pay them directly for collection services. Council rates to be reduced by an amount equal to the current average council refuse collection cost per household.

(7) Encourage home owners associations and neighborhood resident groups to make their own arrangements for refuse collection by hiring private firms to provide refuse collection services to members and pay for them by levying a charge on their members. Council rates to be reduced or a grant given to the residents association to assist with garbage collections.

(8) Self-service option. The Council to open three new tips to make a total of four, one located in each zone of 100, 000 residents. Residents encouraged to dispose of their own garbage at the rubbish dump or to hire a private collection cost to Council.

The Task for each Team

Each team is required to select two of the following options and to undertake the following:

(a) Identify all the factors which should be considered when comparing the options and draw up a list of criteria by which to assess the merits of the alternative options.

(b) Prepare an evaluation of the likely costs and benefits (disadvantages and advantages) of the options from the viewpoint of the residents.

(c) Prepare an implementation plan for both of the options you have selected for analysis.

Exercise 2

Costs and benefits of alternative types of privatization

Objective

This exercise aims to assist participants gain a better understanding of the likely benefits and costs of alternative forms of privatization and the appropriateness of these forms to the privatization of different types of government activity.

Task

Assume a government has announced its intentions to privatize the twelve government organizations/services listed below. Your team is required to advise the government on the most appropriate form of privatization for these organizations. For each organization, list the form of privatization which is likely to be most appropriate. Specify the criteria that your group has adopted to evaluate the likely effectiveness of the alternative forms of privatization. Select three of these organizations and prepare a list of the likely benefits and costs of privatization.

1 A large metropolitan commuter railway system with an extensive radial network focusing on the central business district. Assume the railway is located in a city of 3 million and is the main public transport service.

2 A metropolitan bus company with 3000 bus fleet which has a monopoly in the provision of bus services in a city with a population of 3 million. Assume it has a cost recovery rate of 80%.

3 A major port such as Port Klang in Malaysia.

4 National airports in a South East Asian country.

5 A major highway system linking two cities , a capital city with a population of six million and a provincial city with a population of one million. The objective is to convert the highway into a tollway system.

6 A rural electricity system which provides power to 5 million persons in small rural towns and villages.

7 A metropolitan power supply system that has a monopoly in the provision of electricity to six million consumers

8 A government shipyard with dry dock facilities for the repair and maintenance of marine vessels and the construction of boats and small ships.

9 A government vehicle repair and maintenance workshop which provides services to government departments.

10 The road construction and maintenance section of the Public Works Department.

11 The government marine fleet which provides shipping services to government departments and interisland passenger and cargo services to remote island communities.

12 A government plant pool of trucks, bulldozers , earth moving equipment and road construction equipment which provides plant for government construction and maintenance projects.

Exercise 3

Privatization planning and implementation checklist

Objective

This exercise aims to stimulate discussion and debate on the processes involved in the implementation of a privatization project. Seminar members will be divided into groups and each group will be involved in the preparation of a planning framework and policy checklist for the privatization of public utilities and government business enterprises.

Task

The group should first review the chart below which illustrates some possible phases in a planned approach to privatization. Taking the chart as a starting point, the group should select one of the following hypothetical government organizations and develop a systematic set of procedures for privatizing the organization as well as introducing competition into the market. The group will work together to develop a checklist of policy issues that need to be addressed in the planning stages of a privatization project for the type of organization selected. For this exercise select one of the organizations below and prepare a checklist that could assist the organization approach the privatization in a logically manner and minimize unexpected implementation problems.

1 A large metropolitan commuter railway system with an extensive radial network focusing on the central business district. Assume the railway is located in a city of 3 million and is the main public transport service.

2 A metropolitan bus company with 3000 bus fleet which has a monopoly in the provision of bus services in a city with a population of 3 million. Assume it has a cost recovery rate of 80%.

3 A major port such as Port Klang in Malaysia.

4 National airports in a South East Asian country.

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12 A government plant pool of trucks, bulldozers , earth moving equipment and road construction equipment which provides plant for government construction and maintenance projects.

PRIVATIZATION IMPLEMENTATION CHART

The complexity of privatization is illustrated below by considering the large number of activities and tasks to be undertaken in implementing a program of privatization of public authorities. The following chart illustrates some of the main steps that should be undertaken in a well-organized approach to privatization. It is divided into four phases.

Phase 1 - Preparing for Privatization
Phase 2 - Detailed Planning on selected Government
State-Owned Enterprises and Activities
Targeted for Privatization
Phase 3 - Implementation
Phase 4 - Monitoring and Evaluation

The steps involved in these phases are outlined below:

PHASE 1 - PREPARING FOR PRIVATIZATION

(1) Develop and define Privatization Policy
. clarify objectives
. establish task force for preparation of guidelines, Strategies, programs and projects.

(2) Assess opportunities, threats, and scope for privatization
. assess political support and limitations
. identify areas of highest potential benefit
. identify major constraints and the political implications
. assess political costs/benefits of alternative privatization strategies
. identify legal barriers
. assess strength/weakness of coalitions

(3). Create Private Sector Interest
. announce privatization policy objective
. education of public
. consult with private sector associations, chamber of commerce to develop interest program

(4) Develop Program Guidelines and Strategies

PHASE 2 - DETAILED PLANNING ON SELECTED GOVERNMENT STATE-OWNED ENTERPRISES AND ACTIVITIES TARGETED FOR PRIVATIZATION

(5) Enterprise Diagnostic Analysis
. review of management and operating systems
. corporate financial analysis of capital structure and past financial performance
. physical condition and value of assets
. review human resource management system
. identify strengths/weaknesses/opportunities/threats
. review future market demand situation and competitive environment
. identify any comparative advantage of enterprise

(6) Audit of Legal Obligations
. ascertain legal rights of existing creditors, shareholders, and other third parties.
. review any outstanding government loan guarantees mortgages, liens, loan agreements and provisions prohibiting the sale of assets
. review commitments, contracts with employees, superannuation, pensions, allowances, commitments to contractors, suppliers, customers.

(7) Examine Need for Conversion of the Legal Form of the Enterprise
. review need for legal restructuring

(8) Review Need to Modify Regulatory System

. new needs for licensing systems
. Deregulation measures to increase level of competition

(9) Financial Restructuring
. undertake balance sheet restructuring
. write-down of assets
. alleviation of excessive debt liabilities
. recapitalisation

(10) Review of Situation of Enterprise Workforce
. private sector employment opportunities
. redeployment
. employee participation in ownership

(11) Determine Future Ownership Options
. partial versus total privatization
. review scope for commercialization prior to privatization to increase value of entity
. review scope for management contract, leasing employee buy-out scheme
. review options with respect to foreign ownership joint venture ownership

PHASE 3 - IMPLEMENTATION (Privatization Transfer)

(12) Undertake any necessary legal requirements for sale of enterprise, or shares, franchise agreement, management contracts, legislation enabling change of enterprise form, ownership, etc.

(13) Estimate market value of entity or services to be performed.

(14) Issue conditions and undertake solicitation for transfer to the private sector.

(15) Evaluate proposals against criteria and select successful bidder.

(16) Negotiate with bidder and execute legal transfer.

(17) Announce transfer arrangements and educate public on implications for consumers.

(18) Implement industrial relations employee transfer or redundancy, early retirement agreement.

PHASE 4 - MONITORING AND EVALUATING PRIVATIZATION PROGRAM

(19) Refine monitoring and evaluation methodology and develop performance appraisal systems.

(20) Establish data base to enable the comparison of the quality and of service provision before and after

privatization.

(21) Undertake surveys and collection of private and public sector indicator data.

(22) Compare performance data against targets, standards, milestones and identify shortfall and possible corrective measures.

(23) Evaluate effectiveness of privatization program in terms of efficiency and effectiveness as well as the degree to which consumer needs are met.

(24) Modify and adjust program and regulations in light of findings of monitoring and evaluation program.

(25) Continue with any further privatization projects.

Exercise 4

Identification of local government activities which could be transferred to the private sector, to NGO's or community groups

Objective of this Exercise

Each team is to review the main activities of its local authorities and identify activities/function/services which could possibly be transferred to non-government organizations, community groups or private firms and are likely to lead to an overall gain in the welfare of the community through increased efficiency, reduced costs etc.

The Tasks:

Step 1: Classification of Services

Select a representative local authority and draw up a list of the main categories of public services and goods it provides.

Step 2: Summarize the nature of each service and its financial features in terms of the following:

- relative size of capital and operating expenditures;
- size and type of manpower involved in providing the service to the consumers.

Step 3: Evaluation of the suitability/practicality of transferring each main local government activity to the private sector. Apply the checklist your team developed in Exercise No. 1 to each of the main local government services you have identified.

Step 4: Select a short list of possible local government activities which could be considered for privatization. Rank these in order of importance with those activities which are likely to result in the greatest cost saving or improvement in quality of service on top of the list.

Exercise Output

A priority list of local government functions/activities which could be transferred to the private sector and would result in a gain to the community (identify areas where potential consumer benefits are likely to be greatest).