# PRIVATISATION OF PUBLIC ENTERPRISES: POLICIES, METHODS AND PROCEDURES:

## The Case of Guyana

*by*

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CONTENTS

## SECTION I
## INTRODUCTION

Privatisation in its present context refers to the transfer (by various methods) of a wide range of public sector activities to the private sector through direct and purposeful policy prescriptions. This process is a distinct phenomenon to the privatisation that existed under colonial rule, where private investment was predominantly in the form of private foreign investment. Ownership was entirely in the hands of foreign investors. There was also no attempt to devise any policy for national development much less to link investment to a national plan.

The growing appeal of privatisation in Guyana in the late 1980s can be traced back to the economic and political developments of the economy from as early as the 1970s. Rapid expansion of the public sector during the early 1970s was viewed as the major contributor not only to economic growth and development but more so to social and political stability. The expanding role of the public sector in the Guyanese economy was hardly ever challenged until the late 1970s when the economy began to show a declining trend as a result of a difficult international climate and inappropriate economic policies for adjustment.

The expanded loss making public enterprises which drained Government's resources, were the source of much concern and criticism both at the national and international level. The continuous deterioration in the macroeconomic variables and change in the thinking of political leadership, gave impetus to more market oriented strategies to promote growth and address the problems of the enterprises. The adoption of a Fund Supported Recovery Programme in Guyana with its foundation in market oriented policy measures, based on property rights and private ownership, served as the motivating force behind the privatisation of public enterprises in this country.

This paper seeks to examine the role of privatisation of public enterprises within a wider set of economic policy measures designed to reverse the declining trends in the Guyanese economy. The paper also outlines the privatisation process of the enterprises currently in progress.

In an attempt to give a complete view of the issue at hand both the economic and political analysis will be presented since privatisation is by nature an economic as well as a political issue. "As a political issue it is extremely divisive because it represents a reform that necessitates a redistribution of income and a change in employment patterns." (S.Jones 1991).

The first section of the paper seeks to give a brief background to the driving force behind the Privatisation of Public enterprises by outlining the genesis of public sector dominance in Guyana and the performance of the sector; the second section locates Privatisation of public enterprises in context of Third World countries. The third section outlines the case for privatisation of public enterprises given the present needs of the economy. Additionally this section highlights some issues that can impede the privatisation of public enterprises in Guyana and thus implications for policy. The fourth section outlines the Privatisation process currently in progress and identifies the privatisation options utilised in the process.

The final section attempts to assess the economic impact of privatisation as reflected in monetary and fiscal trends. The principal conclusion of the paper is that privatisation of public enterprises in Guyana can succeed in promoting economic growth providing it improves efficiency in production and allocation of resources through competition. The limited experience with Privatisation of Public Enterprises (2 years) however, severely limits the attempt to pursue any econometric model due to inability to collect sufficient yearly (and monthly) series of macro economic data. Some quantitative analysis will however be done as evidence of improved performance.

## SECTION II

## PUBLIC SECTOR DOMINANCE/PRIVATE SECTOR SUPPRESSION IN GUYANA

It is a generally accepted principle among academics that both the extent of Public Sector involvement in an economy and the efficiency with which it operates, influence the strength of the private sector and the structure of the economy as a whole.

One outstanding feature of the Guyanese economy from the mid 1970s was the predominant role of the public sector. The public sector here consists of the Central and Local Government, the National Insurance Scheme, the Public Financial Institutions and a large number of Public Non-financial Enterprises. The private sector comprises the Private Financial and non-financial business enterprises and individuals. The public enterprises, on which attention is focused on this paper, are viewed as the business counterpart of the public sector since they were responsible for generating surpluses for development. As an investor, the government was hoping to generate fresh capital and productive capacity. In this regard extensive capital transfers, including Government guaranteed loans were issued to the public enterprises. Regardless of the increased injections many of the enterprises continue to be net losers. Table I gives detailed information of the major loss making enterprises and total Government transfers issued to these enterprises in 1990.

Apart from fulfilling their economic function, the public enterprises were also given the responsibility of pursuing social and political objectives which in many instances conflicted with their economic function. For instance, overenthusiasm to increase employment and mobilise large sections of the population, resulted in over employment or employment without justification by marginal product. Additionally Government subsidized many of the prices facing the public enterprises and created barriers to entry (e.g. by way of tariffs), in the major industries i.e. bauxite and sugar. Such protectionism promoted the inefficient performance by the enterprises and the maintenance of public sector dominance through the public enterprises.

*Table I*

Selected Public Enterprises: Government Transfers and Net Loss
January – December, 1990

G$Mns.

| | Govt. transfers (Gross) | Net loss |
|---|---|---|
| Guysuco | ... | -147.9 |
| Guymine | ... | -860.7 |
| GRMMA | 110.0 | -92.4 |
| Guy. Electricity Corp. | 821.0 | -797.8 |
| Sanata Textile Mill | ... | -8.5 |
| Dem. Woods Ltd. | 26.8 | -23.6 |
| Guy. Trans. Service Ltd. | 0.2 | -0.3 |
| Sijan | ... | -5.0 |

Source: Bank of Guyana

By 1984 the Government owned and controlled a total of thirty five (35) non financial enterprises in the agricultural, manufacturing, mining and quarrying and services sectors. The activities of the private sector were concentrated mainly in agriculture (rice production), construction and small scale trading. The influence of public sector dominance was however felt throughout the economy since the prices of many agricultural products were set by Government e.g. rice, sugar.

By the end of 1988 the Public Sector dominated not only production but also, export, employment and investment.The public enterprises in particular employed 60% of the overall work force and accounted for 70% of the Gross National Product and 85% of exports. A listing of the public enterprises is provided on page 36.

The public enterprises comprised two large industries, sugar and bauxite, which collectively contributed 35 percent of total public sector revenues in 1988. The majority of the remaining public enterprises are relatively small in terms of output of the sector and employment. Rice production is largely in private hands but the milling and marketing operations had been concentrated in the Guyana Rice Marketing and Milling Authority (GRMMA) which was a state owned enterprise. This milling aspect of the rice industry contributed about 4 percent to the public sector's revenues for that year. In the previous year, the sugar, bauxite and rice industries had collectively contributed 33% of Gross Domestic Product, and 85% of exports and the bulk of employment and investment (State Planning Secretariat 1990). Of the total investment recorded at the end of 1988 (G$890 million), the public sector had accounted for G$761 million or 85%. This dominant share of public investment in total investment had been manifested throughout the 1970s and 1980s. Table II.

*Table II*

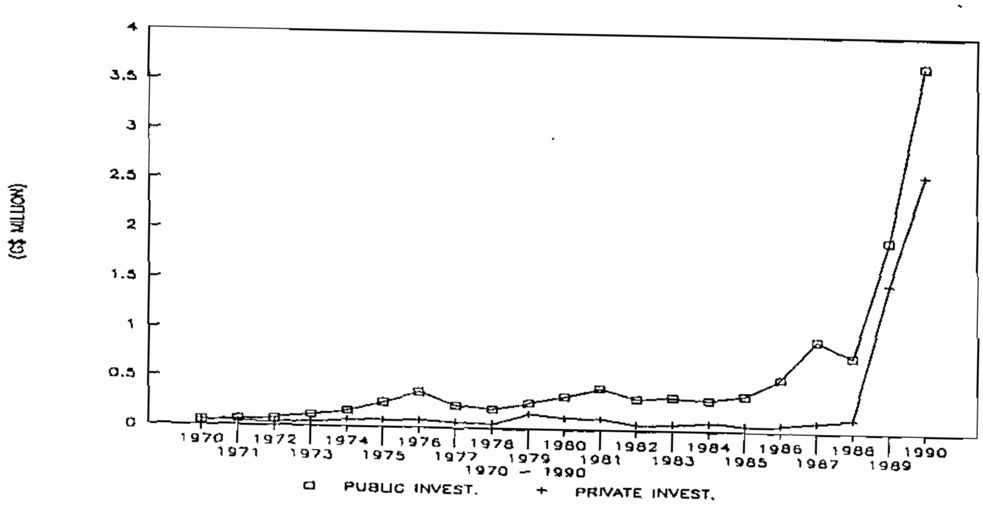
# TOTAL PUBLIC AND PRIVATE SECTOR INVESTMENT

G$ MILLION

| Period | Total Investment | Public Investment | Private Investment | Public % Share | Private % Share |
|---|---|---|---|---|---|
| 1970 | 112.6 | 54.8 | 57.8 | 48.7 | 51.3 |
| 1971 | 97.8 | 61.0 | 36.8 | 62.4 | -37.6 |
| 1972 | 108.3 | 73.4 | 34.9 | 67.8 | 32.2 |
| 1973 | 158.0 | 114.0 | 44.0 | 72.2 | 27.8 |
| 1974 | 220.0 | 155.0 | 65.0 | 70.5 | 29.5 |
| 1975 | 320.0 | 250.0 | 70.0 | 78.1 | 21.9 |
| 1976 | 425.0 | 355.0 | 70.0 | 83.5 | 16.5 |
| 1977 | 290.0 | 230.0 | 60.0 | 79.3 | 20.7 |
| 1978 | 242.0 | 195.0 | 47.0 | 80.6 | 19.4 |
| 1979 | 411.0 | 260.0 | 151.0 | 63.3 | 36.7 |
| 1980 | 449.0 | 334.0 | 115.0 | 74.4 | 25.6 |
| 1981 | 530.0 | 420.0 | 110.0 | 79.2 | 20.8 |
| 1982 | 380.0 | 320.0 | 60.0 | 84.2 | 15.8 |
| 1983 | 395.0 | 335.0 | 60.0 | 84.8 | 15.2 |
| 1984 | 390.0 | 310.0 | 80.0 | 79.5 | 20.5 |
| 1985 | 410.0 | 355.0 | 55.0 | 86.6 | 13.4 |
| 1986 | 586.0 | 526.0 | 60.0 | 89.8 | 10.2 |
| 1987 | 1025.0 | 925.0 | 100.0 | 90.2 | 9.8 |
| 1988 | 890.0 | 761.0 | 129.0 | 85.5 | 14.5 |
| 1989 | 3446.0 | 1940.0 | 1506.0 | 56.3 | 43.7 |
| 1990 | 6300.0 | 3700.0 | 2600.0 | 58.7 | 41.3 |

# PUBLIC AND PRIVATE SECTOR INVESTMENT

(G$ MILLION)

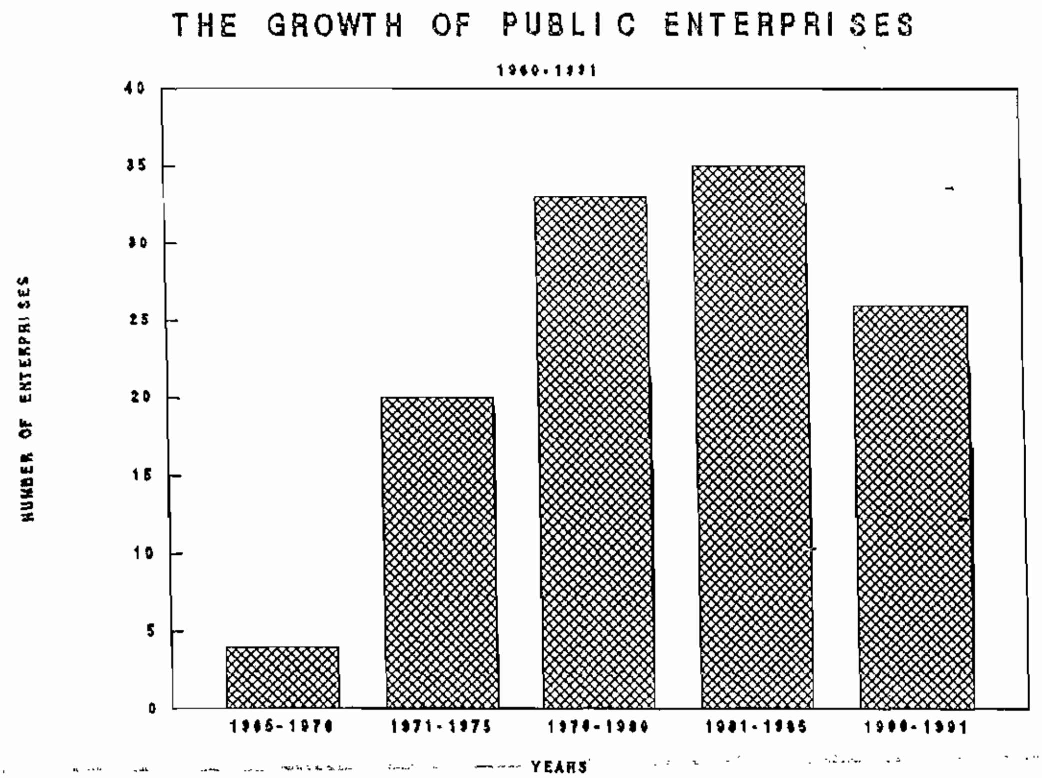


The available literature posited two basic reasons for the genesis of the extensive public sector in Guyana. First, in the context of development strategy Guyana attempted to pursue a socialist ideology after declaring itself a Republic in 1970. In support of such an ideology policies were directed towards increasing Government's ownership and control of the resources of the economy, the allocation of goods and services through the state and the supposedly equitable distribution of income generated.

A number of measures were adopted to expand government's ownership and control of the economy. Firstly, Government nationalised a number of industries formerly owned by the private sector. These included the two leading exporting industries of the economy, (bauxite in 1971 and sugar in 1976). Other industries which were later nationalised are; the Guyana National Engineering Corporation formerly Sprostons Engineering Company, the West Indian Oil Company, Berger Paints and Cable and Wireless. Following nationalisation a number of new state owned enterprises were also established to produce and trade in goods and services normally provided by the private sector. These included Guyana Stockfeeds, National Oil Company, Nichimo, Sijan Plaza and Palace, Sapil, and Guyana Pharmaceutical Corporation. The following graph shows the growth of public enterprises over the 1965-1991 period.

The organisational and administrative structures set up to ensure the effective functioning of the enterprises served to further expand the dominance of the public sector.

The administrative entities included the Public Corporations Secretariat, The State Planning Secretariat and the Guyana State Corporation. These institutions were together responsible for monitoring the operations of the enterprises and in the case of the State Planning Secretariat, make capital allotment. The overlapping of some of the functions of these administrative bodies led to redundancy and even conflict at times in reports of data collection.




The allocation of some commodities and financial resources under socialism, favoured the public sector over the private sector. The Ministry of Trade, Guyana Stores Ltd and the Knowledge Sharing Institutes were responsible for the distribution of some commodities e.g. cement, fertilizers, pesticides, farming tools etc. quite often gave priority to public sector entities. The commodities were also sold at lower than market prices to the public enterprises. The Bank of Guyana also, through its allocation of foreign currency to purchase imported items, granted 80% of the available foreign currency to the public sector since this sector controlled the major share of the economy.

The allocation of financial resources through the banking system also favoured the public sector since this sector was more active in economic activity and tended to need more financing. This fact is evident in the distribution of credit through the banking system. Table III. The average rate of growth of credit to the public sector between 1970 and 1980 was 39% per annum while for the private sector, it was 9.4% per annum. In 1974 alone credit to the public enterprises had increased by 162%. Between 1981 and 1985 the respective average annual percentage growth in credit to the public and private sectors were 37 and 22. More specifically the investing categories displayed a similar trend. Of the total credit extended to the business enterprises public enterprises accounted for 59% on the average between 1975 and 1985 while private sector accounted for an average of 41%. In 1977 and 1982 commercial banks were instructed to curtail credit to the private sector, this accounts for the negative change in the credit to the private sector for the corresponding years.

Not only did the availability of credit favour the public sector over the private sector but also did the price of credit. The public sector entities were charged a prime lending rate by the commercial banks while the private sector entities were charged an average lending rate which was always slightly above the prime lending rate (Table IV).

Apart from Banking System Credit being in favour of the public sector, total investment by the public sector was also higher since 1971. (See Table II).

The dominance of economic activity by the public sector over the private sector and the resulting marginalisation of the private sector is attributed in part to the 'crowding out' effect of the public sector and in part to the inability or unwillingness of the private sector (local and foreign) to expand investment in Guyana, during the 1970 - 1985 era.

Apart from ideological factors pragmatic considerations also contributed to the expansion of the public sector in Guyana and the suppression of the private sector. Firstly the belief, both nationally and internationally was that Governments were prudent in the use of scarce resources and if given the responsibility of directing production they were likely to achieve fast growth. This idea was premised on the notion that markets were imperfect and can give incorrect signals.

Table III

*TOTAL DOMESTIC BANK CREDIT TO PUBLIC AND PRIVATE SECTOR*

*Annual Stocks and Percent Changes*

(1970 - 1991)

G$Mn.

| Period | Credit to Public Sector | % Change | Credit to Private Sector | % Change | Total Business Enterprise | Credit to Pub. Bus. Enterprise | % Share | Credit to Private usiness Ent | % Share |
|---|---|---|---|---|---|---|---|---|---|
| 1970 | 13.8 | -- | 80.6 | --- | 64.1 | 0.0 | 0.0 | 64.1 | 100.0 |
| 1971 | 14.1 | 2.17% | 83.8 | 3.97% | 67.4 | 0.0 | 0.0 | 67.4 | 100.0 |
| 1972 | 13.3 | -5.67% | 83.4 | -0.48% | 65.9 | 0.0 | 0.0 | 65.9 | 100.0 |
| 1973 | 22.3 | 67.67% | 100.2 | 20.14% | 95.2 | 20.3 | 21.3 | 74.9 | 78.7 |
| 1974 | 58.5 | 162.33% | 101.8 | 1.60% | 128.2 | 50.8 | 39.6 | 77.4 | 60.4 |
| 1975 | 59.6 | 1.88% | 107.4 | 5.50% | 142.2 | 57.5 | 40.4 | 84.7 | 59.6 |
| 1976 | 81.5 | 36.74% | 110.0 | 2.42% | 158.4 | 76.5 | 48.3 | 81.9 | 51.7 |
| 1977 | 123.0 | 50.92% | 107.3 | -2.45% | 194.0 | 118.7 | 61.2 | 75.3 | 38.8 |
| 1978 | 127.3 | 3.50% | 113.2 | 5.50% | 194.8 | 121.9 | 62.6 | 72.9 | 37.4 |
| 1979 | 177.1 | 39.12% | 151.9 | 34.19% | 273.1 | 172.6 | 63.2 | 100.5 | 36.8 |
| 1980 | 235.5 | 32.98% | 187.5 | 23.44% | 353.8 | 229.3 | 64.8 | 124.5 | 35.2 |
| 1981 | 387.6 | 64.59% | 245.7 | 31.04% | 584.6 | 375.7 | 64.3 | 208.9 | 35.7 |
| 1982 | 314.2 | -18.94% | 309.3 | 25.89% | 564.9 | 306.3 | 54.2 | 258.6 | 45.8 |
| 1983 | 620.2 | 97.39% | 376.3 | 21.66% | 943.4 | 613.5 | 65.0 | 329.9 | 35.0 |
| 1984 | 560.4 | -9.64% | 442.5 | 17.59% | 932.6 | 551.4 | 59.1 | 381.2 | 40.9 |
| 1985 | 850.6 | 51.78% | 507.5 | 14.69% | 1339.6 | 837.7 | 62.5 | 501.9 | 37.5 |
| 1986 | 346.2 | -59.30% | 662.9 | 30.62% | 1026.0 | 322.7 | 31.5 | 703.3 | 68.5 |
| 1987 | 415.4 | 19.99% | 956.8 | 44.34% | 1659.2 | 348.3 | 21.0 | 1310.9 | 79.0 |
| 1988 | 584.3 | 40.66% | 1559.9 | 63.03% | 2736.6 | 551.9 | 20.2 | 2184.7 | 79.8 |
| 1989 | 687.6 | 17.68% | 2518.7 | 61.47% | 4019.7 | 651.7 | 16.2 | 3368.0 | 83.8 |
| 1990 | 791.4 | 15.10% | 4108.7 | 63.13% | 4915.8 | 755.0 | 15.4 | 4160.8 | 84.6 |

*Percentage Share of Credit to Business Enterprise by Public and Private Business Sector*

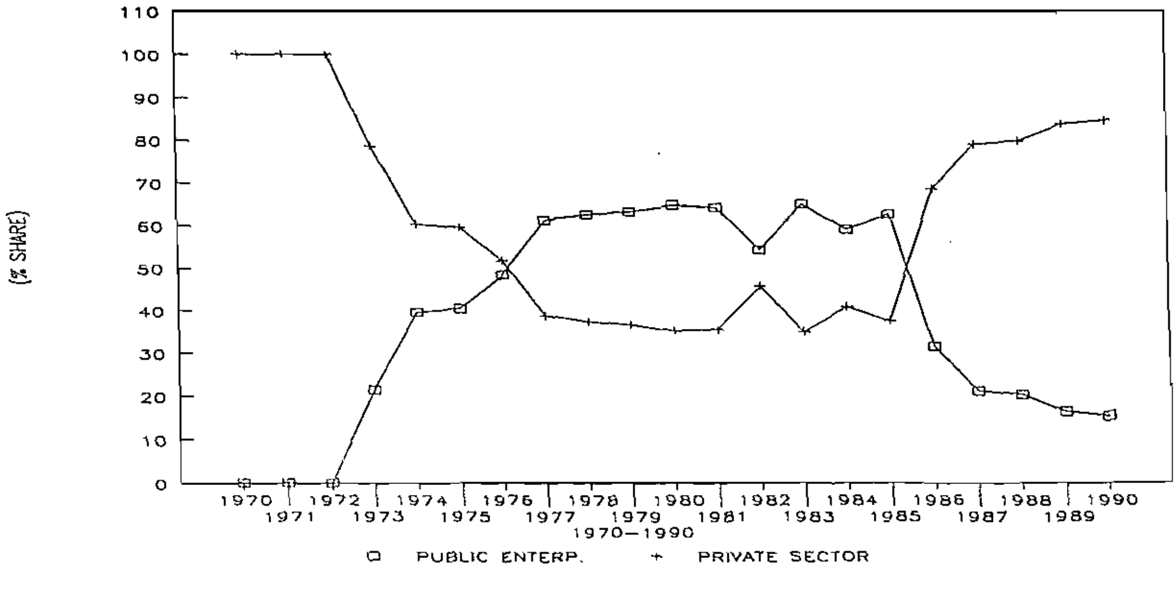


*Table IV*

COMMERCIAL BANKS
LENDING RATES
(Percent Per Annum)

| | Prime Lending Rate | Average Lending Rate |
|---|---|---|
| 1970 | 7.50 | 8.80 |
| 1975 | 7.50 | 8.90 |
| 1980 | 13.50 | 13.88 |
| 1981 | 13.50 | 13.94 |
| 1982 | 15.00 | 16.21 |
| 1983 | 15.00 | 16.21 |
| 1984 | 15.00 | 16.21 |
| 1985 | 15.00 | 16.21 |
| 1986 | 15.00 | 16.21 |
| 1987 | 15.00 | 16.21 |
| 1988 | 15.00 | 16.52 |
| 1989 | 36.00 | 37.60 |
| 1990 | 31.00 | 32.44 |
| 1991 Sep | 32.50 | 34.00e |

Source: Bank of Guyana

Secondly it was the desire of the Government of Guyana to control its mineral resources e.g. bauxite and gold as well as the "commanding heights" of the economy e.g. banking, international trade and the major industries. A Brown (1981) in reference to Guyana pointed out, "Thus while conceding that the expansion of the state's role was a consequence of the perceived needs of economic development it can also be argued that the associated change in the character of the state's function reflected as much the need to consolidate state power" Implicit in this statement is that economic power was expected to influence political power.

Thirdly, it was felt that the foreign multinationals drained the economy of its resources.

Finally the dominance of the public sector in the Guyanese economy resulted partly from the inheritance of a few public utility enterprises at independence. These enterprises included, the Electricity Corporation and the Telecommunication Corporation

*Table Va*

*PRODUCTION AND EXPORT OF MAJOR PUBLIC ENTERPRISES*
*(000' TONNES)*
*1970, 75, 80-90*

| PERIOD | SUGAR | | RICE | | BAUXITE | |
|---|---|---|---|---|---|---|
| | Production | Export | Production | Export | Production | Export |
| 1970 | 311.0 | 299.0 | 142.0 | 68.4 | 3301.0 | 3381.3 |
| 1975 | 300.0 | 289.6 | 175.0 | 83.3 | 2422.0 | 2497.1 |
| 1980 | 270.0 | 252.0 | 169.0 | 87.5 | 1874.0 | 1869.4 |
| 1981 | 301.0 | 268.8 | 166.0 | 110.0 | 1699.0 | 2128.5 |
| 1982 | 292.0 | 254.0 | 182.0 | 34.0 | 1249.0 | 1140.0 |
| 1983 | 256.0 | 218.0 | 148.0 | 41.7 | 1059.0 | 1187.0 |
| 1984 | 246.0 | 206.0 | 180.0 | 47.9 | 1276.0 | 1310.0 |
| 1985 | 247.0 | 214.0 | 156.0 | 29.3 | 1537.0 | 1640.0 |
| 1986 | 249.0 | 215.0 | 183.0 | 38.6 | 1420.0 | 1402.0 |
| 1987 | 225.0 | 186.0 | 147.0 | 69.0 | 1309.0 | 1370.0 |
| 1988 | 169.0 | 136.0 | 130.0 | 56.0 | 1305.0 | 1274.0 |
| 1989 | 167.0 | 170.0 | 112.0 | 44.4 | 1276.0 | 1317.0 |
| 1990 | 132.0 | 129.0 | 94.0 | 50.9 | 1395.0 | 1327.0 |
| 1991 June | 45.0 | 47.0 | 70.0 | 25.0 | 638.0 | 612.0 |

Source: Government of Guyana and Bank of Guyana; Statistical Bulletin (December, 1990)

*PRODUCTION OF MAJOR PUBLIC ENTERPRISES*

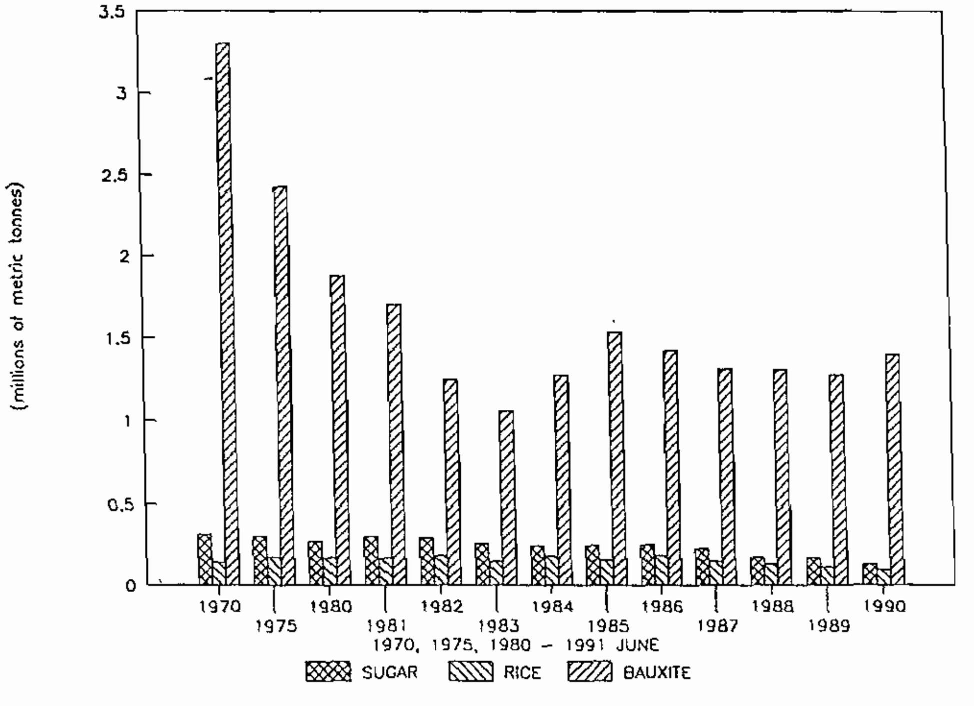


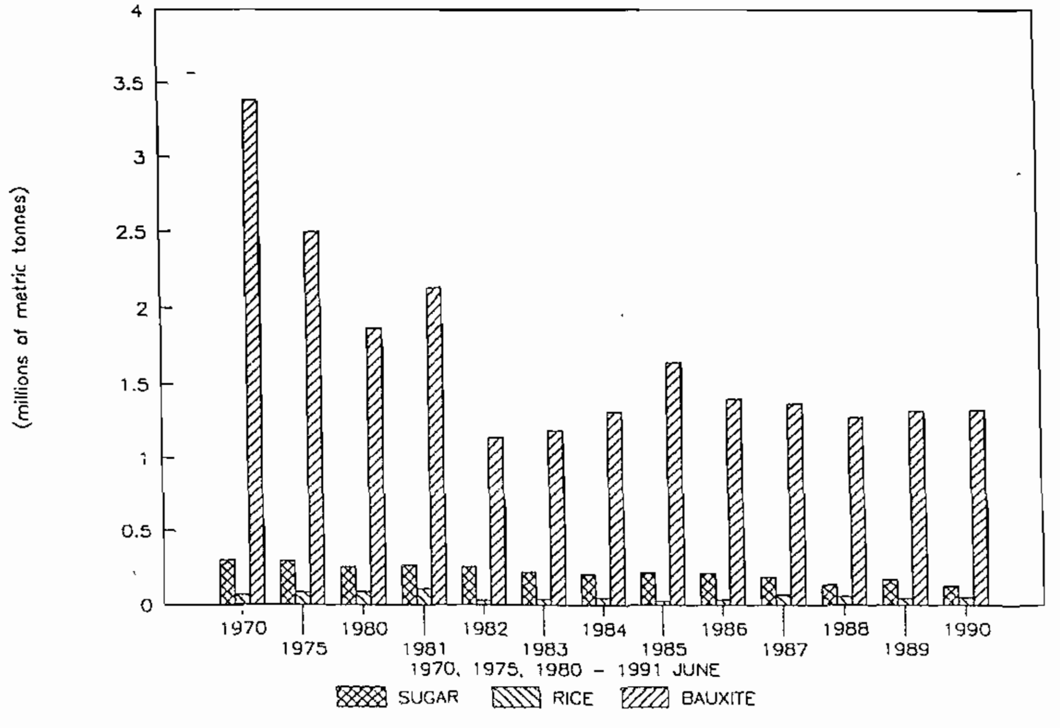
*Table Vb*

*PRODUCTION AND EXPORT OF MAJOR PUBLIC ENTERPRISES*
*(000' TONNES)*
*1970, 75, 80-90*

| PERIOD | SUGAR | | RICE | | BAUXITE | |
|---|---|---|---|---|---|---|
| | Production | Export | Production | Export | Production | Export |
| 1970 | 311.0 | 299.0 | 142.0 | 68.4 | 3301.0 | 3381.3 |
| 1975 | 300.0 | 289.6 | 175.0 | 83.3 | 2422.0 | 2497.1 |
| 1980 | 270.0 | 252.0 | 169.0 | 87.5 | 1874.0 | 1869.4 |
| 1981 | 301.0 | 268.8 | 166.0 | 110.0 | 1699.0 | 2128.5 |
| 1982 | 292.0 | 254.0 | 182.0 | 34.0 | 1249.0 | 1140.0 |
| 1983 | 256.0 | 218.0 | 148.0 | 41.7 | 1059.0 | 1187.0 |
| 1984 | 246.0 | 206.0 | 180.0 | 47.9 | 1276.0 | 1310.0 |
| 1985 | 247.0 | 214.0 | 156.0 | 29.3 | 1537.0 | 1640.0 |
| 1986 | 249.0 | 215.0 | 183.0 | 38.6 | 1420.0 | 1402.0 |
| 1987 | 225.0 | 186.0 | 147.0 | 69.0 | 1309.0 | 1370.0 |
| 1988 | 169.0 | 136.0 | 130.0 | 56.0 | 1305.0 | 1274.0 |
| 1989 | 167.0 | 170.0 | 112.0 | 44.4 | 1276.0 | 1317.0 |
| 1990 | 132.0 | 129.0 | 94.0 | 50.9 | 1395.0 | 1327.0 |
| 1991 June | 45.0 | 47.0 | 70.0 | 25.0 | 638.0 | 612.0 |

**Source: Government of Guyana and Bank of Guyana; Statistical Bulletin (December, 1990)**

*EXPORT OF MAJOR PUBLIC ENTERPRISES*



In view of the fact that these enterprises account for a major share of the economy their poor performance had lasting adverse consequences on the Government's budget and the economy as a whole. First, huge fiscal and balance of payment deficits were created. In 1980 overall fiscal and balance of payment deficits stood at G$462.9 million and G$221 million respectively. By the end of 1990 these amounts were G$3,584.0 million and G$7527 million respectively. The inability of the Government to service its external debt adequately as a result of shortfall in export earnings led to an enormous build up of the external debt of the economy. Total external debt of Guyana increased from US$639.2 million in 1980 to US$1,318 million at the end of 1990. The poor performance of export and the resulting foreign exchange shortage was due primarily to the increasing external prices for imported inputs e.g. fertilizers, fuels and spares. Such developments in turn had significant impact on the demand and supply of the inputs.

In an attempt to arrest the deteriorating performance of the public enterprises a number of measures were taken by the Government in 1984. These measures were intended to increase output and rationalise the operations of the public enterprises. Through relaxing some price controls, increasing public sector prices to reflect devaluations, the rehabilitation of the sugar and bauxite industries, restructuring the public enterprises as well as effects to curb Government spending in the economy. It should be noted however that no attempt was made to reduce the size of the public sector through Privatisation at that time. Thus although these measures were in the right direction they were not enough to deal with the severity of the problem facing the public enterprises and the Guyanese economy as a whole. What was lacking was some form of control mechanism to quickly identify and remedy the declining performance of the enterprises after examining a wide range of policy options.

Operational and staff deficiencies e.g. equipment obsolescence, foreign exchange shortage, work stoppages and labour disputes, migration of skilled and unskilled workers, declining real incomes and deteriorating infrastructure continue to plague the enterprises resulting in inefficient operations and higher production costs.

Governments failure to adopt adequate domestic policies to cushion the effects of the harsh international developments on the already inefficient public enterprises led to an intensification of the macro economic disequilibria. Real GDP at factor cost declined continually except for 1984-1987 when marginal increases were recorded. Inflation as reflected by changes in the consumer price index also increased continuously during 1980-1990 period. See Table VI.

Though public investment, as exemplified by public enterprises in Guyana has proven to be inefficient, empirical evidence has not shown that in the majority of cases these investments were by themselves the cause of inefficiency. Price distortions and other economic policies at the time had influenced the performance of the enterprises. It is the view of the writer therefore that it is the ownership structure and lack of effective control mechanisms of these enterprises which are in themselves the sources of inefficiency in the enterprises. Being public enterprises they were not exposed to market discipline and were allowed to carry out inefficient practices. Attention will now be focused on the possibility of changing such structure through privatisation.

*Table VI*

## Guyana: Selected Macro Economic Indicators
### 1980 – 1990

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Overall Fiscal Deficit (G$Mn.) | (462.9) | (569.0) | (955.6) | (573.6) | (756.1) | (1,100.9) | (1,306.0) | (1,424.6) | (1,308.4) | (680.2) | (3,584.0) |
| Overall B.O.P. Deficit (G$Mn.) | (221) | (144) | (336) | (526) | (875) | (392) | (389) | (1,586) | (945) | (4,981) | (7,527) |
| Terms of trade (1977=100) | 92.1 | 86.4 | 81.7 | 72.4 | 76.5 | 72.3 | 82.2 | 85.1 | 80.0 | 78.8 | ... |
| Total External Public Debt (US$Mn.) | 639 | 746 | 679 | 701 | 688 | 747 | 826 | 914 | 895 | 1085 | 1318 |
| Debt Service Ratio | ... | 21.4 | 17.9 | 21.5 | 14.0 | 9.3 | 12.5 | 9.5 | 8.1 | 11.4 | ... |
| Real GDP (% change) | 1.6 | -0.3 | -10.1 | -9.3 | 2.1 | 1.0 | 0.4 | 0.6 | -3.0 | -3.3 | -2.9 |
| Consumer Price Index (% change) | 14.1 | 24.7 | 20.3 | 13.3 | 28.5 | 7.7 | 7.6 | 28.7 | 39.9 | 80 e | 100 e |
| Year end Official exchange rate (G$ per US$) | 2.55 | 3.00 | 3.00 | 3.00 | 4.15 | 4.15 | 4.40 | 10.00 | 10.00 | 33.00 | 45.00 |

Source: a) The Economist Intelligent Unit; Country Report Nov 2, 1991

b) Bank of Guyana

## SECTION III
## PRIVATISATION IN PERSPECTIVE

Privatisation in its modern usage and in the context of Guyana refers to the transfer of some public sector activities (either by the way of sale, joint venture, contracting out, leasing or other methods) to the private sector with the expectation that the latter performs creditably, (i.e. in keeping with the needs and objectives of the economy). The immediate objective of Privatisation of public enterprises in Guyana to lower the fiscal deficit. On a longer term basis the objectives of Privatisation are:-

(1) Improving the performance of the enterprises so that there is increased efficiency and greater responsiveness to consumers' demand.

(2) Reducing the size of the public sector and the burden on public administration.

(3) Promoting self reliance of enterprises and reducing dependence on Government's support.

(4) Strengthening the market forces and competition within the economy.

(5) Developing a domestic capital market.

It is the view of the writer however that privatisation should not be seen as a panacea for the economic ills of Guyana instead it should be viewed as one solution for some of these ills, which can bring great benefits to the economy as a whole, if applied under the right circumstances.

The decision to pursue a privatisation programme, in particular divestment is by its very nature a political one since it has significant implications for class relationships in any society as well as for the political ideology of that country. Political ideas however should not be allowed to dominate economic thinking when planning for development. The economic realities of Guyana in the 1980s left Guyana with little alternative but to adopt a privatisation programme.

Internally declining real income, poor standards of living, dilapidated physical infrastructure, exodus of skilled and managerial personnel, unstable economic climate, lack of confidence, industrial unrest and an uncertain future during the late 1980s threatened the economic viability of the country as a whole. The measures, introduced in the mid 1980s did little to improve the economic situation. It was the international forces; lack of credit worthiness, persistent unfavourable terms of trade and growing indebtedness and alarming disequilibrium which gave impetus to the decision to adopt a massive structural adjustment programme to reverse the unfavourable trends.

The successful implementation and execution of any adjustment programme in Guyana however is dependent on the country's ability to mobilise large amounts of external resources to finance increased demand for imports, given the state of the economy. Financing from local sources was practically unthinkable given (1) the production crises (2) limited resource base and (3) small, open nature of the economy. Guyana had no alternative but to seek assistance from international institutions for this purpose.

In 1988 Guyanese authorities accepted the decision to follow an Economic Recovery Programme (ERP) monitored by the International Monetary Fund. The three (3) year Structural Adjustment Programme consisted mainly of policy measures to reverse the country's economic decline and create the basis for sustained growth and a viable external position (Policy Framework Paper 1989). First the ERP sought to introduce measures to correct the disequilibria in the economy through the initial introduction of austerity measures. These measures were meant to force Government and the economy at large to cut expenditure and increase revenue thereby reducing fiscal and balance of payment deficits and external arrears to manageable proportions.

The acceptance and implementation of the ERP resulted in Guyana becoming eligible to draw financial resources from the IMF to the value of 131 million SDRs under: (1) an enhanced structural adjustment facility of 81.5 million SDRs and (2) a stand-by agreement (49.5 million SDRs). Additionally an innovative Support Group of seven countries sympathetic to alleviating Guyana's situation pledged approximately US$1.9 billion over the three (3) year period. This facility allowed for rescheduling approximately US$1 billion of arrears, of Guyana's external debt. The supply of balance of payment support funds, and the financing of certain categories of commodity importation e.g. oil (Thomas 1990). Guyana also benefitted from debt write offs e.g. recently, Britain declared its intention to write off some amount of Guyana's external debt while the United States wrote off US$112.8 million i.e. the PL 480 and USAID debt and the Netherlands wrote off one third of Guyana's debt to that country.

The foundation of the programme however rests on the successful operation of a market-oriented strategy where private initiative is given precedence. Prices and markets thus became the mechanism for allocating resources and guiding production.

Privatisation may also be seen from a historical perspective in which case the changing views of the nature of development by Third World leaders, had significant impact on the type of strategies adopted to promote that view.

Between 1950 and the 1960s Third World leaders had been influenced by the dependency school of thought which focused attention on inward looking strategies for development. Such strategies included Import Substitution and/or Replacement, Industrialisation and later export promotion. The initial aim was to promote self sufficiency and self reliance within Third World countries. Massive planning also took place in some Third World countries which had adopted socialist policies.

Secondly, in the 1970s, development was seen in terms of 'trickling down' of fruits of economic growth. As such policies were aimed at alleviating poverty and supplying basic needs to the socially deprived.

This distributive concern was boosted to the extent that growth and industrialisation were de-emphasized. Investment in human capital took precedence over investment in physical capital since the latter was seen as crucial to quick equitable growth.

The present emphasis on growth differs from the first two (1950s - 70s) in that it sees individual initiative in enterprises as the engine of growth. The market is seen as a more efficient means of allocating resources than planning. Third World leaders are now more concerned about the adverse effects of inflation resulting from welfare policies and the liberation of economic policies which seem to offer a better solution.

The present Privatisation Policy in Guyana must be seen as one which confirms to the changing view of development within the Third World.

It must be noted also that Privatisation is not unique to Guyana and other Third World countries but the world events e.g. the abandonment of socialism and the inefficiencies of the public sector in both developed and developing countries, seem to be dictating a serious reorientation of economic thinking.

# SECTION IV

# THE ECONOMIC CASE FOR PRIVATISATION OF PUBLIC ENTERPRISES IN GUYANA

The economic case for Privatisation of the Public enterprises in Guyana must be seen first in terms of the needs of the country and secondly in terms of the ability of Privatisation to supply those needs. Additionally the fact that the public enterprises failed to achieve set economic goals after monopolising the economic resources for two decades, justifies the need for a new strategy for growth.

## The Needs of the Guyanese Economy

Guyana's needs may be cited as:-

(1) Increased productive capacity both for exports and for domestic consumption.

(2) Improvement in Government's financial position so that debt servicing needs decrease, external debt declines relatively and creditworthiness is restored.

(3) Increased efficiency in production and allocation of resources through competition both nationally and internationally so that in addition to declining cost, quantity and quality of goods also improve.

(4) Increased employment and real incomes so that standard of living of the masses is improved.

(5) A greater involvement of persons in the process of development, not only as beneficiaries but as participants with specific responsibilities.

## The Scope of Privatisation

The motivating force behind any investor is profits and as such he will focus his attention on any activity which reduces cost and increases returns so that his profitability is maximised. The investor will also ensure that economic efficiency is maintained in the acquisition and use of raw materials as well as in the production and distribution of the final output.

Public enterprises in Guyana are plagued with inefficiencies due to diverse reasons.

On this point Paul Cook and Colin Kirkpatrick (1988) states:-

"Perhaps the most common cause of inefficiency in public enterprise sector is political interference. In many LDCs the public enterprise is an important instrument for political patronage. Senior staff are frequently political appointments with little industrial management experience; employment, purchasing and pricing decisions are subject to political interference; the boundaries of government and enterprise control are ill defined and continually shifting".

Though it remains difficult to substantiate the extent to which political appointments are made in the case of Guyana, it is a fact that the Guyana Government had placed lots of price controls on the output of some major public enterprises e.g. rice and sugar. These price distortions meant therefore that these public enterprises were unable to show profits.

Transferring the public enterprises from the public sector to private sector will seemingly have the tremendous scope for improving the performance of the enterprises. Economic principles under the private sector may now dictate production and allocation of resources as well as employment patterns. Prices can be expected to reflect real cost and thereby, improve the basis of managerial decision making.

Secondly Privatisation has the potential for increasing worker productivity and ultimately, output of the enterprise. Private managers usually have a wide range of incentive mechanisms at their disposal, e.g.commissions and bonuses. Such incentives are usually inadequate under public ownership and hence ineffective.

The third case for Privatisation is that it provides more effective Financial Management. Managers in public enterprises usually have no incentive to increase the profitability of the enterprise since their reward does not depend on profitability. In some cases they would rather prefer to enjoy a 'quiet life' especially if the firm being operated is a public monopoly. Such managers usually feel strongly that enterprises cannot go bankrupt or face the risk of a take over since they are backed by government.

Under privatisation managers see themselves as owners and will therefore have great interest in cost minimisation and profit maximisation since reward is directly related to performance. In cases where management and ownership differ the managers are usually responsible and accountable. Private owners of the enterprises can also monitor, assess and control the performance of workers effectively. Additionally under privatisation the enterprises relinquish access to direct financial support from Government and must be subject to the discipline imposed by the financing body.

Fourthly privatisation with its foundation in competitive market structure, forces the enterprise to become more efficient - in production and in serving the interest of consumers. In a competitive environment the private investor will be forced to improve the quality of the good he is producing in order to control a greater share of the market since consumer will demand more of his product, providing the price is set in relation to the price in the industry. Further given that the Guyana market is small the private investor would be forced to gain access to international markets. International competition would further forces him to expand production not only to reap economies of scale but also to further improve the quality of the good he produces to meet international standards. On this point E.A. Brett (1988) states:-

> "..... it is only through competitive markets that neutral, non-political but binding procedures can be created which exclude the lazy and inefficient, and enforce the best practices and the adoption of new technologies".

Producing for an export market can have a wide range of spinoff effects for the Guyanese economy. These include increase export and foreign exchange earnings, increase Government revenue through taxation, (i.e. as a result of the expanded level of operation of the private enterprise plus the increased number of private enterprises and not as a result of an increase in the magnitude of taxation), increase debt servicing and restoring international credit worthiness further, increase Government savings for financing investment in say physical infrastructure. The argument however becomes weak when attention is focussed on private monopolies e.g. the Guyana Telecommunication. In such cases Government will have to intervene by insisting that service to the public is maintained at a high level.

Further Privatisation through divestment i.e. the sale of public enterprise to the private sector can improve the fiscal position of the Government initially since the proceeds from the sale of these enterprises may be used to offset large deficits. Further by lessening its grip on some of these enterprises especially the leading enterprises (sugar, rice, bauxite) Government will need to borrow less to finance the operations of the enterprises. Additionally Government had been finding it exceedingly difficult to find capital, technology and expertise to modernize these industries and to gain access to international capital markets which have become exceedingly concentrated.

Foreign Private Investment in these industries with the injection of foreign capital, modern technology and skilled managers would serve to improve the performance of these enterprises. Foreign investors would also be in a better position to gain access to the international markets and bargain for better prices given the complementary nature of their investments.

Mohsin S. Khan and Carmen M. Reinhart attempted to give some evidence of the impact of Private Investment on growth by formulating a simple growth model which separated the effects on growth of private and public sector investments.

They specify the model as:

$$\frac{\Delta y}{\Delta y-1} = \beta_0 + \beta_1 \frac{I^p}{y-1} + \beta_2 \frac{I^3}{y-1} + \beta_3 \frac{\Delta L}{L-1} + \beta_4 \frac{\Delta X}{X-1}$$

and

$$\frac{\Delta y}{\Delta y-1} = \beta_0 + \beta_1 \frac{I^p}{y-1} + \beta_2 \frac{I^3}{y-1} + \beta_3 \frac{\Delta L}{L-1} + \beta_4 \frac{\Delta M}{M-1}$$

where $I^g$ is public sector investment

$I^P$ is private sector investment

$B_1$ and $B_2$ are the respective marginal productivities private and public investment

L - labour

X - exports

M - imports

Using a cross section sample of 24 developing countries, the proponents of the model found that $B_1$ was indeed greater than $B_2$ in other words that the direct effects of private investment on growth outweigh the direct effects of public sector investments. Among the weaknesses of this model however is that it neglects the effects public investment had on private investment. Blejer ed Khan (1984) found that when public investment was disaggregated by type, an increase in the infrastructure component of Government, capital expenditure however raised the possibility of private Investment while increases in other kinds of investment had a crowding out effect.

In the absence of empirical evidence however it may be argued that as privatisation gains momentum in Guyana, employment and real incomes and the general standard of living of people can be expected to improve in the long run. Displaced workers in the initial stages of the privatisation process will find themselves absorbed by the expanding private enterprises and in anticipated new private enterprises.

Regardless of the good virtues and scope of Privatisation in reversing the economic decline of the Guyanese economy its success depends on the commitment and political will of policy makers. They must ensure that appropriate preconditions for privatisation are in place before embarking on the privatisation programme. These must include (1) The Liberalisation of Administrative controls (2) An appropriate legal framework (3) Appropriate monetary and fiscal policy measures and (4) a stable political and economic climate. The absence or weak nature of any of these preconditions may retard the privatisation process since it may breed grounds for uncertainty by prospective investors and thus weaken the ability of the Guyanese economy, to pull itself out of the present economic difficulties. The policy implication therefore, is that the execution of plans for privatisation must be done as promptly as possible.

# SECTION V
# THE PRIVATISATION PROCESS

## 1. Preconditions for Privatisation

The major consideration for successful privatisation must involve (a) Liberalisation of Administrative controls (b) Legal framework and (c) The adoption of appropriate monetary and fiscal policies.

### (a) **Liberalisation of Administrative Controls**

Administrative controls in Guyana took the form of price controls, import prohibitions restrictions, regulations and in some cases expulsion of foreign investment during the era of public sector dominance. As early as 1985 the Government under new leadership decontrolled the prices of many commodities in an earlier attempt to reduce fiscal deficit. In 1988 additional price liberalisation measures were announced these included decontrolling the price of edible oil, household detergents, laundry and toilet soap and matches. Controls had been limited to margarine, powdered milk, salt, gasoline, diesel oil, cooking gas, taxi and bus fares. In 1990 all of these prices were decontrolled with the exception of kerosene oil. The Government had however still maintained a list of items with suggested though not binding prices e.g. cement. Other measures adopted during the latter half of the 1980s included the relaxation of import prohibitions and the liberalisation of "no funds" imports i.e. imports not involving the use of official capital so that private persons are now permitted to import items for personal use without licenses. There has also been some relaxation of restrictions with regards to the export of commodities. Except for bauxite and sugar, which remain in the hands of the Government, exporters are permitted to seek their own markets and make other arrangements for the exportation of their products after the domestic market had been satisfied.

During the latter half of the 1980s also Government declared its intention to encourage foreign investment through the issue of a new investment code. This document not only gave permission for foreign investment but in addition highlighted the areas in which such investments could take place.

The liberalisation of administrative controls must be seen as crucial to the success of a privatisation programme since maintenance of strict control limits the efficiency with which the market mechanism can operate.

(b) <u>**Legal Framework**</u>

Private investors and more so foreign investors are usually concerned about the constitutional and other legal implications with regards to the right to private property and the protection of their investments given the high cost and irreversibility of capital.

The 1980 constitution of Guyana has permitted the right to private property in Article 17 where it states:-

> "The existence of privately owned economic enterprises is recognised. Such enterprises must satisfy social needs and operate within the regulatory framework of National Policy and Law".

Further on 26th October 1990 a Public Utilities Act was passed in Parliament. The main function of the Public Utility's Commission was to monitor the operations of public utilities to ensure they operate within the given framework of National Policy and in the interest of the consumer. The operation procedures of the enterprises were expected to be clearly stated <u>before</u> settling the privatisation agreement. Failure to comply with such consideration can have serious consequences not only on the privatised enterprise but on the economy as a whole. The recent controversy involving the Guyana Telephone and Telegraph Company (G.T.& T) is an example of Government's failure to observe stated guidelines . G.T.& T announced increased prices for local and international calls following a devaluation, of the Guyana dollar, in the absence of any regulatory committee. The subsequent formation of the Public Utilities Commission, with its enquiry and regulatory mechanism, resulted in the identification of several inconsistencies in the operation of the company. These inconsistencies, as would be expected, were to the disadvantage of the policy framework for development.

(c) **<u>The adoption of appropriate monetary and fiscal policies</u>**

In line with the general thrust towards Privatisation and market oriented policies, the role and nature of monetary and fiscal policies has had to adapt. The overall objective of monetary policy became one of curbing potential inflationary pressures anticipated during the initial stages of the programme while at the same time ensuring that adequate financial resources were available to meet increased demand for credit as a result of increased productive capacity and overall economic activity. The major objective of fiscal policy on the other hand aimed at cutting Government's expenditure and increasing revenue but at the same time ensuring that the system of taxation does not stifle but rather encourage investment.

As regards to monetary and exchange rate policies a more flexible interest rate and exchange rate regime has been adopted to reflect in the main market conditions. During 1989 commercial banks were allowed to agree (after suggested rates by the Central Bank) on the level of interest rates on loans and deposits. Average interest rates on deposits and loans increased to 31.50% and 37.00% respectively, after being held at an average rate of 11% and 15% respectively for approximately eight (8) years. The accent was on mobilising savings to be channelled to the productive sector. Between 1989 and 1990 loans to the private business enterprises increased by 23.5%.

In order to curb inflation and reduce the excess liquidity in the system monetary authorities increased the required liquid asset holdings of the commercial banks from 10% of demand liabilities and 15% of time liabilities to 20% of demand liabilities and 25% of time liabilities. This required level of liquid asset holdings followed a number of temporary provisions. Additionally commercial banks were requested in April of 1991 to purchase special issue, three years debentures. The amount purchased was dependent on the size and operation of the bank in question.

The introduction of a Cambio system in March of 1990 is another attempt to develop a market determined exchange rate system. Its main objectives are (i) to enhance the privatisation process by stabilising the economy by mopping up some of the excess liquidity in the system (ii) making available to the investing sectors adequate foreign exchange for the conduct of business from private inflows and (iii) to facilitate the absorption of the parallel economy by the official economy. Under the Cambio system licensed dealers purchase and sell foreign currencies (the pound, United States dollar and the Canadian dollar) at prices determined in the market. At the end of September 1991 there were 35 licensed operators. The year to date volume of convertible currencies purchased amounted to US$108 million, £6.2 million and Can$3.3 million, the closing balances were US$5.3 million, £.33 million and Can$0.29 million respectively.

With regards to fiscal policies there has been a curtailment of subsidies on many items while as of January 1992 - Government has declared its intention to (i) scrap consumption taxes and decrease significantly corporate and company taxes to 35 and 45% respectively. The Government has also declared its intention to abolish licensing altogether. Due to the fact that such decisions are still to materialise the seemingly heavy taxation placed on the private sector may serve not only to delay their intention to invest but also to retard the pace of the privatisation process.

## 2. Procedures and Policy Options for the Privatisation of Public Enterprises

Successful privatisation of public enterprises demands a consciously planned strategy which examines procedural undertakings as well as the range of possible policy options before embarking on the privatisation process. Failure to select appropriate procedures and policy options for divesting public enterprises, can create severe strain in the process of privatisation. Privatisation under this circumstance will be as unplanned as the growth process of these enterprises.

The Government body, that is a policy group and an executing committee, with the assistance of consultants from Yugoslavia and UNDP devised a privatisation programme for the public enterprises after doing indepth feasibility studies for some companies, Guyana Electricity Corporation, Guyana Airways Corporation, Guyana National Engineering Corporation and Guyana National Trading Corporation. Experts also assisted in the valuation of the enterprises as well as the restructuring of the enterprises in preparing them for Privatisation. Members of the wider community were exempted from the process of Privatisation except to approach the policy group as prospective investors.

## 2.1 **Procedure**

The procedure for privatisation of the public enterprises comprise (a) selection of enterprises to be privatised, (b) advertisements, (c) selection of buyer and the organisation of the sale.

(a) In selecting the enterprises to be privatised the objective of the privatisation programme was taken into consideration, i.e. to reduce the huge fiscal deficit resulting from overspending by Government. In this regard heavy loss making enterprises as well as anticipated loss makers were selected first for divestment. The viability of such a policy decision seemed questionable at first, in light of the fact that the private sector may not be attracted to them. Guyana's experience is empirical evidence of the fact that the decision of investors to invest in these enterprises was based more on the future prospects of the enterprises. Enterprises where losses were due to bad management, attracted investors, e.g. Guyana Fisheries Ltd. Guyana Timbers Ltd. and Guyana National Paint Company) whereas, those with little market demand and outdated equipment remain unsold, e.g. The Soap and Detergent Factory and the Guyana Glass Works. Other considerations which impinged on selection of enterprises to be divested were (1) their inability to develop due to indebtedness, (2) heavy foreign exchange users, (3) the nature of the business, e.g. commercial trading industries are better operated by the private sector.

(b) Advertisement of these enterprises was done entirely at the Governmental level. Profiles were first prepared on ten public enterprises (The Guyana Fisheries Ltd, Demerara Woods Ltd, Guyana Rice Milling and Marketing Authority, Guyana National Trading Corporation, Guyana Soap and Detergent Company, Guyana National Paint Company, Guyana Electricity Corporation, Guyana Telecommunication Corporation, Guyana Stockfeeds Ltd. and the Guyana Nichimo Ltd.) and circulated to embassies abroad, giving details about the economic environment of the economy and the nature of the companies posted for privatisation. Advertisements were also placed in the local newspapers. Interested investors were requested to submit sealed written tenders to the divestment committee with financial bona fide statements and references. Advertising missions and seminars by the Heads of State were other techniques used to attract investors. The goal of the Government was to inform prospective investors about the country's potential as an investment site.

(c) In selection of the buyer and the negotiation of sale, attention was paid to the purchaser's ability to increase the inflow of foreign currency by paying in hard currency, as well as to the more financially sound bidders. By demanding payment in foreign currency the Government had automatically ruled out the local private sector. The cost of the enterprises in terms of assets to be acquired proved to be too costly to the local investor. Most of the already divested companies were thus sold to non-residents most of whom are non Guyanese.

### 2.2 Policy Options

Privatisation of public enterprises in Guyana took four basic forms (a) Divestment, (b) Contracting Out, (c) Joint Venture, (d) Leasing. Determination of the appropriate method for privatising individual enterprises was based on (1) the business nature of the enterprise and (2) the needs of the enterprise so that an appropriate mix of the ingredients of privatisation is applied, i.e. Ownership, Management, Finance or Market. Different forms of privatisation applied the major ingredients in different ways. The success of the method used was however, determined by the ease with which the public sector activity was transferred to the private sector. The following checklist - highlights the extent of privatisation that has been associated with the various public enterprises in Guyana. The checklist indicates the stage of progress of privatisation in each case.

(a) **Divestment**

Divestment, that is, the sale of public enterprises to the private sector, changed the ownership, financing and management of the divested enterprises. The sales took place in some cases in stages, i.e. selling in parts, while in the other cases selling as entire concerns. Between March 1989 and September 1991 twenty two (22) public enterprises had been earmarked for divestment. Of this total ten (10) have been fully divested, one (1) is still in the process of being divested while the process has to commence for the remaining eleven (11). The enterprises that have been completely divested through the sales as going concerns (SGC) and sale of assets (SOA) are:-

(1) Guyana Telecommunication Corporation (SGC)
(2) Guyana Fisheries Limited (SOA)
(3) Guyana Nichimo Limited (SGC)
(4) Demerara Woods Limited (SGC)
(5) Quality Foods Limited (SGC)
(6) Guyana Transport Services Ltd. (SOA)
(7) Guyana National Trading Corporation (SOA)
(8) Sijan Palace (SGC)
(9) Guyana Rice Milling and Marketing Authority (SOA)
(10) Guyana Timbers Limited (SGC)

Of the enterprises that have been divested only the Guyana Telephone and Telegraph Company (G.T.& T) (formerly GTC) is a public utility company. G.T.& T is a monopoly supplier of telecommunication service in Guyana. In an attempt to protect the consumers interest it is therefore subject to the regulations of the Public Utility Commission (PUC) established for this purpose. The recent conflicts between the PUC and the G.T.&T has raised two basic questions (1) Is divestment an ideal policy option for the Privatisation of Public Utilities in Guyana and (2) was the divestment proceeds of G.T.&T poorly implemented? These issues though political in nature will be addressed in a subsequent paper. However it will suffice to mention that four factors should be taken into consideration on the issue of appropriate policy option.

(1) The strength of the political leaders belief in market forces in the enterprise.

*Table VII*

***ENTITIES DIVESTED AND REVENUES EARNED, 1990 - 1991***

*G$'000*

| CORPORATIONS | Actuals 1990 | Actuals Jan-Sep 1991 | Projected Dec 1991 |
|---|---|---|---|
| Guyana Telecommunications Corp. | 0 | 0 | 745,750 |
| Guyana Fisheries Limited | 47,763 | 15,525 | 172,458 |
| Leased Assets | | | 22,753 |
| Sale of Trawlers | | | 117,400 |
| Sale of Land | | | 32,305 |
| Guyana Nichimo Limited | 21,095 | 0 | 0 |
| Demerara Woods Limited | 0 | 0 | 4,500 |
| Quality Foods Limited | 266 | 560 | 19,799 |
| Guyana Transport Service Ltd. | 3,883 | 28,469 | 67,723 |
| Guyana National Trading Corp. | 33,375 | 57,740 | 466,865 |
| Sijan Palace | 628 | 36 | 10 |
| Guyana Timbers Limited | 70,356 | 0 | 0 |
| GRMMA Mills (1) | 117,000 | 0 | 305,949 |
| TOTAL | 294,366 | 102,330 | 1,783,054 |

NOTE:
(1) 1991 Figures excludes possible revenues from the divestment of additional rice mills.

Source: Divestment Unit, Public Corporations Secretariat

## PRIVATISATION OF PUBLIC ENTERPRISES: METHODS EMPLOYED BY GUYANA (1989–1991)

| ENTERPRISES | BUSINESS TYPE | PRIVATISATION OPTIONS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | DIVESTMENT | | | | | | OTHER | | |
| | | Complete | | Incomplete | | Process to Commence | Management Contracts | Leasing | JV | DNT |
| | | SGC | SOA | SGC | SOA | | | | | |
| | UTILITIES | | | | | | | | | |
| Guyana Electricity Corporation | | | | | | + | | | | |
| Guyana Telecommunications Corporation | | + | | | | | | | x | |
| Guyana Airways Corporation | | | | | | | | | | |
| Guyana Post Office Corporation | | | | | | | | | | |
| Guyana Transport Services Limited | | | + | | | | | | | |
| | AGRI–BASED COMPANIES | | | | | | | | | |
| Guyana Fisheries Limited | | | + | | | | | x | | |
| NICHIMO Company Limited | | + | | | | | | | | |
| Demerara Woods Limited | | + | | | | | | | | |
| Guyana Rice Milling and Marketing Authority | | | + | | | | | | + | |
| Guyana Rice Export Board | | | + | | | | | | | |
| National Padi and Rice Grading Centre | | | | | | | | | | + |
| National Edible Oil Company Limited | | | | | | + | | | | |
| Quality Foods Company Limited | | + | | | | | | | | |
| Livestock Industry Development Company Limited | | | | | | + | | | | |
| | COMMERCIAL COMPANIES I | | | | | | | | | |
| Guyana Stores Limited | | | | | | | | | | + |
| Guyana Oil Company | | | | | | | | | | + |
| Guyana National Shipping Company Limited | | | | | | | | | | + |
| Guyana National Printers Limited | | | | | + | | | | | |
| Guyana National Trading Corporation | | | + | | | | | | | |
| Guyana Pharmaceutical Corporation | | | | | | + | | | | |
| Soaps and Detergents Company Limited | | | | | | + | | | | |
| Guyana Stockfeeds Limited | | | | | | + | | | | |
| Sijan Plaza | | | | | | + | | | | |
| Sijan Palace | | + | | | | | | | | |
| National Paints Company Limited | | + | | | | | | | | |
| | COMMERCIAL COMPANIES II | | | | | | | | | |
| Guyana National Engineering Corporation | | | | | | + | | | | |
| MARDS Workshop | | | | | | | | | | + |
| Guyana Glassworks Limited | | | | | | + | | | | |
| Sanata Textiles Limited | | | | | | + | | | | |
| | INDEPENDENT COMPANIES | | | | | | | | | |
| Guyana Sugar Corporation | | | | | | x | + | | | |
| Guyana Mining Enterprise | | | | | | | | | | + |
| Guyana Liquor Corporation/Demerara Distillers Limited | | | | | | | | | | + |
| Seals and Packaging Industries Limited | | | | | | | | | | + |
| Guyana National Newspapers Limited | | | | | | | | | | + |
| Guyana Broadcasting Company Limited | | | | | | | | | | + |

SGC – Sale as a Going Concern  SOA – Sales of Assets
JV – Joint Venture  DNT – Decision Not Yet Taken

*Source:* Economic Unit: STATE PLANNING SECRETARIAT

(2) Their perception of the need for public control of certain activities (enterprises) in the national interest.

(3) The extent of the public sector's capability in providing financial and managerial resources to support such activities (enterprises) and

(4) The management and financial resources of the private sector.

(b) <u>**Management Contracting**</u>

In this category of Privatisation some elements of private sector involvement were introduced into the public sector operation through a contractual arrangement where ownership, control and financing remained with the government but managerial contracts are awarded to the private sector. In Guyana contracting out of Public enterprises in the form of Management Contracts was employed in the Guyana Sugar Corporation and in the controlling of specific activities (Production), in the case of Guymine. The management contract allowed the contracted entity (private body) to manage the public entity freely without Government's intervention. The ultimate goal of contracting management in the case of Guysuco was to prepare the enterprise for divestment at a later stage.

The Finance Minister in his 1991 Budget speech stated :"In the short term, Guyana's economic prospects are linked to the rehabilitation of the bauxite and sugar industries, which continue to face severe technical managerial and financial short comings. To help overcome these difficulties, on October 1, 1990 the Government signed a one-year management contract agreement with Booker Tate for the divestment of Guysuco, with a proposal expected in the second half of 1991. Discussions are ongoing with Alcan regarding a management contract for Guymine which could lead also to the divestment of the company".

The Management contractor, Booker Tate in the case of Guysuco, is responsible for managing the cost and revenue of the Company. Green Construction Limited and Boskalis on the other hand are responsible for increasing the production of bauxite in Guyana and thus undertake some of the responsibility for management of cost of production in the enterprise. The government has not yet signed any formal agreement with a private body to manage the entire bauxite company.

(c) **Joint Venture**

In this instance the Government no longer remains the sole owner of the enterprise but is a joint owner with the private sector entity. The privatisation of the Guyana Telecommunication Company has also taken this form in which case the Government retains 20 percent of the shares while the Atlantic Telephone Network owns the remaining shares. As a minority shareholder the Government has little say in the decision making process of the enterprise but can monitor the operation of the enterprise through the PUC. In entering into a joint venture relationship it was the intention of the Government to instil some form of market discipline in the enterprise and compel it to aim at financial viability. The company was also expected to be exposed to foreign technology and management. Proxy Fernandes (1986) has indicated that joint ventures tend to be more successful in new ventures than in existing ones. The latter tend to provide more difficulties in terms of clashes of objectives.

(d) **Leasing**

Leasing is the renting of specific facilities for a specified period of time. The Guyana Fisheries Ltd. a divested entity, has leased land from the Government for twenty five years. Leasing as a policy option for privatisation of public enterprises in Guyana had not been a regular feature, probably due to the obsolescence of the equipment and machinery in the public enterprises.

### 3. Problems Encountered

The problems encountered during the privatisation process in Guyana so far are twofold in nature. First those relating to the process itself and secondly those relating to the national economy at large.

1. Firstly Government has been experiencing some difficulties in getting investors for some enterprises due to the poor market demand for the product produced by the enterprises. To this extent these enterprises continue to exert a strain on Government's budget. In the haste to attract both foreign and local private investment in the Guyanese economy, the Finance Minister in his 1991 budget speech stated:
"The identification of Guymida as the 'One stop Agency' was intended to facilitate the speedy resolution of enquiries and requests by prospective investors and thus reduce the gestation period associated with making an investment in Guyana".

2. Some investors have been bidding far below market value of the enterprises. Government in some cases was forced to accept offers lower than what were expected.

3. Divestment processes have been delayed mainly because some enterprises failed to produce audited accounts for the required period.

4. Many prospective investors at the time of tying up the deal changed their decision to invest, either because the process was too long or because they found better deals.

Secondly on the more national front;

(1) many citizens including businessmen, intellectuals and other private citizens have expressed dissatisfaction first about the idea of divesting the enterprises and more so the secrecy with which this has taken place e.g. information with regards to valuation of enterprises is highly restricted. It therefore becomes impossible for one to calculate the spread between the value and the actual sale price. This raises suspicion

among critics that the divestment of many of these enterprises may have included some give away element.

2. The credibility of monetary policy with regards to exchange rates, liberalization of currency control, and interest rates, are currently causing some amount of uncertainty among many investors. For instance they tend to question the permanency of these policies.

3. Uncertainty about the outcome of general elections with the continuity of Government's recovery programme is even more severe than the economic one mentioned above. Economic and political uncertainties have thus caused investors to delay their decision to invest in public enterprises.

Problems tend to be inevitable in any new venture. Policy makers should not however allow such problems to persist but should attempt to devise methods to deal with the situation as they arise so that the objective of sustainable rate of economic growth is realised.

## SECTION VI

## THE ECONOMIC IMPACT OF PRIVATISATION OF PUBLIC ENTERPRISE IN GUYANA

The short period since the implementation of the Privatisation programme prohibits a detailed assessment of its impact since Government has been unable to sell off many of the public enterprises earmarked for divestment. A brief review of some of the changes that have occurred will however be attempted.

### Fiscal Impact of Privatisation

Though the aim of Privatisation in Guyana was mainly to reduce the fiscal deficit, the impact of privatisation on the overall deficit is not as obvious in Government statistics as the act of selling (or privatising) the enterprises or the elimination of the need to subsidize loss making enterprises. Government is usually at the same time involved in other activities, example, increasing expenditure on infrastructural works and the rehabilitation of the sugar, bauxite, and rice industries and external debt servicing. These factors account for the increasing trend in Government overall deficit in spite of the receipt of proceeds from divestment. (See Table VII). The immediate effect of the sale of public enterprise however, will be a reduction in the overall deficit i.e. the difference between total revenue and total expenditure. In Guyana, proceeds from the sale of public enterprises are recorded as capital if the sale is on a fixed assets, while sale of equity is recorded as loan repayment. This accounting principle is in keeping with the IMF Manual on Government Finance Statistics.

Apart from the accounting procedures involved in selling public enterprises, fiscal performance of enterprises that remain under Government ownership as well as those with some element of privatisation, have also benefitted from the changing economic environment. The consolidated position of the public enterprises has reflected improvements in the total revenue, gross operating surplus and net deposits at the end of 1990 compared to 1989. Total revenues amounted to G$13417 million at the end of 1990 compared with G$9693 million at the end of 1989, an increase of 38%. The gross operating surplus, (excluding devaluation loss of G$272 million) was G$2043 million at the end of 1990, an increase of approximately 18% over the 1989 level. (Budget speech 1991 and Statistical Bulletin of Bank of Guyana - June 1991).

The Guyana Pharmaceutical Corporation, Guyana National Engineering Corporation, Guyana Stores Ltd., Guyoil and Guyana Telecommunication Corporation were among the enterprises that generated unexpected surpluses. The Guyana Electricity Corporation, Guyana Fisheries Ltd. and Demerara Woods Limited (prior to divestment) had however continued to show losses.

In spite of these losses, total bank deposits of the Public Enterprises stood at G$1,498 million at the end of June 1991 compared with G$1,152 million recorded at the end of December 1989 and G$1438 million at the end of December 1990. What is interesting however, is the reduction in commercial bank overdrafts for the enterprises which accounted for the movement of net deposits from G$500 million at the end of 1989 to G$750 million at the end of June 1991.

In the case of the newly privatised enterprises Dr. McKenzie Senior Minister of Agriculture claimed: "All enterprises divested so far have begun to make profits e.g. Guyana Fisheries Ltd., Guyana Timbers Ltd. Workers have also received higher levels of remuneration and greater benefits".

**Monetary Impact**

Macro economic balance requires that investment be accommodated by an ex ante, commensurate level of savings. (E. Borensztein and P. Montiel 1991). Monetary policy in Guyana has been directed towards increasing financial savings by increasing the level of remuneration, (i.e. interest rates) on deposits and channelling same to the private sector. The cost of borrowing to this productive sector was to serve as a catalyst to growth. On this point the Finance Minister stated:-

> "The commercial banks will need to carry out their lending operations prudently bearing in mind the effect that indiscriminate lending can have on domestic inflation and Balance of Payment".

Commercial Banks lending to the private sector moved from G$751.3 million for the first three quarters of 1989 to G$1018.2 million and G$1752.1 million for the respective three quarters of 1990 and 1991. Of significant importance also is the movement in credit to the private business enterprises. At the end of the first three quarters of 1991 credit to the private business enterprise increased to G$1582.1 million from G$722.1 million recorded at the end of September 1990. An increase of 119%.

Total deposits of the public and private sectors also increased tremendously during the three quarters of 1989 to 1991. Total deposits moved from G$1353.1 million for the first three quarters of 1989 to G$2452.3 million and G$5085.5 million during the respective three quarters of 1990 and 1991. Of these amounts deposits of the private sector amounted to G$1004.1 million, G$1739.8 million and G$3766.5 million for the three respective quarters of 1989, 1990 and 1991.

The creation of a Market Determined Exchange Rate (Cambio) to facilitate privatisation has also had an impact on the availability of foreign exchange flowing to the private sector. Table VIII reveals the total purchases and sales of total foreign currency by sectors. It must be noted that classification of Cambio transactions has some definitional weaknesses. However, trend in flows can give some indication of the trend of transactions.

The private sector increased its purchases and sale of foreign currencies from the Cambio system between March of 1990 to June of 1991 relative to the public sector except for the first quarter of 1991 period where public sector purchase and sale was greater - this might have been due to large purchases made by some public sector enterprises. What is imperative to note however is that though private sector purchase and sale of currency reveal increasing trends the percentage share of the currency transacted by the business enterprises is much lower than the amount transacted by individuals for consumption. It follows that the Cambio system has not adequately made available to this productive sector the needed foreign currency as was intended by the authorities. A possible reason for this trend might have been the relatively high rate of exchange at which the currencies were available. The profitability of the enterprise if they were to import inputs on a large scale would have been threatened. The Cambio system has however helped considerably in the acquisition of state businesses which are being sold in US$. This has significantly increased Guyana's link with the financial world market where people can easily transfer money. The possibility exists also that this Cambio arrangement can be developed into a financial capital market in Guyana. The possibility of an increased supply of foreign currencies from various sources may also result in declining exchange rates.

In concluding this section it must be noted that during the short time in which privatisation measures were implemented in the Guyanese economy, a favourable impact, though small has been created both in terms of improving the Government's financial position and in creation of an economic environment conducive to growth. Meaningful assessment can however take place only over a longer period of operation.

# CAMBIO PURCHASES AND SALES BY PUBLIC AND PRIVATE SECTOR.

## Quarterly Flows And Percentage Changes

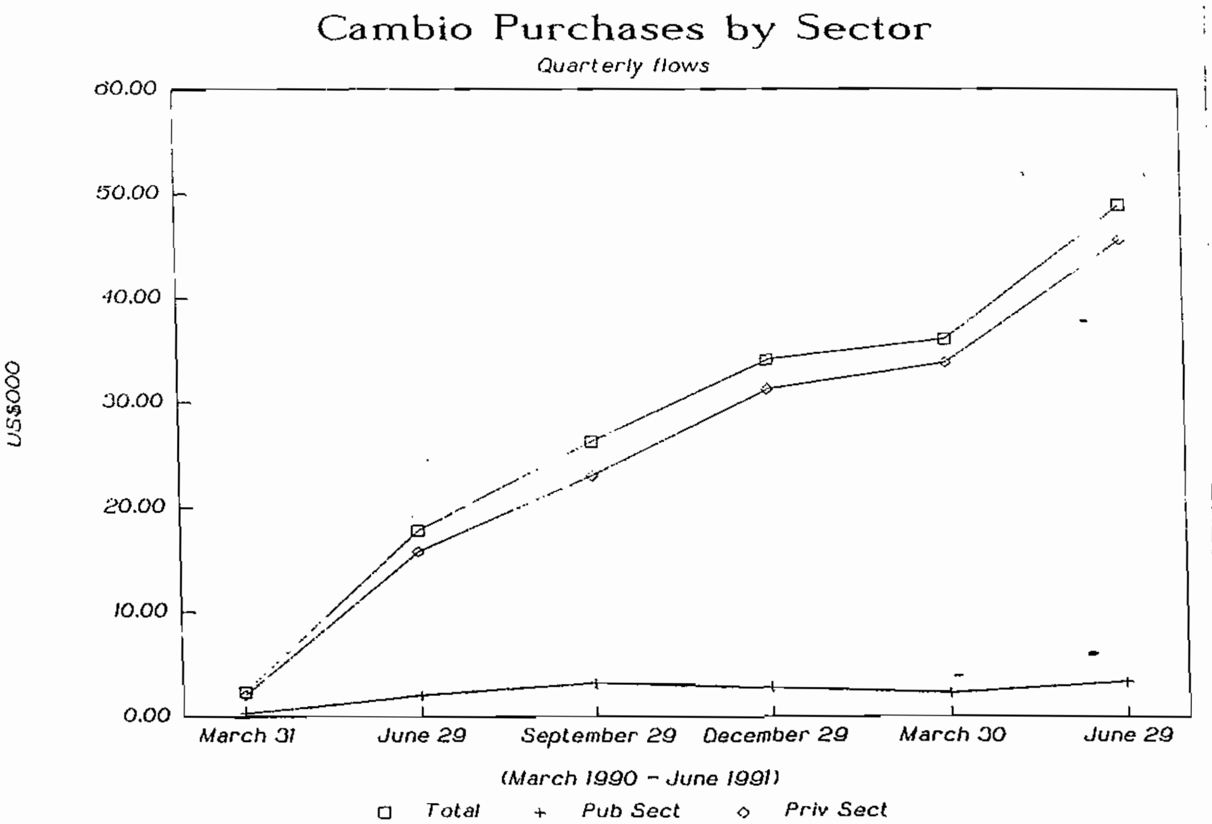
(March 1990 – June 1991)

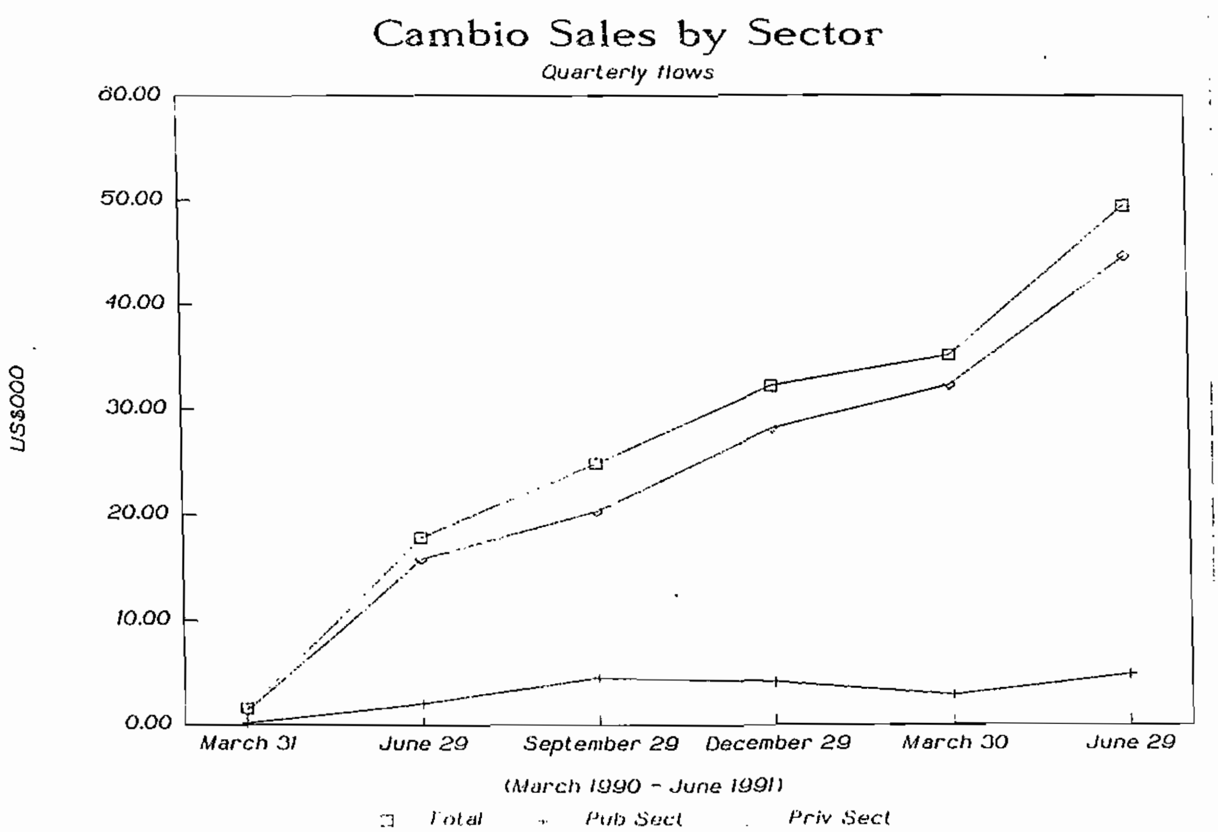
US$000

| Period Ended | PURCHASES | | | | | SALES | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Pub Sect | Total Priv Sect | Individ–uals | Private Businesses | Total | Pub Sect | Total Priv Sect | Individ–uals | Private Businesses |
| *1990* | | | | | | | | | | |
| *March 31* | 2,327.84 | 311.56 | 2,016.28 | 1,422.89 | 593.39 | 1,539.21 | 165.05 | 1,374.16 | 433.34 | 940.82 |
| *June 29* | 17,769.16 | 2,029.47 | 15,739.69 | 11,616.01 | 4,123.67 | 17,804.00 | 2,018.44 | 15,785.56 | 9,730.77 | 6,054.79 |
| *September 29* | 26,293.15 | 3,234.04 | 23,059.11 | 18,273.86 | 4,785.24 | 24,753.53 | 4,483.90 | 20,269.63 | 14,778.41 | 5,491.22 |
| *December 29* | 34,091.75 | 2,817.53 | 31,274.22 | 20,534.83 | 10,739.39 | 32,165.36 | 4,040.96 | 28,124.40 | 15,106.10 | 13,018.30 |
| *1991* | | | | | | | | | | |
| *March 30* | 36,036.05 | 2,253.25 | 33,782.80 | 21,627.51 | 12,155.29 | 35,083.80 | 2,838.62 | 32,245.18 | 18,870.49 | 13,374.69 |
| *June 29* | 48,816.78 | 3,312.55 | 45,504.23 | 33,455.95 | 12,048.28 | 49,379.92 | 4,815.65 | 44,564.27 | 31,300.55 | 13,263.72 |

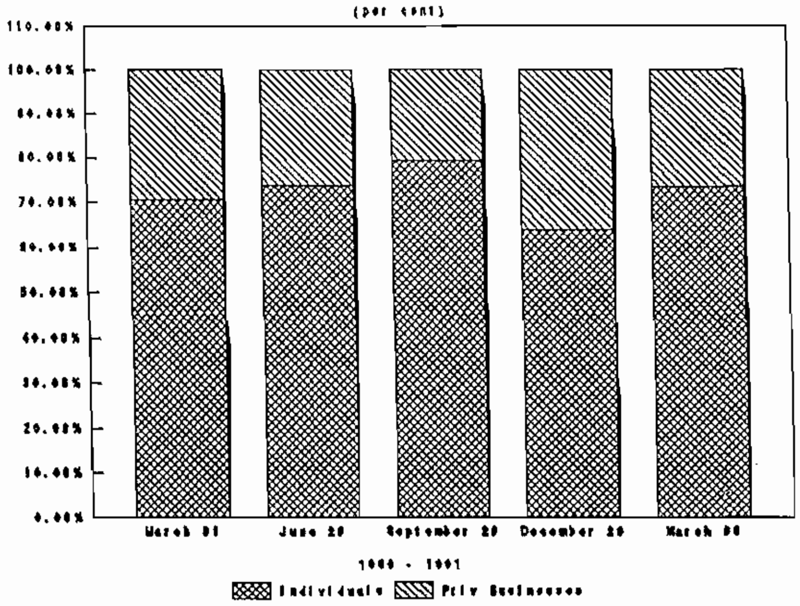
| Period Ended | PURCHASES | | | | | SALES | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Pub Sect | Total Priv Sect | Individ–uals | Private Businesses | Total | Pub Sect | Total Priv Sect | Individ–uals | Private Businesses |
| *1990* | | | | | | | | | | |
| *Mar 31–Jun 29* | 663.33% | 551.39% | 680.63% | 70.57% | 29.43% | 1056.70% | 1122.90% | 1048.74% | 31.53% | 68.47% |
| *Jun 29–Sep 29* | 47.97% | 59.35% | 46.50% | 73.80% | 26.20% | 39.03% | 122.15% | 28.41% | 61.64% | 38.36% |
| *Sep 29–Dec 29* | 29.66% | –12.88% | 35.63% | 79.25% | 20.75% | 29.94% | –9.88% | 38.75% | 72.91% | 27.09% |
| *1991* | | | | | | | | | | |
| *Dec 29–Mar 30* | 5.70% | –20.03% | 8.02% | 64.02% | 35.98% | 9.07% | –29.75% | 14.65% | 58.52% | 41.48% |
| *Mar 30–Jun 29* | 35.47% | 47.01% | 34.70% | 73.52% | 26.48% | 40.75% | 69.65% | 38.20% | 70.24% | 29.76% |

Source: Bank of Guyana

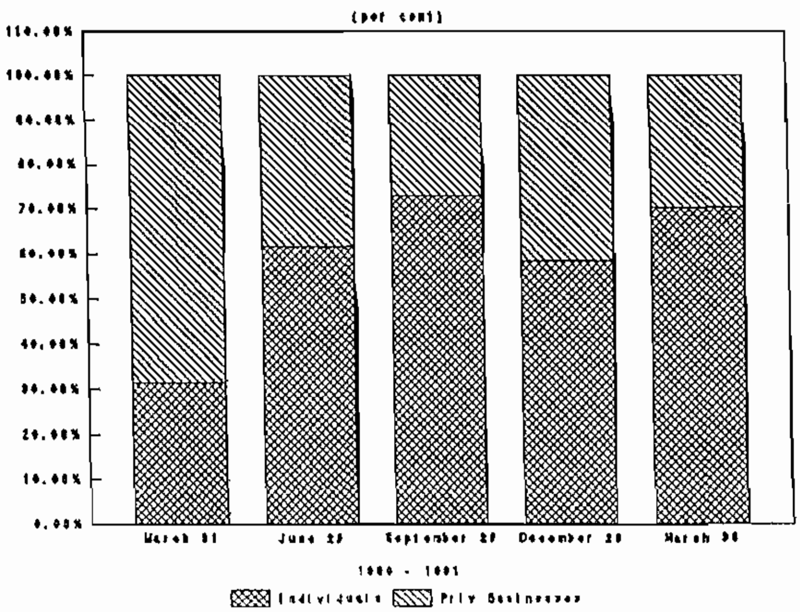

Cambio Purchases by Sector
Quarterly flows
US$000
60.00
50.00
40.00
30.00
20.00
10.00
0.00
March 31
June 29
September 29
December 29
March 30
June 29
(March 1990 - June 1991)
Total
Pub Sect
Priv Sect


Cambio Sales by Sector
Quarterly flows
US$000
60.00
50.00
40.00
30.00
20.00
10.00
0.00
March 31
June 29
September 29
December 29
March 30
June 29
(March 1990 - June 1991)
Total
Pub Sect
Priv Sect

## Cambio Purchases from Private Sector




## Cambio Sales to Private Sector



## SECTION VII
## CONCLUSION

The fundamental driving force behind the privatisation of Public enterprises in the previously state owned and controlled economy of Guyana, is the aspiration of the Guyanese population for improved standards of living. The achievement of satisfactory rates of economic growth in a not too distant future is a crucial prerequisite in the attainment of such aspiration. (Measures should be directed towards the distribution effect of the anticipated growth).

The behaviour of the private sector investment holds the key to the rate at which the Guyanese economy can sustain healthy economic growth. The success of Privatisation of Public enterprises in achieving this objective is to a large extent dependent on the following:-

(1) the success of Government's policy in creating the appropriate environment for the privatisation of the public enterprises;

(2) the degree to which economic and political uncertainty is alleviated;

(3) the ability of the private sector to maintain productive and allocative efficiencies;

(4) the effectiveness of Government's regulatory mechanism for the newly privatise enterprises to the extent that the profit motivation of the enterprise is not distorted.

Private ownership in the presence of the above mentioned factors can change the dismal record of enterprise performance in Guyana.

Additionally while public enterprises remain under the control of the Government sector awaiting divestment or other forms of privatisation some additional attempt should be made to introduce signalling systems which would guide and motivate managers to act in the interest of the national policy. L. Jones suggested that these systems may take three components,

(1) a performance evaluation system in which national goals are translated into explicit enterprise objectives and quantified in a performance criterion;

(2) a performance information system in which actual achievements are monitored and

(3) an incentive system in which the welfare of managers and workers is linked to the national welfare.

Further, to the extent that privatisation of public enterprises succeed in generating sustained growth, the implications are that the total international performance of the economy will improve - such improvements will take the form of improved Balance of payments deficit, improved debt servicing, increased international reserves and competitiveness and even the formation of a capital market. These considerations make it imperative on the part of Government authorities to develop a strong commitment to the success of the privatisation strategy.

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