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COMMERCIALISATION AND ASSOCIATIVE PRIVATISATION OF DEVELOPMENTAL CO-OPERATION EFFORTS

(COMMERCIALISATION ET PRIVATISATION ASSOCIATIVE
DE L'AIDE AU DÉVELOPPEMENT)

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COMMERCIALISATION ET PRIVATISATION ASSOCIATIVE DE L'AIDE AU DÉVELOPPEMENT

Résumé exécutif

L'essai, intitulé Commercialisation et Privatisation Associative de l'Aide au Développement, tente de percer la réticence qu'a le secteur du développement international face à l'implication d'une gestion commerciale au sein d'effort de développement. Plus précisément, cet essai tente de démontrer le rôle que peut jouer l'introduction du système de gestion, emprunté au secteur privé, sur l'efficacité de l'aide au développement par l'augmentation de son efficience allouée. Contrairement à d'autres analyses antérieures, je fais la distinction entre l'efficience productive/budgétaire et l'efficience allouée qui se base sur les objectifs d'entraide et sociaux de l'intervention.

En premier lieu, l'essai tente de démontrer les avantages qui peuvent être tirer d'une meilleure efficience allocative. Je démontre qu'il est important de prendre en considération la motivation derrière un projet d'aide pour déterminer si l'efficience est bien le moyen approprié d'atteindre l'efficacité optimal. Je justifie la quête de l'efficience par le besoin d'accroître la crédibilité du secteur du développement. La diminution des allocations publiques à la coopération internationale, en proportion du produit national brut des pays de OCDE, fait aussi appel à l'augmentation des efficiences, de façon à augmenter la valeur ajoutée de chaque dollar reçu de leur subvention en décroissance pour, au moins, maintenir leur efficacité antérieure. A ce stage, je présente un modèle économique qui tente de démontrer les bénéfices que peuvent tirer les projets d'aide par l'augmentation de leur niveau d'efficience au travers d'augmentation des donations privées stimulées par une plus grande confiance en l'efficacité du projet.

Ensuite, je propose une commercialisation du secteur de la coopération internationale comme moyen d'augmenter ce type d'efficience. Je définie le concept de la commercialisation dans cet essai comme toute introduction de technique de gestion empruntée aux entreprises à but lucratif œuvrant dans un secteur de marché compétitif qui permet l'introduction, ou la simulation, des forces de marché compétitif. La commercialisation peut prendre plusieurs envergures : du simple appel à un(e) consultant(e) venant du secteur privé à l'extrême que représente la passation de la propriété et, du même fait, du contrôle d'un projet d'aide au secteur privé par la privatisation de celui-ci.
La seconde partie de cet essai se concentre spécifiquement sur ce dernier thème, celui de la privatisation d'effort d'aide au développement. Tout en précisant que la privatisation, comme moyen d'atteindre un efficience attribuée maximale, et du même fait, l'efficacité optimale, ne s'applique qu'à une minime fraction des projets d'aide, je tente de faire l'introduction de ce concept, quelque peu innovateur, comme une alternative valable et, sous certaines conditions, même nécessaires au politique de gestion de la coopération internationale courante. Dans cette partie de l'essai, j'identifie les projets d'aide qui sont compatibles à l'alternative de la privatisation et j'argumente qu'un certain nombre de ceux-ci, non seulement peuvent être privatisés, mais doivent l'être. Pour ce faire, je distingue entre quatre types de projets d'entraide : ceux dont les objectifs ont été atteints, ceux dont les fonctions peuvent être absorbés par des organismes locaux, ceux dont les fonctions peuvent être accomplies par les secteurs privés locaux existants et finalement, ceux dont les fonctions ne peuvent être efficacement entrepris par aucun organisme, privé ou non. Dans mon analyse, j'argumente que seulement les projets d'aide tombant dans la quatrième catégorie devraient être sujets à une politique de privatisation.

Ensuite, je présente quelques considérations qui devraient motiver le choix d'un projet d'aide pour la privatisation.

Je poursuis en illustrant, brièvement, les façons de mener une privatisation. Cet acheminement nous mène à l'introduction de la formule associative comme le modèle d'entreprise que devrait adopter les projets d'aide au développement durant leur privatisation. J'explique les bienfaits d'une telle structure d'entreprise et sa comptabilité avec la mission sociale de la plupart des projets d'entraide. Je conclus l'essai en offrant au lecteur un exemple concret ou la privatisation associative d'un projet d'aide au développement a été tenté. J'élabore les circonstances qui ont mené à l'adoption d'une telle politique de gestion. J'évalue si ce choix fut le bon. Je décris brièvement la méthodologie utilisée pour atteindre ce but, et je présente les résultats qu'a eu cette expérience. Cette tentative de privatisation fut un échec. Donc, je tente de décrire ce qui a mené à ce résultat, tout en offrant quelques suggestions de changement qui auraient pu éviter cet échec.

Cet essai fait la présentation d'un concept qui pourrait être considéré innovateur, et pour ce faire, est en plusieurs lieux une élaboration non-scientifique, mais plutôt, une extrapolation, due à la faute de littérature sur ce thème, que je fais sur ce nouvel outil de gestion disponible au secteur de l'aide au développement. Vu cette présentation du sujet, et vu qu'il s'agit d'un essai et non d'une thèse scientifique, un grain de subjectivité peut avoir été introduit pour mettre du poids à quelques arguments ou pour provoquer délibérément le lecteur à réfléchir sur le concept présenté.

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FIGURES

NOTE

I would like to express my gratitude and appreciation for the guidance, assistance and patience of Dr. Irene Maestro who served as Director of this essay.

Commercialisation and Associative Privatisation of Developmental Co-operation Efforts

I. Introduction

This essay will attempt to venture into topics, which in the international development sector are often considered taboos. At the least, to those of the development sector, talk of efficiency increasing policies and commercialisation immediately stimulates images of arbitrary budget cuts and increase intervention. Much of the blame for the quasi-traumatic reaction of the sector to these terms is due to their inappropriate use, mostly by public development agencies, to justify budgetary cutbacks. These terms in the public and private sectors, in general, have become almost synonymous with closures and retrenchments. The bad reputation of these terms has lead to the development, especially in the private sector, of a series of euphemisms, e.g. re-engineering. If it will help the reader keep a more objective perspective whilst going through this essay, the euphemism 'professionalisation', (which was suggested to me by someone of the development sector affected by the traumas of past calls for greater efficiency), can be substituted in the place of the term 'commercialisation'.

Also, the concept of privatisation, especially as a tool for development, may arouse suspicion. The development sector in general can be said to have a bias against the involvement of the private sector within the scope of developmental aid. Although some may argue this last statement, few will disagree that the use of the private sector as a tool within international development co-operation has not been extensively investigated. Many within the development sector have witness the privatisation efforts of the 1980's, and not all are convinced that positive economic and social benefits have resulted. Most readers, I am sure, will receive the application of privatisation policies within the developmental sector, with great resistance.

The aim of this essay is not to propagate the absorption of developmental co-operation by the private sector but rather to attempt to pierce through the taboos of the development sector in order to seek new alternatives that could help bring the sector towards a higher level of effectiveness. Myself, having worked within developmental co-operation efforts (DCE), share many of the same initial hesitations that most readers will have towards the ideas investigated within this essay. But, if the taboos and euphemisms are disregarded, it is possible to identify scenarios and methodologies, which may make commercialisation and privatisation into effective developmental tools at the disposal of the sector for application when the specifics of the situations addressed, justify them.

Therefore, I ask the reader to go through this essay keeping an objective mind towards the newer concepts that may be introduced. Because this is an essay and not a thesis per se, there has been some subjectivity used on my part in an attempt to add weight and/or purposely stimulate reactions to some ideas or arguments which it presents. Some subjectivity and lack of referencing may also exist because of the novelty of some concepts, which the essay introduces, especially when the idea of privatisation is forwarded. The absence of literature in some areas has lead me to my own extrapolations.

The essay is presented in three parts. The first part reviews the concept of effectiveness through commercial efficiency and adapts it to suite the developmental sector through the introduction of allocative and objective related efficiency. With these adaptations, it relooks at the economic theory to introduce why and how the DCEs should be/become more efficient. The second part reduces the scope of the essay's investigation into the attainment of greater effectiveness of DCEs through commercialisation, to the very specific concept of using privatisation of DCEs, and yet more specific, associative privatisation of DCEs as a tool for development. Because the concepts introduced in the second part of this essay may seem very abstract to many readers, part three offers the reader a practical example of an actual attempt, which was made prior to this essay, at the associative privatisation of a DCE.

I hope that this essay will stimulate further investigation into the concepts, which it introduces in the overall objective of improving the global quality of life through more effective and sustainable developmental co-operation efforts.

PART I

1.1 Background

> "The overview of the last two decades of developmental assistance is bitter. Let's understand development in the sense of welfare improvement, and satisfaction of essential needs. The bulk of the Third World is today in a worse situation then twenty years ago. The official aid agencies have failed in their attempt at developing and improving the living standards of poor nations.
>
> Even though international aide has been constantly increasing, the poverty of the Third World worsens. In over fifty different countries of Africa and Latin America, the annual per capita income today is inferior to what it was at the beginning of the decade. This sad observation forces a requestioning of the effectiveness of international aid, and by that, its capability to sustain development."[1]

The above quote is a rough translation of Myriam Donsimoni's comments presented in the preface of her book "Du Don a L'Aide, Le Marché de L'Altruisme". She supports her statement with data coming from a multitude of international organisations, such as the World Bank, the IMF, GATT, and others. Many other papers reflecting similar opinions and observations have been written in the last decade. There are, of-course, contradicting views which interpret differently the empirical data available. But it is hard to reject that the overall quality of life of individuals in LCD countries has not increased significantly in comparison with the amounts of development aide money and effort which has been invested.

[1] Myriam Donsimoni, "Du Don à l'Aide, le marché de l'altruisme" Edition l'Harmattan ; (Paris, 1995) p.11

This essay will not attempt to join the argument debating whether developmental aid is effective or not, but rather will try to look at how the effectiveness of this aid can be increased given the same inputs by improving the efficiency of the players within development.

This essay was stimulated in large part by the flagrant inefficiencies which I have witness during my time as an expatriate development worker. My observations at that time were non-scientific, and may have been isolated to the specific projects with which I was involved. Nevertheless, my involvement, later, with the private sector in that same region clearly demonstrated that the inefficiencies present within the developmental sector were not universal throughout the region's economy. A negative stereo type was associated with development workers within the economy. This attitude was apparent with many private sector employers who would not consider candidates, with work history within developmental organisations, for job openings within their firms. Even worse than public sector workers, developmental workers were seen as lazy and inefficient by most.

Why has this inefficiency crept into the workings of developmental NGOs, which for some time were considered as dynamic alternatives to traditional governmental aid agencies? In the 1980's, the success of the fieldwork done by developmental NGOs became recognised by the public agencies. NGOs began to be used by public finance as developmental vehicles. In fact, developmental NGOs are up until now getting an increasing amount of financial support from national and international public agencies. Public funds, for many developmental NGOs, have become their core source of finance. Private funds collected from individuals now often only serve to supplement the administrative operations of the organisation and assist in cases of urgencies. As also observed by M. Donsimoni, this evolution within the finance of developmental NGOs has taken away their autonomy, and 'non-governmental' character. "Their dynamic and competitive spirit in the search for new finance has been bureaucratised transforming the light and flexible structures of the organisations into heavy and rigid ones."[2]

[2] Op. Cit., p.14

The relative importance of the contributions of public agencies within many organisations has given them an influential position over internal policies. This outside influence was not present when donations came from a variety of private contributors, none individually significant enough to influence the workings of the NGO. Development NGOs are now increasingly influenced by external political pressures. The World Bank in its "Manual opérationnel d'une collaboration avec les organisations non governementale" cited the politicisation of NGOs as one of the main constraints blocking increase co-operation.[3]

1.2 Why Increase Efficiency ?

The answers to why the efficiency levels of the development co-operation efforts (DCE) should be increased seem at first view to be obvious. But the answer really depends on the motives behind these efforts. If the motive is simply to sustain an expatriate development industry, and benefit from the diplomatic ties and bilateral links which this effort may generate, then to waste time and resources attempting to increase the efficiency of DCEs is unwarranted. The simple presence of the DCEs within a certain economy, coupled with a few well written annual reports camouflaging the inefficiencies are sufficient to reach these motives. But if the motives are truly developmental by the definition given above, then increase efficiency can only give positive results.

The Member countries of the Development Assistance Committee (DAC) spend about $60 billion dollars each year for official development assistance.[4] Their three principal motivations for their efforts were described as such :

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[3] World Bank Report, *Manuel Opérationnel d' une Collaboration avec les Organisations Non-Gouvernemental*, World Bank ; 1995.
[4] Alistair Boulton, *Aid Trade : Critical for Successful Development*, Development Express, June 1995, from the Canadian International Development Agency Internet site : www.acdi-cida.gc.ca

"- The first motive is fundamentally humanitarian. Support for development is a compassionate response to the extreme poverty and human suffering that still afflicts one-fifth of the world's population.

- The second reason for supporting development is enlightened self-interest. Development benefits people not only in poor countries, but also in the industrialised donor countries.

- The third reason for international support for development is the solidarity of all people with one another."[5]

For the first two motives listed above, increase efficiency will make the developmental efforts more effective. In-fact, the humanitarian motive fully justifies the increase in efficiency since a more efficient DCE will be able to alleviate poverty and human suffering more effectively than before. Or, at least, it will be able to reach the same results at a lesser cost, leaving residual funds, which can serve to finance further developmental efforts. The motive which is described as "enlightened self-interest" also justifies an increase in efficiency levels, since the increase in efficiency will also serve the egoistic motives of the donor countries by maximising (or at least increasing) the benefits returned. As for the third motive, "solidarity with all people" is a concept that is broad and very difficult to quantify. A simple diplomatic letter of regret or support can represent solidarity. In order to judge the benefits of greater efficiency with regards to this motive, solidarity as a concept would need to be further defined.

An increase in the efficiency levels of DCEs is needed if only to regain some of the credibility which developmental aid has lost in the past decade. Economists like Gunner Myrdal and Dudley Seers, who once favoured developmental aid, have now changed their point of views in response to the poor performance of aid programmes.[6] A DAC report published in the Canadian International Development Agency (CIDA) newsletter, The Development Express, gave its description of the present performance of developmental aid ; "Set-backs have occurred, resources have been wasted, and ill-conceived or poorly-managed, aid has even been

[5] Op. Cit.,
[6] As in "Les Pionniers du Développement" Economica, 1988, p168

counter-productive. Some countries have become excessively dependent on aid."[7] The report followed these comments by attempting to pick out what should be learned from the mistakes of the past and suggested new fundamental policy changes that are required to help reach the developmental objectives. Their results did touch on the need for greater efficiency and "professionalism" by the part of DCEs. But, more importantly, they recommended that future developmental efforts be stimulated, controlled and owed by the local populations that they aim to aid. "Sustainable development, based on integrated strategies that incorporate key economic, social, environmental and political elements, must be locally owned."[8] We will come back on the importance of this statement and its relation to efficiency further in this paper, but first let's return to are discussion on the need for increase efficiency.

The budgets allocated to the developmental agencies of Canada (CIDA) and the USA (Usaid), entered a new era in 1995 when it was announced that developmental aid would face severe cuts and would become predominantly linked to trade development in line with the DAC's second motive listed above. This is well presented in a statement to the Committee on International Relations of the House of Representatives in Washington, D.C. on May 9, 1995, by Mr Brian Atwood, Administrator for the U.S. Agency for International Development[9],

> "Cuts in U.S. assistance have the potential to trigger a chain reaction of cuts from other donors to the most vulnerable nations.... America would be sending a clear signal to the international community that development was no longer a U.S. priority.... The reorganisation proposal would likely add layers of unneeded bureaucracy to our foreign affairs operations, diminish U.S. flexibility in meeting pressing foreign policy challenges and sacrifice long-term development to short-term political gain. Everyone close to the issue has realised that savings will only be obtained by slashing vital programs, not because of any improvements in efficiency."

[7] Op.Cit, Alistair Boulton.
[8] Op.Cit,
[9] Statement to the Committee on International Relations of the House of Representatives in Washington, D.C. on May 9, 1995, by Mr. Brian Atwood, Administrator for the U.S. Agency for International Development as found in the Canadian International Development Agency Virtual Library at internet site : www.acdi-cida.gc.ca/

Important cuts were made to several projects/programmes as a reshuffle in the distribution of aid was initiated. This means that many DCEs falling under the DAC's first motive who have, or may, face budgetary cuts need to adapt their operations. They need to increase the value added of every dollar coming from their diminishing grants through higher efficiency in order to, at least, maintain their prior effectiveness. "A growing portion of available ODA resources has been devoted to humanitarian needs and debt relief in recent years, placing an even greater strain on aid budgets", (DAC, 1996).

The DAC expressed its worry about the negative results that the new development strategies, which several of its member countries have adopted, will have on the already deteriorating image and effectiveness of international co-operation.
"It is clear that an effort to build stronger compacts with developing countries on a foundation of shrinking resources and declining commitment will lack credibility. Therefore, it is necessary to express our deep concern that domestic preoccupation and budgetary pressures in some Member countries seriously jeopardise the international co-operation effort at a critical juncture."[10]

1.3 Modelisation of the Donor-DCE Relationship

Myriam Donsimoni, in her analysis of the economics of altruism, leads us into another reasoning to justify the need for greater efficiency within DCEs. She modelled the relations between donor and DCE by using duopolistic game theories. Although her aims were different from those of this paper, her methodology can be adapted to serve our needs. The basic conclusion which we can derive from her methodology is that ; A knowledgeable donor who wants to maximises the utility of his/her donation will choose a DCE which allocates the highest percentage of the donation towards actual developmental efforts, assuming that the effectiveness of the DCE according to the donor is essentially measured quantitatively.[11]

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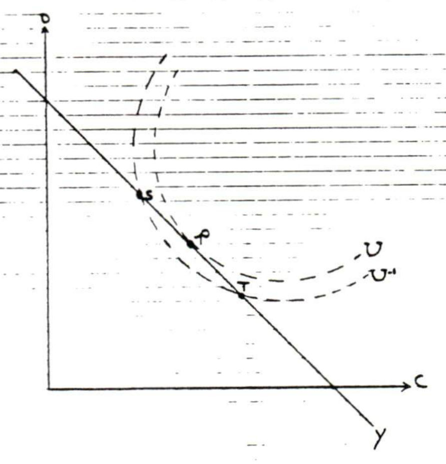
[10] Op.Cit, DAC.
[11] Op.Cit, Myriam Donsimoni, p.50, The true motivations behind donations are most likely far more

To the donor, the donation, or the satisfaction gained by the donation, is a product that is purchases at the price equal to the amount of the donation. As a rational consumer, the donor will want to maximise the satisfaction, or utility, which can be extracted from his/her donation. He/she will choose the value of his/her donation according to his/her maximum utility equilibrium that can be reached given a fixed budget. If the donation is too small, utility will not be maximised since the feeling of not having done enough for development will remain and the motives behind the donation will not be fully achieved, the feeling of guilt. Similarly, if the donation is too large, utility will be lost by the superfluous income foregone by way of the donation, which would have been better utilised elsewhere, the feeling of regret for having given too much.

Therefore, if the donor reaches a maximum utility point at a specific donation amount, he/she will choose that amount for the donation, which will be given to a DCE. This can be illustrated by a simple utility graph as found in figure#1 where "p" is the equilibrium amount which the donor "D" is willing to donate to the DCE "C" according to budgetary constraint "Y" and the utility curve "U". At point "S", D did not give enough, and at point "T", D gave too much, therefore both points fall on a lower utility curve. Point "p" is the highest utility curve reachable given the budgetary constraint "Y".

Figure #1[12]



complex than the given donor utility function suggests.
[12] Op.Cit, p.55

The Donor's Utility

Now that the donor has decided upon the amount of his/her donation, he/she must now choose to which organisation or DCE he/she will make the donation. To make this choice the donor will use the following utility function :

$U_D(Y-p,x) \qquad D_p < 0, \qquad D_x > 0$

Where Y corresponds to the donor's available budget ; p corresponds to the amount of the donation made to the developmental organisation ("C"), therefore p is the donation from D to C ; x is the amount received by the less developed countries, the populations aided ("A"), therefore x is the donation from C to A.

D's motivation in this model will be represented by x. U_{D1} is the utility which d gets from Y-p, and U_{D2} is the utility from x. Therefore we get :

$U_D(Y-p,x) = U_{D1}(Y-p) + U_{D2}(x)$

The Developmental Organisation's Utility

C's utility function is represented by :

$U_C(p-x,x) \qquad C_p > 0 \qquad C_{(p-x)} > 0, \qquad C_x > 0$

p-x corresponds to the amount kept by C to cover its operating costs. U_{C1} is the egoistic utility that C gets from p-x. U_{C2} is the utility which C gets from x, since after all C would not exist if it was not to serve x and therefore we can assume that C has an altruistic utility in x. Therefore :

$U_C(p-x,x) = U_{C1}(p-x) + U_{C2}(x)$

The particularity with this situation is that x acts as an ambiguist variable for the utility of C. A high level of x diminishes the utility gained from $U_{C1}(p-x)$, but increases the utility gained from $U_{C2}(x)$. The preferred amount for x will depend on the weights that C allocates to $U_{C1}(p-x)$ and $U_{C2}(x)$.

But D's utility is also influenced by C's choice for x. And since the choice of x can ultimately affect D's choice of p, both C and D will need to agree on a level of x which will maximise both player's utility. This brings us into the use of game theories to decide the optimum level of x.

Ms Donsimoni illustrated several models using the Cournot-Nash and Stackelberg approaches. We will skip these as they are not very relevant to the objectives of this paper and go straight to her conclusive model.

The Developmental Organisation

D will decide to give p if C promises to give x. D therefore defines p as a function of x : ***p = p*(x)***. C will therefore maximise its utility function, Uc, under the constraint : ***p = p*(x).*** C's new utility function is :

Uc(p*(x)-x,x)

C must determine the value of x as a function of p which is itself a function of x : ***x(p(·))***. This means that C takes D's reaction into consideration.

The Donor

C decides to give x if D promises to give p. C chooses x as a function of p. This means that the value of x will be determined by the value of p. x becomes a function of p : ***x = x*(p).*** D will maximise U_D under the constraint **x=x*(p)**. Its new utility function will be :

U_D(Y-p,x(p))

D will therefore choose p as a function of x that is preferred by C. D will take C's reaction into account in its decision for p.

Figure #2

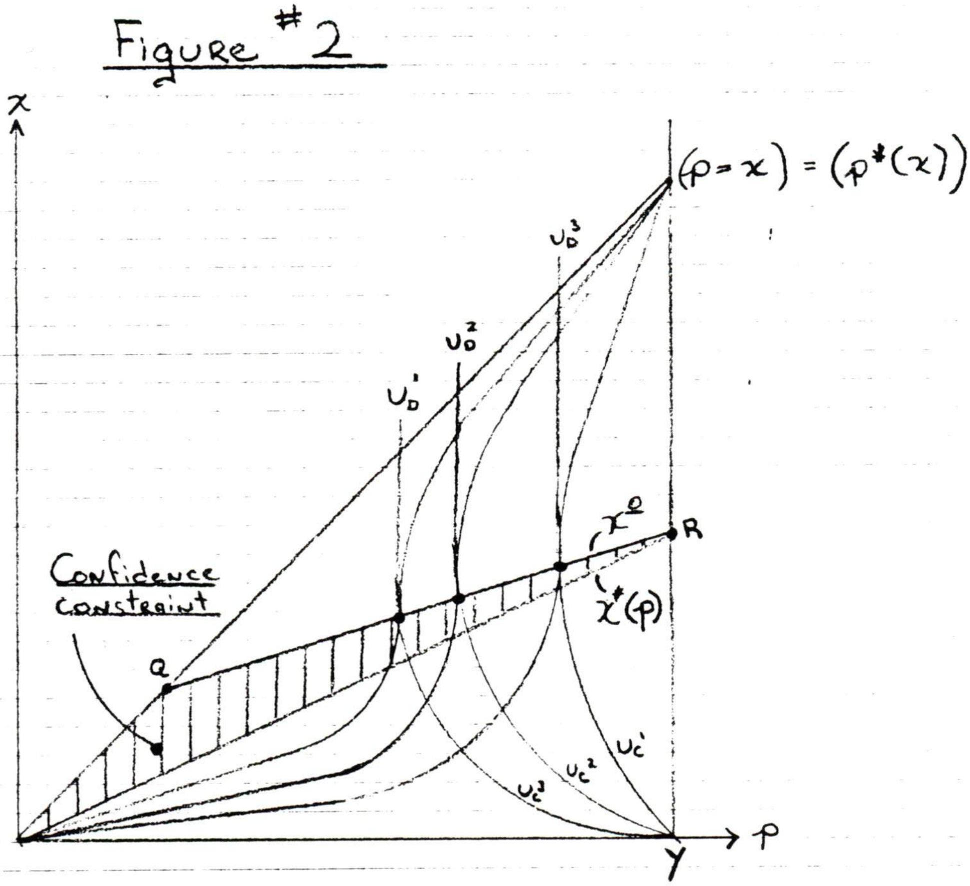


Figure #2
x
p
(p = x) = (p*(x))
U_D^3
U_D^2
U_D^1
x^e
R
Confidence constraint
$x^*(p)$
Q
U_C^1
U_C^2
U_C^3
Y

The assumptions for figure #2 are : $\boldsymbol{p > x}$ & $\boldsymbol{Y > p}$. It is reasonable to assume that the developmental organisation will not give more than it receives and similarly that the donor will not donate an amount superior to his/her budget. Therefore our area of analysis on the figure is restricted by the axis representing "p" at the bottom, by the linear p = x at the top, and by the budgetary constraint of D, (Y).

The linear x*(p) is the reaction function of C ; it corresponds to the rate of transformation of the donation into aid., (p to x). It links C's preferred values of x. D's reaction curve is : p*(x). This corresponds to the rate of change of aid into additional donations. It links the points preferred by the donor, D. We assume that the donor prefers a situation where all of his donation is used as aid, p = x.

D will want to maximise x for A, the receiver of aid, through the efficient use of p by C. Since there are no intersection between ***x*(p)*** & ***p = x*** other than at the origin, which would mean that no donation would take place, a contract of confidence must be made between D & C within which each player must bend to the conditions of the other.

The linear x^{o} in figure #2 shows the points of tangency of the utility curves U_D & U_C :

$\boldsymbol{MaxU_D \text{ such that } U_C = U_D}$

$\boldsymbol{MaxU_C \text{ such that } U_C = U_D}$

x^{o} forms the contract curve between D & C. Given a negotiation, the value of x will always fall on linear x^{o}, $x = x^{o}$. This is because linear x^{o} offers the optimum situation for x where no player, D or C, have any interest in changing the value of x. At this optimum it is impossible to increase the utility of a player without correlatively reducing that of the other :

Max $_{x,p}$ ***UD(Y-p,x) such that : Uc(p-x,x) > Uc***

We can interpret this result by using the Lagrangian Function :[13]

$\mathcal{L} = U_D(Y-p,x) + \lambda[\,U_C(p-x,x) - U_C]$

Through the differentiation of this function we can determine the configuration of the contract curve xº keeping the following constraints in mind :

- xº does not pass through the origin since UD is horizontal and Uc is vertical at that point. The two utility curves are not tangent at point 0. xº is therefore always situated above the point of origin.
- UD is vertical towards the constraint Y and Uc is vertical when it intersects x*(p). Therefore UD and Uc are tangent at the point of intersection of Y and x*(p).
- The intersection of xº and p = x, point Q, is always inferior than the intercept of xº and Y, point R : Q < R. This means that D would not accept to increase his/her donation, p, knowing that by doing so x will be reduced.

The distance between linear xº and x*(p) can be interpreted as the confidence constraint. The more confident D is in C, the greater the donation, p. This is represented by the diminishing distance between xº and x*(p) as p increases. At the same time D will allow x to approach x*(p), leaving C with a greater amount of p-x.

We will now leave Ms Donsimoni's model to answer our question : Why should DCEs increase their levels of efficiency?. The DCE, "C", should increase its level of efficiency because by doing so it will diminish its necessity for p-x which will lessen the weight allocated to this preference in its utility function : Uc(p-x,x). This can be translated in our figure by an increase in the slope of linear x*(p) as shown in figure #3. The increase in the slope of x*(p) will

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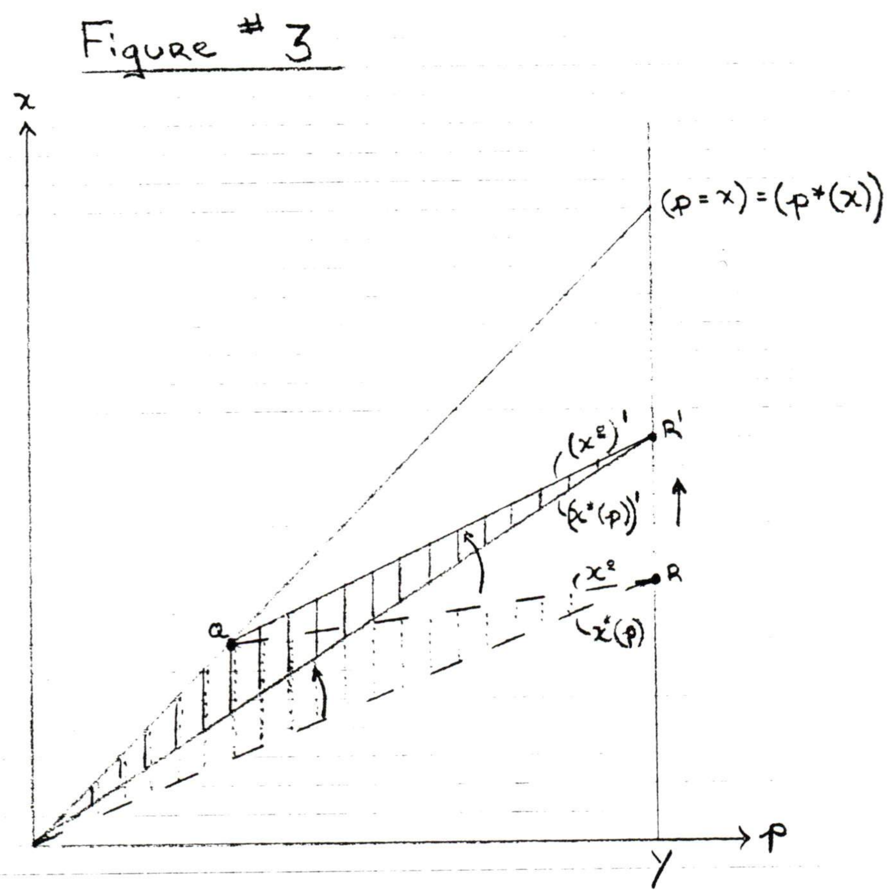
[13] Op.Cit, p.94

diminish the confidence constraint area between x^{o} and $x^{*}(p)$ and therefore as was previously demonstrated, D will be stimulated to give a larger amount of p given D's utility function : $U_D(Y-p,x)$. In return, C will derive a larger utility coming from the increase in p and from the larger amount of x, which A receives.[14]

Figure #3



[14] It is important to add a note to this model, which, although is theoretically founded, may not well represent the real world situation. This is mostly due to possible observable difference in the decisions of the donors as compared to the utility function $U_D(Y-p,x)$ that we have given them. We can speculate that some factors, such as DCE marketing and/or fiscal policies, play significant roles in the decision process of the donor. Furthermore, the benefits from increase efficiency, for some DCEs, may be insignificant due to the relative insignificance of private donations as compared to those coming from public sources.

1.4 Methods of Increasing Efficiency

> "Privatisation will increase efficiency: 'Nationalisation of spontaneous change which competition and fear of bankruptcy impose upon the private sector.' (Sir Keith Joseph, 1980)"[15]

A parallel can be made between the situation that the aid sector is now facing and that which the public sector of most western nations faced a decade ago. As a result, the decade of the 1980's saw in the developed countries a wave of denationalisation of public enterprise. Faced with growing dissatisfaction over the bureaucratic size and operative inefficiencies contributing to the high costs of the public sector, western governments entered a privatisation frenzy. The World Bank in a report published in 1981 emphasised the need for reform of the private sectors of many economies, which it described with the following words :

> " It is now widely evident that the public sector is over-extended, given the present scarcities of financial resources, skilled manpower, and organisational capacity. This has resulted in slower growth than might have been achieved with available resources, and accounts for the present crisis."[16]

Although Chile in the late 1970's was one of the first nations to adopt a disinvesture policy, the success of British privatisation programme is largely considered responsible for having fuelled a wave of public sector disinvestures around the world. Economist and policy makers from other western nations studied the British experience at length. Copies and variants of the British strategy were implemented in other countries, although not always with similar results.[17]

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[15] Sir Keith Joseph, 1980, as found in ; V.V. Ramanadham, *Privatisation : The UK Experience and Developing Countries*, Oxford, 1996, p. 14
[16] World Bank (1981) Accelerated Development in Sub-Saharan Africa: An Agenda for Action, Washington DC: World Bank.
[17] Op.Cit., V.V.Ramanadham, p. 21

The arguments used by the British to rally support for their privatisation policies is best portrayed in the British White Paper on privatisation put to parliament in 1986 prior to Britain's second privatisation phase. These arguments could also very well be used to argue for the privatisation of the aid sector as its massage seems as valid for the aid sector as it was for the public sector.[18]

"The Government believes that privatisation of public enterprises will benefit their customers and employees, and indeed the nation as a whole, in the following ways:

I) The enterprises will be free of Government intervention in day to day management and protected from fluctuating political pressures."

As was mentioned previously, political interference within DCEs is one of the major concerns of the World Bank. Although a great deal of expertise is transferred from public aid agencies to the DCEs, the bureaucracies imposed by these agencies upon the DCEs in the name of good control and co-ordination often give nightmares to DCE managers. The DCE workers often have a much clearer view of the appropriate actions to take relative to a civil servant often several oceans away.

"ii) The enterprises will be released from the constraints on financing which public ownership imposes."

Dependence on annual budgets or three year plans, by DCEs, make it difficult for them to have any sort of medium term objectives, and therefore security. It is also very difficult for DCE managers to ally cost recovery policies with budget-based financial management. The timely and painstaking bureaucratic redtape, often necessary for the release of founds for DCEs, is a source of major inefficiency within the aid sector.

[18] As argued in a White Paper: (Cmnd 9734, HMSO, London, 1986)

"iii) Access to private capital markets will make it easier for the enterprises to pursue effective investment strategies for cutting costs and improving standards of service."

It is impossible for a DCE, as a non-commercial entity, to be active in the financial markets. Either for the purpose of sourcing termed finance, or for the purpose of investing available reserves or savings.

"iv) The financial markets will be able to compare the performance of individual enterprises against each other and against other sectors of the economy. This will provide the financial spur to improve performance."

This is also applicable to DCEs. A privatised DCE will need to compete with the rest of the private sector for available finance forcing efficiency and good financial management.

"v) A system of economic regulation will be designed to ensure that the benefits of greater efficiency are systematically passed on to customers in the form of lower prices and better services than would otherwise have occurred. vi) Private enterprises will have a greater incentive to ascertain the needs and preferences of customers, and to tailor their services and tariffs accordingly.
vii) Private enterprises will be better able to compete in the provision of various commercial services, notably in consultancy abroad."

Economic regulations, in the case of privatised DCEs, would depend on the conditions specific to each DCE. Orientation councils can be set up to offer guidance to the newly privatised DCE. As for the gains to the customer, experience with the commercialisation of DCEs active in the dissemination of appropriate technologies for small scale business development in eastern and southern Africa demonstrated that a commercial DCE could provide a much better customer service than before.

Distribution policies within the commercialised DCE were improved giving the customer better access to the DCE's products, spare parts and repair facilities. Better promotional and informational efforts were undertaken, giving the market greater knowledge of the benefits they could derive from the products. More information was also available to the purchasers of the products about the maintenance and mode of operation of their purchases. The quality of the products was improved and adapted to customer needs. The introduction of mass manufacturing, possible through the development of export markets, increased the margins available to the DCE whilst at the same time diminished the cost to the customers of the established market. (see Part III of this paper)

A wealth of expertise has been cultivated within many DCEs. This expertise can be commercialised by DCEs and exploited to the profit of the privatised DCE.

"viii) Privatised enterprises will be better able to attract high quality managers from other parts of the sector."

As previously mentioned, within some economies, the stereotype accompanying the development worker and the lack of recognition given for work done within DCEs has made it difficult for DCEs to attract high quality managers, even when higher wages are offered. The privatised DCE would enter the private sector and compete at the same level as all other private companies. Its association with the traditional development organisation, other than through historical reference and possible allocative aims, would no longer exist. As a dynamic private enterprise, the stigma attached to working for a DCE would disappear.

"ix) There will be opportunity for wide ownership of local shares both among employees and among local customers.

x) Most employees will be more closely involved with their business through their ownership of shares, and motivated to ensure its success."

Ownership of the newly privatised DCE could be offered to its staff encouraging an even greater increase in efficiency levels. The local public could also participate in the ownership that could help sensitise the local populations to their own developmental needs and allow them to take it into their command. We will come back to this topic in fare greater details later in this paper.

Pure privatisation, though, is not always suited to the objectives of many DCEs. The lack of a marketable product would prevent many DCEs of reaching viability as a private enterprise. A solution for some DCEs in this situation would be to form private companies that would tender for developmental contracts from their new clients, the aid agencies. This solution would need to be studied further, as it could create a monopsony situation, which may not be the preferred scenario if effectiveness through increase efficiency is the ultimate objective.

Similarly, those DCEs which do produce marketable products, services or expertise may not necessarily always reach higher levels of efficiency through privatisation. It is not the ownership structure that is the catalyst for efficiency but rather the competitive conditions, which are often introduced through privatisation. If it is possible to recreate a competitive atmosphere within a non-privatised DCE than the benefits from higher efficiency levels may be reached without the burden of privatisation. Colin Kirkpatrick made the same observation in his paper *Background Observations on Privatisation:*

> "It would be purposeful for developing countries to note that several changes in productive efficiency, which have occurred after privatisation, did not in fact need privatisation as a pre-condition........ The lesson is therefore, that a developing country does not have to assume that every desirable step in marketisation is only possible through divestiture. Conversely, privatisation will not automatically bring about all desirable marketing changes."[19]

A privatisation "fad" must be avoided, and every DCE must be analysed separately to judge if privatisation is the right vehicle to stimulate the right variables and market forces that would bring the DCE to higher efficiency levels and greater effectiveness. The World Bank and many public aid agencies have been blamed for pressuring LDC countries to jump onto the "privatisation bandwagon" for all the wrong reasons. David Heal in 1988 in his analysis of the ideological history of public aid agencies said, "at present there seems to be a striking combination of aggressive ideology and of what, if taken at face value, can only be described as naive managerialism. Fashions change and there is a certain irony in the aid agencies' current advocacy of denationalisation for the public sector enterprise which they were instrumental in establishing....."[20]

We must distinguish the variance between commercialisation, which is the introduction of policies and measures which increase the presence of market forces within an enterprise or organisation, and privatisation which implies the concession of ownership to private interests. Although often seen complimentarily, these two conditions are in no way interdependent. The presence or introduction of one policy within an enterprise does not necessarily advocate for the introduction of the other. It would be correct to say that commercialisation is a policy vehicle to reach the ultimate goal of greater effectiveness through increase efficiency and that privatisation is simply a tool that can be used within the commercialisation policy.

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[19] Colin Kirkpatrick, *Background Observations on Privatisation*, London 1996, p.5
[20] David Heath, *Privatisation : Modalities and Strategy*, London 1996, p.120

There is a range of commercialisation opportunities in terms of the degree of ownership, control, management or operations which is foregone, in our case, by the public aid agencies or donors. First, commercialisation can operate at many levels. The lowest forms of commercialisation may involve no more than introducing good business practice through the engagement of a manager or a consultant from the private sector. Only a slightly higher level might involve minor operations being undertaken by the private sector. Introduction of operative and administrative systems based on efficient attainment of performance targets is another level of commercialisation, which can often stimulate important increases in effectiveness within organisations. At the extreme, the highest level of commercialisation is privatisation where 100 per cent of the equity in an enterprise is sold to private sector purchasers with no special powers over it being retained by the donor.

1.5 Economic Justification

No econometric case studies nor economic theory has yet offered a clear-cut statement that privatisation of the public sector will always increase efficiency (Bös,1997)[21]. In fact, more recent economic papers tend to stray from this widely held view promoted in the last decade. Contrary cases have been presented (Whitfield, 1992 ; Shapiro and Willig, 1990). Although these may only offer exceptions to the rule, the fundamental criterion of measure is efficiency. In the past, the emphasis had been put on productive efficiency measurable through the use of a production function which analysed the ratio of inputs to outputs, which, for the private sector, often takes profit as a highly weighted variable. More recently, economists have analysed the merits of privatisation through the use of an alternative type of efficiency, allocative efficiency. Allocative efficiency is of major importance to our analysis of the privatisation of DCEs since, very often, developmental efforts do not have profit maximising aims. It can be well argued that privatisation increases productive

[21] Dieter Bös, *An Alternative to Privatisation: Coping with Managerial Slack in Public Firms*, Bonn,1997.

efficiency, but distorts allocative efficiency. Whether privatisation is to be recommended for developmental co-operation efforts depends on the weights allocated to these countervailing effects.

We can illustrate the trade-offs necessary when contemplating such a decision by using a simple utility curve model.[22] Consider the privatisation of a DCE that offers a product or service to a developing market under monopolistic conditions where privatisation improves X-efficiency (productive-efficiency) but distorts allocative efficiency. For a basic two-product/service DCE, Figure 4 presents the production-possibility frontier for the output quantities *x1* and *x2*. We assume that this frontier is not changed by the DCE's shift to private ownership. However, the private DCE will need to change its policies, namely its production and managerial policies towards cost recovery objectives, if it is to survive. This is illustrated in figure 4 by having different production points for the privatised and non-privatised DCE under the same input levels. We imagine a privatised DCE which has attained full productive efficiency at point A. Since the privatised DCE now applies profit maximisation policies it will produce at a point far from point B which is where its X-efficient production also maximises allocative efficiency and therefore the optimum possible welfare point is reached. Point B meets the highest welfare-curve, *W1*, which can be attained given the production possibilities of the DCE. We can compare the privatised DCE with two kinds of non-privatised DCE : a rather well-run DCE which produces at point C and a relatively badly-run DCE which produced at point D.

[22] **(Used here to analyse the merits of privatisation of developmental cooperation efforts based on public enterprise analysis published by Bös-1997, Laffort and Tirole-1991, and Shapiro and Willig-1990*

Figure #4

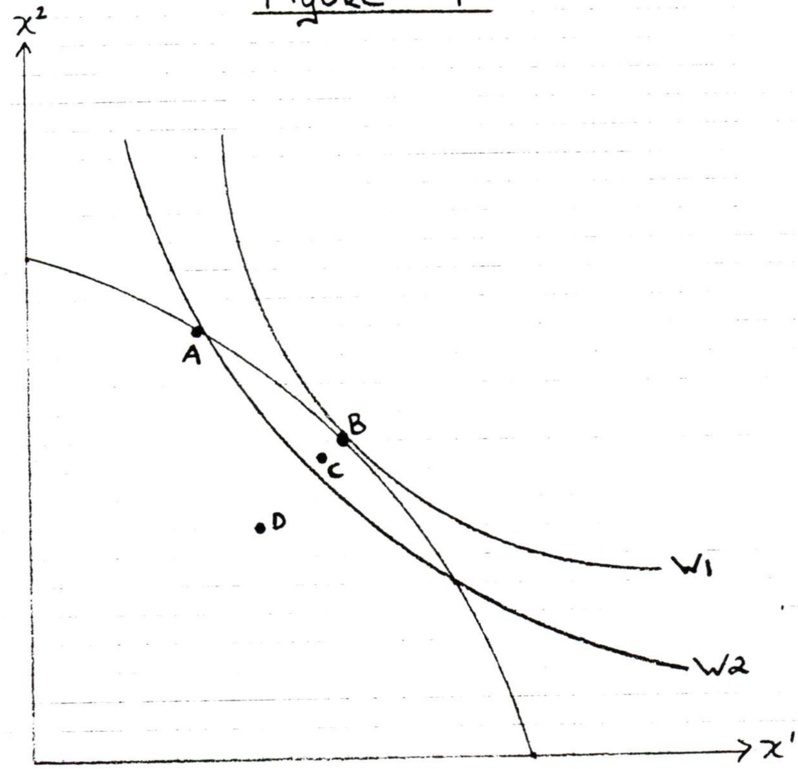
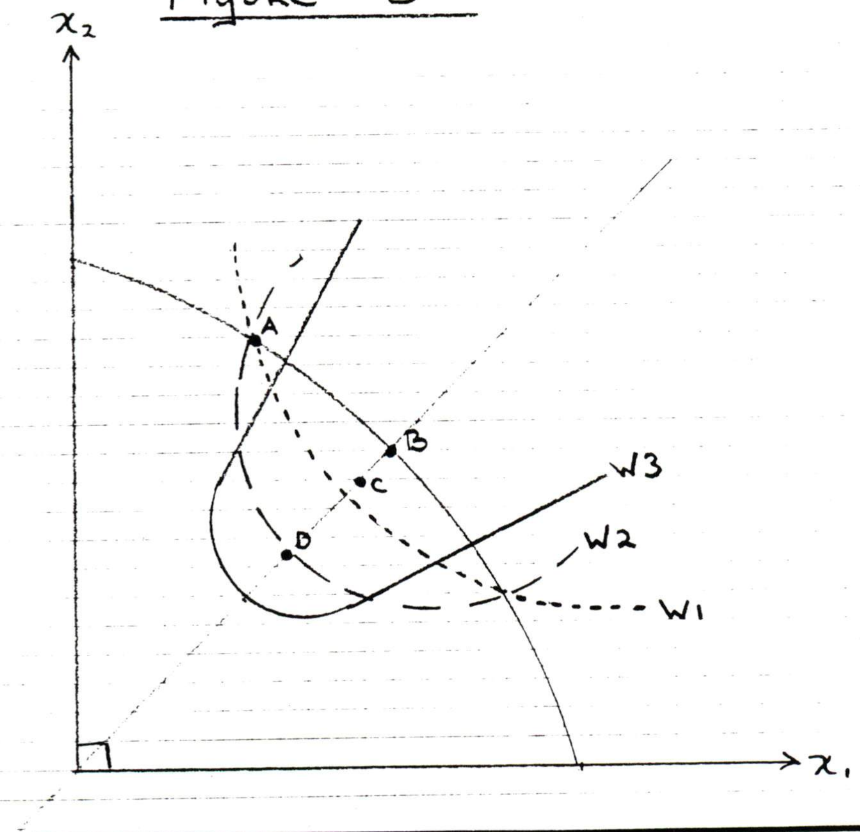


Figure #5



The illustration demonstrates the trade-off between allocative efficiency and X-efficiency : if the DCE is well run and produces at C, it should not be privatised. A move from C to A implies a deterioration of allocative efficiency which is so serious that it is not offset by the simultaneous improvement of X-efficiency. On the other hand, if the DCE is badly run and produces at D, it should be privatised. The move from D to A is welfare improving : it is worthwhile to accept the allocative distortion created by the privatisation because it is coupled with an immense increase in X-efficiency.

The above model greatly copies the model developed by Bös in 1997 where he offered a compromise between recent papers recommending privatisation for public enterprises (namely Laffont and Tirole - 1991) and others advising against (namely Shapiro and Willig - 1990).[23]

Because of the nature of DCEs it can be expected that a heavy weight will be put on the allocative efficiency. Allocative efficiency can be represented by a straight line set at a 45º angle from the origin as found in figure 5 (we assume here that the output quantities X1 and X2 will be scaled along both axis according to equivalent product/service preference). The importance of allocative efficiency to the DCEs will be reflected on our welfare curve by diminishing its concavity necessitating far greater X-efficiency improvements during privatisation to warrant any allocative efficiency loss in the process.

By extrapolating a little, we can imagine that some DCE carry weights to allocative efficiency which are infinitely large and do not allow any deviation from the allocative efficiency line. In these cases privatisation is a non-starter since no gains in X efficiency could suffice. We will discuss further in this paper

[23] Laffont, J.J., and J. Tirole, *Privatisation and Incentives*, Journal of Law, Economics, and Organization, 1991, 7: 84-105 : Shapiro, C., and R.D. Willig, Economic Rationales for the Scope of Privatisation, 1990, pp. 55-87.

the types of DCEs which are not suitable for privatisation and which are, basically which have relatively heavy allocative efficiency weights as compared to X-efficiency and which put less relative importance on allocative efficiency.

For those DCEs which cannot gain from privatisation (points C in figure 4 and points C&D in figure 5), but who are below the optimum welfare point B, welfare improvements can be introduced by undertaking commercialisation policies. These internal X- and allocative efficiency improvement policies can help the DCE reach higher welfare levels given the same inputs. Within our model, movement from points C and D towards point B on the figures 4 and 5 can illustrate commercialisation. We will discuss the concept and methodology of commercialisation of DCEs further in this paper. For now we will focus on the economics behind the privatisation and commercialisation of DCEs.

In 1996, during the international conference on privatisation held in Budapest, Dieter Bös presented economic models that analysed inefficiencies in public firms and offered alternatives to privatisation as a way to counter these inefficiencies. Although this paper will not attempt to accept or reject the concept of privatisation on the same grounds as Bös, I will borrow and apply his methodology to represent a decision process leading to commercialisation and/or privatisation efforts within DCEs.[24]

Bös identified managerial slack as the main form of non-technical inefficiency. He used a very general concept of managerial slack, which he proposes can be eliminated within public enterprises in order to reach optimum welfare levels without having to privatise. This simplified concept of managerial slack gives extreme independence and responsibility to the manager(s) of a DCE. Managerial slack is held responsible for non-technical inefficiencies.

[24] Dieter Bös, Extract from contributions to the discussions at the Budapest International Conference on Privatisation, as found in Patrick Plane, *Privatisation and Economic Growth*, New York, 1997.

I'll briefly go through a model which represents the particularities of a DCE under monopolistic conditions, (as this paper will elaborate later, the use of monopolistic models to represent DCEs is warranted by the diseconomies caused by their existence within competitive markets). The purpose of this presentation is simply to demonstrate mathematically the workings of non-technical inefficiencies within DCE's. This will give the reader a basic idea of where one could start to develop more complicated models adapted to the specific microeconomic environment of a considered DCE in order to formulate practical policy decisions.

I. The Model

A DCE, its Management, and the Donor (if multiple donors exist, they are assumed to hold the same objectives and act as one entity)

The model deals with a one-good monopolistic DCE that operates in the following framework. It faces a demand function

$x = x(p); X_p < 0,$

where x is the quantity that is negatively correlated to the price represented by p. The market is always cleared, hence x is both the demanded and supplied quantity. The cost function representing the DCE for the supply of x is

$C = C(x,e); \quad C_x > 0, \qquad C_e < 0,$

where e is effort of the manager. Cost is positively related to quantity and negatively correlated to effort. The costs may also depend on a random variable θ making

$C = C(x,e,\theta),$

The manager, (although we use the singular form for simplicity, the model can be expanded to globally represent all managers and professionals of a DCE), has a concave utility function which is positively related to his/her income, !, and negatively to his/her effort,

$V = V(!,e); \quad V_i > 0, \quad Ve < 0$

The manager's income, !, is meant to represent the entire compensation package given to the Manager. It includes salary and "perks".

Finally, as a general notation of any Donor objective function, we choose

$\Omega = \Omega(p,e,\theta)$.

An important assumption is made here being that the objective function is measured in monetary units. Hence if Ω is a welfare objective as would be the case for most DCEs, the use of a money metric of social utility is required. This may become a very constraining assumption with certain types of DCE. We also assume that both Donor and manager are risk neutral. Managers are assumed to only find motivation from !.

II. Informational Setting

When the Donor and the manager negotiate the compensation for the manager's effort, both can plan only in terms of expected utility and welfare. As income is a measure of compensation for effort which in itself cannot be independently quantified, another quantifiable variable (variable θ) which enters both the donor's and the DCE's function is needed to isolate e. Variable θ is then brought into the manager's utility function and becomes the common variable upon which compensation for effort can be agreed to in an employment contract. Only after entering employment can the manager observe the actual value of θ. He then sets p and e according to θ and thereby maximises his/her personal utility. After production, the donor is able to observe price, output, and effort and to compensate the manager accordingly. In other words the donor and manager agree on a quantifiable variable which is representative of the manager's effort towards the donors objectives. This quantifiable variable will become the indicator used to compensate the manager's effort based on the level of success of the manager in attaining the donor's objectives. This incentive compensation or "commission" will represent the manager's income.

The manager, we assume, wants to maximise his/her utility and therefore will maximise his/her level of effort applied towards the objectives of the donor so as to, in return, maximise his/her income. The donor can only rely on the selfishness of the manager by taking account of his/her utility maximisation.

The manager's participation is achieved if he/she can at least expect to reach his/her reservation utility, $\hat{V}$, otherwise he/she will not accept the job, (the manager's participation constraint).

$$EV(!,e,\theta) \supseteq \hat{V}$$

where E is the expectation operator with respect to θ. The manager's utility will depend on θ, because both commission and effort will depend on θ.

III. Defining Efficiency

Consider a fully informed developmental planner who maximises a social benefit cost difference subject to the fully informed manager's participation constraint. The optimisation problem can be described by the following Lagrangean function (Bös, 1997):

$$\mathcal{L} = S(p) + px(p) - C(x(p),e) - ! - \lambda[V(I,e) - \hat{V}],$$

where S(p) is consumer surplus, $\delta S/\delta p = -x(p)$. Differentiating with respect to p yields the marginal-cost pricing rule that implies allocative efficiency:

$$(p - C_x)x_p = 0.$$

By differentiating with respect to e and !, (Following a series of manipulations demonstrated by Bös, 1997) we get the X-efficiency rule (Gravelle, 1982)

$$V_e/V_! = C_e$$

This is because $-V_e/V_!$ =: MRS(e,!) is the marginal rate of substitution between income and effort. The marginal rate of substitution is equated to a marginal rate of transformation, as defined along the cost function, $-C_e/C_!$ =: MRT(e,!), where we have defined $C_!$:= 1.

We now introduce the donor's objective function Ω according to a fully-informed donor who maximises the following Lagrangian function:

$\mathcal{L} = \Omega(p,e) - ! - \lambda[V(I,e) - \hat{V}]$.

Differentiation with respect to p yields

$\Omega_p = 0$.

This marginal condition will not imply allocative efficiency unless the donor maximises welfare. Differentiation with respect to ! and e yields

$V_e/V_! = -\Omega_e$.

As we have seen before with the X-efficiency rule, if this condition holds, there is no managerial slack in the achievement of the objective Ω.

What this shows is that, in a DCE, managerial slack means inefficient achievement of a particular donor objective. In this respect, pure production consideration may not be predominant if the donor is interested in maximising non-profit or welfare oriented objectives.

To prevent getting bogged down with assumptions and detail, we will leave our model at this stage so that it can become a base model which can be used to formulate more complex models demonstrating non-technical inefficiencies within DCE's and ways to eliminate it. Bös in his presentation expanded his version of this model further to analyse different ways of using performance incentives to eliminate managerial slack within public enterprise. For the purpose of this paper it is best to interpret managerial slack as non-productive inefficiency. The model presented above therefore offer us a base upon which policy measures can be adopted within DCEs to eliminate or reduce inefficiencies without necessarily resorting to privatisation policies. This is especially important for those DCEs, which, as covered previously, have almost exclusively allocative efficiency objectives, and where the benefits from X-efficiency improvements brought about by privatisation could never compensate for the simultaneous allocative efficiency losses.

1.6 Concluding Part I

This first part of the essay attempted to present a perspective of efficiency within DCEs that is compatible with their developmental aims. We began by covering the reasoning behind targeting efficiency improvements to improve the effectiveness of DCEs. We saw that the motives behind the formation of the DCE are an important consideration to judge whether efficiency can appropriately improve effectiveness. An increase in the efficiency of DCEs is justified by the need to regain loss credibility experienced in the past decade by the developmental aid sector. Diminishing public allocations to international aid as a proportion of national production also calls for increase efficiency as DCEs need to increase the value added of every dollar coming from their diminishing grants in order to, at-least, maintain their prior effectiveness. We also presented an economic model that attempts to show that DCEs could benefit from increasing its efficiency through increased levels of private donations stimulated by greater confidence in DCE effectiveness.

We then followed by identifying methods of increasing efficiency. An important distinction was made between X-efficiency (production) improvements and allocative efficiency improvements. We acknowledged that most DCEs would benefit more from policies aimed at improving the latter type of efficiency. We also differentiated budgetary efficiency against objective efficiency and explained that due to the social missions of most DCEs, objective efficiency was to be used as our target. In fact, we argued that budgetary efficiency preoccupation, often used in the past, can actually be detrimental to the effectiveness of the DCE.

At this point we argued that the efficiency of DCEs could be greatly improved through the introduction or simulation of market forces within them. To do this the concept of commercialisation for DCEs was presented.

One of several techniques for introducing market forces within a DCE, and one that is at the extreme amongst the different levels of commercialisation, is that of privatisation. The next part of this essay will focus solely on this extreme scenario, when and how it should be applied. We abandon the balance of the scope on the commercialisation of DCE at this point, not because it is of no interest but because its extent goes far beyond the reaches of a simple essay.

PART II

2.1 Introduction

In this section I will concentrate on the privatisation of DCEs. As it was mentioned previously, not all DCEs are suitable for privatisation. In fact only a minority of DCE objectives can more effectively be reached through privatisation. But for those DCEs that are suitable for privatisation, the benefits from privatisation on efficiency and ultimately the effectiveness of the DCE in reaching its goals can be considerable given a carefully co-ordinated transition phase.

We will look at the types of DCEs suitable for privatisation and follow by illustrating examples of DCEs, which not only can, but should, be privatised. We will then parallel with the privatisation theories used for the public sector to try to briefly give "how to" pointers. Finally, we will expand on the use of associative ownership models as the format which the DCE's privatisation effort should/could take.

This entire section will be closely linked to privatisation theory and literature for public sector enterprises. We are forced to this comparison, due to the absence of literature on the privatisation of DCEs. I have taken care in adapting the public enterprise theories to suite the specifications of DCEs. As this is only a brief representation in essay format, it should not be judge too severely but rather should help stimulate, it is hoped, a more profound debate on the subject.

2.2 Which can be privatised ?

Two main prerequisites are necessary for a DCE to be considered for privatisation. The first of these is the presence of a viably marketable product, service and /or expertise, which the DCE can market in line with its developmental objectives. The absence of such a product or service would make it impossible for the privatised DCE to generate the necessary cost recovery revenues. All DCEs, although it may not always be so apparent at first, have a product, service or expertise, which it can market. Without one, the DCE would not have a purpose nor any real reason to exist and therefore should be terminated altogether. The DCE that is helping to build a school is producing a product, is offering a service and if it provides the teacher upon completion is sharing an expertise. Often the problem with DCEs is not the existence of a good to market but rather the existence of a suitable market to which the good can be viably commercialised, (not to be confused with our previous use of the word commercialise. Here we are referring to the marketing rather than the management definition of the word). A DCE may have the expertise necessary to build the best educational facilities but if the local population, governments, international aid agencies or any other entity is unwilling to purchase the good at a price which is at least cost recovery, then the DCE is not viable as a private entity. Local governments and international aid agencies must not be overlooked when trying to identify a source of demand for the DCE's goods and services.

The success of the commercialisation efforts required prior to the initiation of any privatisation policy will often greatly affect the viability of the privatised DCE. A product, service or expertise, which did not seem commercially viable to the DCE can become profit generating once commercial systems and attitudes have been introduced to the DCE. Our previous example of a DCE offering educational expertise may not have seen it viable to offer its expensive expatriate trainers with travel and living expenses at a price which local governments could afford. But once it has introduced some commercial policies it may see opportunity in offering an equally qualified native trainer who can work at locally competitive wages and without all the extra costs of a foreign trainer, (this is just a simple example used to make our point. We must keep in mind that we have assumed equal qualification and capabilities. It should also be analysed in the commercialisation efforts weather the level of expertise used prior to commercialisation is really necessary for the purpose of the DCE's objectives).

Our second prerequisite for the success of a privatised DCE is found within the composition of its overall objective. Inevitably the mission statement of all DCEs will be altered somewhat during any privatisation process. If the objectives of a DCE are highly allocative in nature, as was previously defined and illustrated, the privatisation process risks altering too heavily the mission statement of a DCE to a point where the original objectives will not be appropriately met. Often within these DCEs, policies to introduce viability correlatively affect the attainment of their objectives. We return to our example of a DCE involved in building and administrating schools for low income communities, if the DCE's main objective is to provide a school which will offer an adequate education to the community at a price which all can afford within the next year, then it is likely that efforts to turn the DCE into a viable private enterprise will work against its objectives in one of two ways. Either the DCE will introduce cost recovery measures which will increase the cost of the educational services by the amount previously subsidised by the DCE, making it unaffordable for many in the community. Or the DCE will take the budgets of the individuals within the community into consideration and will offer an inferior educational standard in line with the revenues it expects to receive.

There is a third variable which, although not an essential prerequisite, can greatly affect the viability of a privatised DCE. Many DCEs are dependent on very specialised expertise that is essential for the achievement of their objectives. If this expertise is not internally present in the DCE, the costs of contracting out or hiring the expertise may jeopardise its viability. This expertise often supplied by donor aid agencies, may not (should not) be available to a privatised DCE.

2.3 Which should and should not be privatised ?

Developmental Co-operation Efforts should be classified under four headings:[25]
i) Those whose objectives have been achieved and should be discontinued.
ii) Those whose functions could successfully be absorbed by local organisations.
iii) Those whose functions would be more efficiently performed by the existing private sector.
iv) Those whose functions can not be effectively undertaken by any other existing commercial or non-commercial organisation.

Many DCEs today have outlived their useful existence. They once followed a clear objective, but along the way the original objective was either altered or it was reached and new objectives were thought up to prolong its life. As happens with many projects, which are conceived, they seem to have a life of their own and refuse to die.

[25] Op.Cit. John Heath, p. 123

One important difference between a non-privatise DCE and its privatised counter part is that when a DCE becomes private it stops being a project. Projects by definition are finite entities. They are conceived for a specific objective that is accompanied with a time schedule. Of-course most DCEs never reach their objectives in the time that they have allocated themselves (demonstrating further their inefficiencies), but their purpose is nevertheless meant to be finite. As a private enterprise, the finality of the DCE ceases to exist. This is why we previous made reference to the change in the mission statement of a DCE during its privatisation process. A privatised DCE can allow itself to have a broader set of objectives that are less time sensitive. Compared to the objectives of our non-privatised DCE given earlier (school), the mission statement of the same DCE following its privatisation could become "to provide an adequate education to the community at an adequate price."

The DCEs which have outlived their objectives should be evaluated on an individual basis to see weather to either discontinue their operations or to privatised them. All DCEs in this category, which do not show clear potential for viability as a private enterprise, should be discontinued. Those who do show signs of potential viability should be evaluated with regards to their affect upon the local markets. If the privatise DCE will create diseconomies within the market it should not be privatised but rather should be discontinued. Examples could be technological or competitive advantages gained whilst under the subsidised protection of a non-privatised DCE. **In general, no non-privatised DCE should offer competition to any existing private enterprise within the market**. Any such DCE is in fact anti-developmental as it is creating diseconomies and unfair competition due to the subsidies, which it benefits from, but that are not available to the rest of the market. This unfair competition can lead to the elimination of an entire local market share held in an industry, and often in a very short space of time.

One of the only occasions where it might be justified to privatise a DCE into an already competitive market is when it is believed that by doing so the standards of the industry may be elevated. This is especially true in the case where the industry was previously controlled by a monopoly. Only a privatised DCE may be able to cross the barriers of entry of such an industry, forcing the existing monopoly to compete, to the benefit of the consumers. **It is important to remember that once the DCE has been privatised, no further developmental assistance, not offered to the rest of the industry, should be given to the DCE**. If the DCE is to fail, it will have done so at the command of the market forces, and maybe should not have been privatised but discontinued in the first place. This is an important point since donors and aid agencies will be tempted to answer to calls of distress from the privatised DCE facing bankruptcy. But it must be kept in mind that any intervention within the DCE following its privatisation will only disrupt the competitive market forces and eliminate the efficiency benefits that the privatisation efforts were meant to attain in the first place.

Many DCEs, which do not demonstrate a potential market viability, may fall under our second category. Although less pertinent to our discussion, it is important to stress that even with those DCEs that do not fit the privatisation mould, much can be done and many alternatives routes exist to increase its effectiveness. If it is believed that the objectives of a DCE can be carried out by local commercial or non-commercial organisations, weather governmental or not, the foreign administered DCE should transfer the administration of its operations locally if genuine interest is demonstrated. The efficiency and effectiveness of the DCE will most often benefit from such a transfer. This thinking is in line with the new recommendations of the World Bank and the DAC that call for the adoption of a more local-based developmental co-operation effort.

> "One key lesson about development co-operation is that donor-driven initiatives rarely take root and that developing countries and their people must be at the centre of any effective system... the objective would be to strengthen local capacity to lead the co-ordination process... In a partnership, development co-operation does not try to do things for developing countries and their people, but with them. It must be seen as a collaborative effort to help them increase their capacities to do things for themselves."(DAC, 1996)[26]

Our third category of DCEs, which carry out function that, can possibly be performed more efficiently by the existing private sector should not be privatised. To this category we may add those DCEs whose functions are duplicating those of the private sector. If it is believed that the existing private sector can successfully carry out the objective held by the DCE, then a transfer of knowledge should take place between the DCE and all potential players within the market. It is important to include all potential players in the market since by excluding one or many the DCE would be creating a disequilibrium within the market by giving certain players unfair competitive advantage. This transfer of knowledge can take many forms from the publication of technical data to the organisation of seminars and trainings. The transfer of knowledge should be a swift operation and should not drag on to become another unproductive (non-effective) DCE in itself. Once the transfer of knowledge is believed to have successfully taken place, the DCE should be discontinued and should no longer interfere within the market other than with the possible additional transfers of knowledge, which would raise the effectiveness of the industry as a whole.

Granting developmental aid to DCEs within areas that the private sector can be more or equally effective equates to a non-efficient management of donor moneys. This same argument was held to justify the need to privatise much of the private sector.

[26] Op.Cit., Alistair Boulton

> " the scarce resources of the State government need not be invested in areas of consumer market in which it would merely be doing what the private sector is already doing much better..... The State will do well to disinvest from such areas of public enterprises - before it has to do so by sheer weight of persistent and accumulated losses. Such investment does not, in any case, stand any test of socio-economic justification." [27]

In the above argument, if the State Government would be replaced by the Donor and the public enterprise by the DCE, the argument would still hold. One important exception exists, though, and it is that DCEs are not subject to market pressures such as some public sector organisations are. "Persistent and accumulated losses" would have little influence on the existence of the DCE since for the most part DCEs are fully subsidised and operate on non-cost recovery budgetary accounting.

Falling in our last category are all DCEs with potential commercial viability and whose objectives and function are not already present within the targeted economy. For these DCEs no commercial enterprise is believed to be able to successfully carry out their functions. These DCEs are the most suitable candidates for privatisation. Through privatisation they will not only be more likely to become more efficient and gain effectiveness but will also fill a void in the targeted economy's market.

Eventhough the privatised DCE will often enter the market benefiting from monopolistic conditions, it must refrain from fixing its supply, and absorb the consumer surplus which would exist under competitive conditions. This would be the profit maximising behaviour normally expected of a monopoly under similar conditions. Only through well defined objectives and a clear mission statement will the management of the privatised DCE resist the monopolistic

[27] Bureau of Public Enterprise, State of Karnataka, <u>Public Sector Enterprise</u>, Sixth Annual Report (Bangalore, India, 1985).

equilibrium. It can be assumed that in many cases the success of the DCE will attract new suppliers into the market. This is especially true if the privatised DCE attempts to stray from the competitive market equilibrium towards the monopolistic equilibrium. New suppliers, assuming equal conditions, will attempt to capture some of the producer surplus by undercutting the DCE. It is up to the DCE to refrain from setting up barriers to entry.

At this point, many will say that the fundamentals that motivated our privatisation effort are being contradicted. Privatisation was recommended as a method to increase the effectiveness of our DCE through the added efficiency brought on by market forces, or rather the privatised DCE's reaction to these forces. Therefore, rather than to expect the management of a privatised DCE under monopolistic market conditions to counter the market forces and create a disequilibrium, it is best to implement, during the commercialisation and privatisation process, policies which may stimulate the eventual entrance of new suppliers within the industry. Examples of such policies can be the development of product awareness campaigns, and /or the establishment of an effective distribution network, which is not firm specific. These are just examples of some conditions that may previously have caused barriers that made it unattractive for suppliers to enter the industry. If the DCE, prior to its privatisation, develops the appropriate market conditions in a way, which will benefit the entire industry, there will be a greater chance that new suppliers will follow the DCE into the market. Competitive conditions, together with their beneficial effects upon efficiency, will be reached.

In making the choice of which DCEs it should privatise, the donor will often adopt one of two perspectives or criteria similar to those noted by Gary Grimstone (1994) in his analysis of privatisation in the Third World :

> "The privatisation criteria, on the whole, tend to compromise between the exchequer perspective of giving up losses and holding on to profits, and national development strategy implying a preference for public investment in certain sectors."[28]

[28] Op.Cit., Gary Grimstone, p. 27

The donors will be tempted to consider for privatisation those DCEs that are expensive to operate and offer relatively week or intangible performances. Whilst holding on to those offering good tangible results relative to cost. The donor should avoid adopting such selection criteria. In a way, the donor should refrain from consulting its accountant on the relative cost of operating the DCEs during its selection process. Privatisation for DCEs should not be a budgetary tool.

The second criteria, which calls for a selection based upon the consideration of the strategic or social importance of the DCE and the sector within which they operate, may also be non-recommended. Together with stimulating greater efficiency and effectiveness, privatisation is an important tool to implement self-sustainability within a DCE. By keeping certain sectors under the donors wing, eventhough some DCEs within this sector may be suitable for privatisation, the donor is encouraging donor dependency which often translates into increase inefficiencies.

Although there are many parallels between the privatisation process of public enterprise and of DCEs, donors must not adopt the hyper-privatisation policies similar to those adopted by many governments in the last decade. Caught in a frenzy often encouraged by the World Bank, countries liquidated almost their entire public enterprise system. Very little selection to evaluate the impact and suitability of each parastatal towards privatisation was made (see Zambia Privatisation Authority, 1996). DCEs must be evaluated on an individual basis. Rather than a mass policy, privatisation is more a tool that can be used to maximise the effectiveness of a DCE and to offer sustainability to DCEs, which have reached the end of their project life.

2.4 How to privatise ?

The first stage in developing a privatisation policy would be to define the donor's aim or purpose. Why is commercialisation being considered? What are its hoped-for consequences?

> "No privatisation programme can proceed in a meaningful sense unless it advances...(donor)...objectives and takes full account of local sensitivities."[29]

Preparation:

As was expressed earlier, prior to any privatisation of a DCE, a commercialisation process must have been completed. Every DCE has its own specificity. They therefore require privatisation and commercialisation programs that are tailor made to take these specifics into consideration. Although not exhaustive the following lists some steps that are important to take prior to initiating privatisation.[30]

i) DCEs must be introduced and placed under the rigorous impacts of market surrogates like targets, performance aims, and most predominantly, external financing limits.

ii) Redundancies of labour must be consistently and systematically dealt with.

iii) Several DCEs must be financially restructured through the introduction of commercial accounting systems replacing the budgetary accounting mostly used within DCEs.

iv) Certain ad-hoc measures, calculated to improve the prospect of success of privatisation, have to be taken. For example, asset transfers and fresh capital injections (sourced from donor or private finance).

v) With privatisation round the corner, DCEs have to accelerate organisational and operational changes that pushed them nearer to the market place.

vi) The donor has to gradually cease their interventions within the management and operation of the DCE. They must no longer perceive the DCE to be their tool for social policies.

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[29] Op.Cit., p 31
[30] Based on a similar list focusing on public sector privatization presented by G. Grimstone in Op.Cit.

Before initiating any privatisation measure, it is important to rally the support of some important players who may influence the success of the privatisation process and the resulting private DCE. Individuals within the political, professional and business sectors whom are believed may have an influence over the DCE will need to adhere to the policy. The acceptance and support for the measures by the management and staff of the DCE is most crucial. Privatisation will bring about change. And where ever there is change there will be resistance to it. It is therefore important to educate and involve the management and staff of the DCE very early in the process. As much as possible, it must be the management and staff of the DCE that take the final decision to adopt privatisation policies, not the donor.

Since privatisation may provoke redundancies caused by the restructuring of the workforce to suite the new commercial dynamics, the policy may not be well received by labour organisations and some members of the staff. This resistance will not only come from within the DCE but also from personnel of the donors and aid agencies that fear a reduction of their work load and of their importance through privatisation. It is therefore important for the DCE to anticipate this reluctance and face it in a constructive manner by initiating redeployment and retraining measures. Donors and aid agencies may have a further role to play in this situation.

"It is essential to undertake a rigorous analysis of current loss, so that no false hopes are raised about the extent of financial relief that the donor derives from a given measure."[31] To demonstrate the merit of privatisation, it is good to calculate the comparative costs and advantages of such a measure and then make this information public. Many, often do not realise the costs of maintaining a subsidised DCE. The cost of an ineffective DCE is carried not only by the donor but also by the economy and business community hosting the

[31] OCDE Report, *Privatisation in Developing Countries*, 1996, p. 6

intervention. Whereas most will predict the negative short-term affects of privatisation caused by the DCE's structural adjustment to the measures, the burden to the local economy of an ineffective DCE must also be known. The donor is often not the best player to carry-out this autocritic.

It is important that prior to privatisation, all legislative issues influencing the DCE and its privatisation have been cleared. All agreements between the DCE, its donor(s), responsible aid agencies and local and foreign authorities have been consulted for compatibility with the privatisation policies. Where necessary, modifications must be made to facilitate privatisation.

The primary objective of privatisation is to more efficiently utilise the available development resources. Players within developmental co-operation should be guided by this objective in their attempts to reform the DCE sector. Most often the best way to serve the fundamental interests of development will be to proceed with a gradual reform, starting with the commercialisation efforts and the suppression of grants and subsidies. A private sector minded management team, compensated as a function of results to objectives should be put in place. One should not try to transform overnight a deficient DCE into a profitable one under private ownership. Potential purchasers of a deficient DCE, if they can be found, will most likely demand guarantees and market assistance that will increase their investment opportunity's attractiveness. But, if market protection is offered as an incentive to buyers, then the economic gains from increase competition are sacrificed.[32] Rather, a gradual transition and successful commercialisation will give the DCE the appropriate commercial dynamics that will increase its attractiveness to potential purchasers.

The Donor must accept the DCE's pre-privatisation liabilities as a continuing debt whose prospect of being serviced by the project is legally annulled. Privatised DCEs should not be held accountable for their accumulated losses

[32] Op.Cit., OCDE

prior to privatisation. As non-privatised efforts, DCEs most often do not have cost recovery objectives and rely solely upon grants and subsidies. To impose the repayment of these sums would most likely prevent any chances of viability for the privatised DCE. It must be understood by the donors that sums granted prior to privatisation cannot be recollected. As much as possible the assets of the DCE should be transferred in the name of the newly registered private DCE. If it is to solicit any kind of private finance, which would establish its self-sufficiency, the private DCE will need an opening balance sheet representing an acceptable collateral base. If the donors are unwilling to transfer the DCE's assets, often due to the donors internal charters preventing direct grants to private enterprises, they may prefer to opt for a delayed repayment contract.

A private company must be registered according to the local legislation of the country where the interventions are based. The Acts of Association will greatly depend on the nature of the DCE and of the applicable legislation. The DCE may want to consult some legal or business advice in order to formulate a private enterprise that will best be able to carry out the functions and objectives set for the privatised DCE. An internal shareholders agreement will also need to be formulated by the founding shareholders assembly.

Several Matters, including the 'special share' should be left to the shareholders agreement, which donors should not be concerned with while passing the Act. A short list of some specificities of the shareholding structure, which the Donor should leave to the shareholders agreement, is as follows:[33]

i) The extent of shareholding which a single shareholder in permitted to hold.
ii) The extent of any Donor shareholding.
iii) 'Special Shares'
iv) the limits of foreign or/and external ownership
v) any special forms of accountability to the consumer or the public either over

[33] Based on public sector privatisation theory presented by G. Grimstone in Op.Cit.

a transitory period or for a far longer period.

vi) any deviation from the provisions of the Companies Act (if legally possible), for a transitory period. Ideally, these should be minimised.

At this point, new proprietors for the privatised DCE must be identified and chosen. This choice may often be limited by the availability of entrepreneurs willing to invest in an organisation that has never had any private experience and therefore offers great uncertainty of success. The choice of a new owner for the DCE should not be made based on a quantitative evaluation. Rather, the compatibility of the new owner with the set objectives of the DCE and their potential ability to carry these out, should govern the choice of new owners, not the offered price.

Most often, the best option for new owners of a privatised DCE will be found internally. The DCEs staff and management will usually have a much clearer view of the objectives set for the DCE and how to attain them. Internal ownership or buyout is an option which will offer an alternative not only when no external offers are made but also should be compared to all other offers.

2.5 Associative methods and why

> "...productivity and profitability have soared in the newly privatised companies. It is no mystery why privatisation has succeeded. The majority of employees have become shareholders in the newly privatised companies. They want their companies to succeed. Their companies have been released from the detailed controls of Whitehall and given freedom to manage their own affairs."[34]

"By making an employee a shareholder in the business employing him . . . stimulates his zeal and careful working." (Catherine webb, 1912, p. 138)

The privatisation of a DCE through the trade of its assets, expertise and name to private individuals or organisations can often lead to important allocative

[34] The Next Moves Forward, the Conservative Manifesto (London) 1987, pp.35-7

distortions. Potential external purchasers of a DCE will have no reason to adopt the objectives set by the donors. The way to prevent the allocative distortions and to help keep the privatised DCE's objectives in line with those given to it by the donors in the short to medium term is to keep a significant share of the ownership internal to the DCE. By having a voice in the policy making of the DCE through internal shares, the staff and management of the DCE can exert a form of control on the direction that the private DCE adopts.

Internal ownership will have positive affects, not only on the allocative aspects of the privatisation, but will also stimulate higher rates of efficiency and dedication from the management and staff of the privatised DCE. Internal share schemes can be seen as a way of aligning the goals of donors, management, staff, and shareholders. Internal share schemes should be designed to cover all employees in order to motivate increased co-operation through horizontal monitoring, increase commitment and solicit longer term improvements in productivity.

Ordinary share schemes may not be sufficient to protect the allocative objectives of the DCE, especially if a significant portion of the DCE's shareholding is offered to external parties. It is often not in the best interest of the DCE to keep all of the shareholding internal. External parties, active in the private sector may bring a richness of commercial experience, guidance, and contacts which can become very valuable assets towards the success of the newly privatised DCE. Therefore, in the case of a combined internal and external ownership structure, the staff and management of the DCE as individual shareholders may not individually have sufficient say in the company's affairs to carry out the monitoring role intended. At the same time, the relative insignificance of the individual shares of each staff member, especially in the case of large DCEs, may not stimulate the motivational benefits desired by the scheme. It has been argued during the use of internal share schemes to commercialise the Eastern European economies that "There can exist injustices of allocating property rights to employees on the basis of where they happen to be employed at a particular time ; The potential for bribery and corruption ; and the problems of exposing workers to risk in economies where newly privatised firms are extremely prone to early bankruptcies."[35]

On the latter issue, from an investor's point of view, the discounted share price would have to offer sufficient additional return to compensate an employee for bearing the increased unsystematic (firm-specific) risk (Peel, Pendlebury and Groves, 1991). A counter argument is that these higher income risks are compensated by the increased job security derived from employee ownership. Moreover, employees who hold shares of their own company have at least some information, control and even voting rights attached to their shares.

In order to answer the problems observed in a conventional internal share scheme, DCEs should adopt an associative internal ownership structure similar to that of the American employee share ownership programmes, (ESOP), couple with external ownership. The ESOP provokes the same motivational benefits as the conventional share scheme with the added advantage of collective ownership that gives rise to the possibility that "current employees can have a significant voice, as a block shareholder, in the affairs of the company."[36]

Employee share ownership will allow the employees of the privatised DCE to share in performance and growth in profits via appreciating share values and/or the receipt of dividends. Employees can also own shares in their employing DCE as an individual, in addition to those owned collectively. These individual shares may be used by the DCE as performance bonuses in order to prevent a free rider situation from affecting the labour force. If all employees receive a

[35] Op.Cit., Grimstone, p. 43
[36] Nick Wilson, *Employee Ownership : ESOPs in Context*, Bradford University Press, 1997, p. 16

profit share or a share allocation regardless of their individual efforts then incentives may be weakened. Some share schemes are set up for the purpose of rewarding employees with additional income on the basis of enterprise performance and this provides the link with profit sharing. Shares may be reserved for employees to purchase and offered on privileged terms or, alternatively, employees may be offered options to purchase shares on preferential terms after a predetermined time period has elapsed.

The DCE, following privatisation, should first build a collective share scheme (ESOP) initiated by staff and management participation and demand. Only after the DCE's performance has reach satisfactory performance levels, which permit it to generate positive returns, can an individual share scheme be introduced, offering the desired motivational stimuli. The combination of ESOP structure and individual shares can lead to an efficient and effective privatised DCE. The complexity of the schemes, though, must be kept low for them to work and survive. If the staff finds the scheme too complicated and its administration too time consuming compared to the benefits it generates, participation to the ESOP will drop and the collective scheme will fail to reach its motivational objectives. The ESOP must be initiated from the staff and management of the privatised DCE and must be understood and accepted by the greater majority of the labour force. Employee education is important to increase the understanding and acceptance of the scheme. A collective scheme such as the ESOP which is imposed upon the staff of a DCE is bound to fail since its members will not appreciate the benefits of democratic management nor will they fully participate and administer what is viewed as not of their making. Similarly, if the membership of an ESOP does not understand the scheme perfectly, false expectations or disinterest will prevent the ESOP from succeeding in its objectives.

The ESOP structure has been described as being a particularly useful solution for handling succession problems.[37] These characteristics can be equally useful in the case of succession from a donor driven to a privatised DCE. ESOPs offer the opportunity for employees and management to become more involved in the privatisation effort. The ESOP will purchase shares of the DCE at the same price offered to external players in the privatisation bid. This can secure wider employee and management commitment to the privatisation in the short and longer term. It can also facilitate the recruitment (by offering shares) of new high quality members of management and staff following the privatisation.

Proponents of associative employee ownership schemes advance the following reason why such a scheme will positively impact the performance of the company.[38]

(1) ESOPs provide an incentive to increase employee work effort;
(2) ESOPs lead to more positive worker attitudes, co-operative behaviour and financial 'awareness';
(3) ESOPs stimulate increased organisational efficiency through information sharing;
(4) ESOPs can decrease worker management tensions over pay and demarcation;
(5) Firms with an ESOP structure have a greater responsiveness to change;
(6) The ESOP structure within a firm leads to reductions in labour turnover and absenteeism;
(7) Therefore stimulating a growth in the stock of human capital.

[37] Op.Cit., P.17
[38] Robin Blagburn, Financing ESOPs : The Company's wider perspective, Unity Trust Bank publication, Atlanta, 1997, p. 113

> "Empirical studies have found that joint decision-making, worker ownership and profit sharing, especially when used in conjunction with each other are capable of generating the greatest productivity and performance gains"[39]

The overall organisational efficiency of an privatised DCE using associative ownership structures can rise from the incentive for employee owners to share information. The introduction of employee profit sharing and share schemes can break down bureaucratic centralised decision making and costly monitoring activities over time. In organisations where rewards are linked to overall company performance, individual managers and workers no longer have an incentive to hoard information in order to enhance their own relative position or to disguise their own efforts. Thus, where there are incentives for employees to share information at all levels, the firm is expected to benefit from better-informed decisions embodied in both workers' experience and technical information about production possibilities.

The financial involvement of the staff of a DCE with internal associative ownership will impact on labour turnover and absenteeism. If employees identify more strongly with the firm because of the closer link between remuneration and work effort or because of the deferred nature of ESOP benefits or simply because of the psychology of ownership, then employee turnover may be reduced. In addition the firm is more likely to encourage additional investments in firm-specific skills or human capital in a low turnover environment. Furthermore, if firms with share schemes are able to retain employees then it may also be the case that these firms will be better able to attract a high quality workforce. An employer can not only offer the employee a contract which links effort to financial reward and job security but also induces a 'commonality' of goals between members of the organisation.[40]

[39] Op.Cit., Nick Wilson, p.23
[40] Op.Cit., p. 24

To sum up, internal associative ownership has the potential to transform the employment relation and its role as a force for changing organisational culture towards co-operation, flexibility and shared goals within a privatised DCE. Higher economic efficiency will be gained not only in its narrow sense through the improvements in quality and technical progressiveness, but also the "greater social efficiency of work as an institution, satisfying human aspirations for self-fulfilment and needs for involvement and social interaction."[41]

The literature supporting associative internal ownership schemes argues that 'manager controlled' firms perform less well than 'owner controlled' firms because in the former managers and employees are more able to pursue objectives other than shareholder wealth maximisation. Some researchers have linked to productivity growth the extent of internal ownership of equity. The arguments in favour of a positive association between productivity growth and internal ownership run as follows, (1) "employees work harder if they own a higher proportion of equity because they bear a higher cost if they malinger; (2) firms with high employee ownership of equity are to some extent protected from take-overs and, in consequence, are more likely to be able to resist short term capital market pressure. This gives rise to a greater concern for longer term performance goals such as productivity growth at the expense of 'short termism'."[42]

In contrast to these views, J. Blasi suggests that in practice most employees, specifically managers, "are unwilling or unable to institute organisational changes in their companies that would ensure employee ownership really made a big difference"[43]

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[41] Jones, D.C., and T. Kato, *On the Scope, Nature and Effects of Employee Ownership*, Hamilton College, 1990, p. 13
[42] Op.Cit., p. 20
[43] As cited in Financial Tîmes, 24 March 1992.

Similarly, there is a view that as internal shareholding increases employees become less subject to the control of external shareholders. This may have the effect of reducing productivity growth because (l) entrenched employees may slack effort; (2) when employee ownership is significant, employees forego the optimal risk reduction that could have been achieved by holding their financial assets in a more diversified portfolio. This ultimately raises the cost of capital and may depress spending on R&D, reducing productivity growth; (3) managers may be selected and promoted on the basis of their equity stake and not their decision making skills.[44]

The main safeguard against these risks comes from an important transcompany participation within the democratic management of the collective. This universal participation establishes within the privatised DCE a good system of horizontal monitoring. The risks of inefficient behaviour, such as described above, can only occur through the lack of peer-monitoring and communication within the associative structure. Smaller groups within the collective, such as management, must not be allowed to impose their own will upon the collective. Because these inefficiencies can only occur at the detriment of the collective, a well functioning democratic management structure will avoid their existence. Another safeguard in our proposed structure for the privatised DCE comes from the possible presence of an external shareholding. External shareholders will be less influence by the internal dynamics and influences within the DCE. They will bring an additional source of monitoring against the development of inefficiencies.

In 1990, 91 percent of quoted companies in Japan had an ESOP (mochikabukai) associative internal ownership structure with an average labour force participation rate of 45.8 per cent. Individual shareholding stakes on average were thought to amount to 2.179 million yen per employee.[45]

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[44] Op.Cit., Nick Wilson, p.24
[45] A report by Nomura Securities, 1990, as found in Op.Cit.

Blasi and Kruse (1991) in a major study of employee ownership in the USA, list several engines propelling the expansion of ESOPs. First, employee stock ownership is becoming an accepted and common method of corporate finance. Second, the employee shareholder has the potential of being more involved in co-operating with management, improving the performance of the company and playing a role in corporate governance. Third, the employees' collective block of shares is increasingly being used strategically to ward off asset strippers, to encourage long termism in investment activity and involve employees in Corporate decision-making. Finally, they suggest that ESOPs represent a fundamental change in the pattern of employee retirement saving that is fast replacing the fixed wage and benefits systems of the post-war period.[46]

> "Evidence from the US suggests that even amongst the largest public companies ESOPs are beginning to acquire a meaningful stake in the enterprise and ultimately in corporate governance."[47]

The privatised DCE with an internal associative ownership structure will be more likely to stress greater social importance within its policy making decisions. This more "human" form of business structure is well suited for the purposes of DCE privatisation since it allows the DCE to retain a greater allocative mission. "If corporations and workers succeed in combining employee ownership with more activism in corporate governance, they will surely create the seems of a new model of labour-management relations and capitalist production : Capitalism, with a human face."[48]

An important problem which privatising DCE's may face is one of the workers' ability and/or willingness to defer current consumption and go in for savings and investments. In low income countries, this is an even greater problem.

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[46] Blasi, J. and I. Kruse, *The New Owners, The Mass Emergence of Employee Ownership in Public Companies and What it Means to American Business*, Harper Business, New York, 1991, pp.196-197
[47] Op.Cit., p. 247
[48] Op.Cit., p. 255

Share bonuses may be offered so that the employees become sizeable owners of the enterprise - in theory but not in practice - for they have consumption commitments already, or they would sell away the share-property at the slightest pinch of need. If restrictions are placed on share transferability, their very acceptance of the scheme can be doubtful.[49]

Social attitudes in some countries can operate against certain classes of buyers - certain groups or tribes in the country or non-indigenous nationals. Similarly, democratic management may be a concept that is not suited to certain cultures. Even with the greatest efforts to enforce a democratic structure, social hierarchies may prevail within the collective. DCEs facing privatisation in LCD countries may encounter additional obstacles associated to :

i) Economies of scale and the intrinsic scope for introducing competition in many sectors of privatisable activity may be more limited than in developed economies.

ii) Constraints on entry and exit are likely to be more severe.

iii) Technical skills in establishing are not likely to be abundant.

iv) Governmental and similar external interventions into the process.

The problems pose by the practical limits to competition in the privatised industries merit the serious attention of developing countries. There is a body of opinion in many developing countries to the effect that the assumptions of efficiency on the part of private enterprise and of its entrepreneurial dynamism call for rigorous scrutiny. Hence, it is argued, the benefits of privatisation are likely to be less than in developed economies.[50]

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[49] Op.Cit., Nick Wilson, p.42

[50] Robert Millward, *Measured Sources of Inefficiency in the Performance of Private and Public Enterprises in LCDs*, Oxford, 1997, p. 146

i) "It is not necessarily through efficiency that private enterprise in developing countries make profits. They operate under conditions of monopoly or oligopoly. Often the total supply on the part of an industry falls short of the demand for its products. Many enterprises enjoy the benefits of tariff protection. The infant industry argument is stretched far too long."

ii) "Many private enterprises are 'sick'."

iii) "The question must be ask, How private are private enterprises in developing countries?"

iv) "The segment of equity investment in the total capital procured by private enterprises is relatively low."

v) "Tax evasion in some cases of private, but not public, enterprises and that it tends to impose more social costs on the community than public enterprise does."

The experience in developed countries has shown that, even where there is a sophisticated financial infrastructure, it is difficult to establish the appropriate market value for the enterprise assets. The absence of a well-developed financial system means that divestiture will have to be made by direct placements with local or foreign interests large enough to handle the transaction. The donor may be unwilling, however, to have its assets transferred to certain groups of potential buyers, if it results in a further concentration of wealth. In some countries, it will be politically unacceptable to sell enterprises to wealthy racial minority groups. Similar objections may be raised to increased ownership by foreign interests.

The donor/aid agencies, will often be tempted to retain some shares of the DCE for the sake of monitoring. This, of-course would go against the self-sufficiency aims behind the entire privatisation process. But a transition period may be warranted to help guide the young company. There is often strong view on the side of the investors that partial ownership by the donor might constitute a vehicle of undue interference and control and affect the efficiency of the enterprise. On the other hand, some investors may find reassurance and increase confidence if the donor remained involved in the enterprise through equity participation. An orientation committee can be form to help guide the young private DCE to success. Within this orientation committee, influential members of the local industry, business persons, and politicians can be invited to suggest policies to the DCE's general assembly and Board of Directors. The Donor may want to take its place within this Committee. In no way, though, must the Orientation Committee carry more than advisory powers over the DCE's shareholders.

2.6 Economic Theory

There are three different reasonings linking employee share ownership to improved organisational performance. In the intrinsic satisfaction model, Kathrine Klein argues that the simple fact of ownership should be intrinsically rewarding to employees, and lead to more positive job attitudes; alternatively the extrinsic satisfaction model suggests that employee ownership will have favourable consequences only if it is financially rewarding to employees; and finally, the instrumental satisfaction model establishes an intervening link in that the positive consequences of employee share ownership are deemed to occur only via the wider employee participation and the influence in corporate governance and decision-making that results.[51]

On a similar note Richard Long postulates that employee share ownership motivates improved performance by affecting 'organisational identification' which he defines as consisting of three interrelated phenomena: (a) feelings of shared characteristics and common goals, (b) feelings of 'belongingness' or solidarity with the organisation, and (C) loyalty or support to the organisation. These are labelled respectively as, organisational integration, involvement and commitment, which Long emphasises arises through increased overall employee involvement not ownership per se.[52]

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[51] Katherine Klein as found in Nick Wilson's, *Employee Ownership ESOPs in Context*, p.27
[52] Richard Long as in Op.Cit., p. 27

2.7 Concluding Part II

In this second part of the essay I focused on the very particular policy alternative for inducing increased efficiency within a DCE which is that of privatisation. I analysed which DCEs can possibly benefit from this extreme form of commercialisation covering the need for a marketable product. I went further by listing which types of DCEs should and should not be privatised. Here I covered four main types of DCEs : Those whose objectives have been achieved ; Those whose functions could be absorbed by local organisations ; Those whose functions could be performed by the existing private sector ; and Those whose functions can not be effectively undertaken by any other existing commercial or non-commercial organisation. In our analysis I argued that only those DCEs falling under our fourth category should be subjected to a privatisation policy. I continued by presenting the considerations which should motivate the choice of a DCE for privatisation and emphasised that it was important that no further assistance, not offered to the rest of the industry, should be given to the DCE following its privatisation.

The topic of how to privatise a DCE was aboarded next. Identification of the objectives of the privatisation was listed as having particular importance. We finished by introducing an associative method as the most appropriate organisational structure for a privatised DCE. Explaining the benefits of such a structure and its compatibility with the social mission of most DCEs.

Concluding this essay, the following part offers an illustrative presentation of an attempt at the commercialisation and privatisation of a DCE. This case study, I hope, will give the reader a better idea of the possible applicability of the concepts discussed within this essay.

PART III

Practical application - Case Study

The Zimbabwe Oil Press Project (ZOPP) is a project which was initiated in Zimbabwe in 1989 by the non-governmental organisation (NGO) World University Services of Canada (WUSC). A WUSC development worker teaching at the Old Mutare Mission school in Zimbabwe's eastern province of Manicaland attempted to copy a oil pressing machine he had seen at a school where he previously taught in Tanzania. Engineering plans for the ram-press were sourced and a prototype was made through a local machine shop. The ram-press was used as an income generating project for the mission and its school.

Realising the potential benefits which the oil press could bring to neighbouring rural communities as an income generating tool, WUSC was approached to help administer and fund the dissemination of the press on a larger scale. A small number of presses were produced and distributed in the Mashonaland East and Manicaland provinces of Zimbabwe.

The press rapidly became popular within the communities in which they were used. There were still many problems, though, with the quality and reliability of the presses produced locally. The Washington based non-governmental organisation, Appropriate Technologies International (ATI), which had developed the ram-press used in Tanzania, upon which the Zimbabwean press was inspired, was contacted to assist in solving some of these problems.

ATI's engineer Carl Bielenberg in 1985 developed the particular type of ram-press promoted in Tanzania and copied in Zimbabwe. ATI was promoting the dissemination of the press in both Tanzania and Uganda. When told of the efforts of WUSC in Zimbabwe they rapidly offered to participate in developing a full scale project aimed at the promotion and proper use of the ram-press as an income generating tool through oil seed processing in Zimbabwe. In 1989 the Zimbabwe Oil Press Project (ZOPP) was put into action as a joint administrative effort of both WUSC and ATI, funded by various donors and aid agencies solicited by ATI and WUSC. ZOPP had as its initial objectives the promotion and dissemination of ram press technology in Zimbabwe's Eastern and Northern provinces.

3.1 Background Leading to Problematic

McPherson Study

In 1994, the Ram-press technology was successfully introduced in Tanzania, Uganda and Zimbabwe by ATI administered projects. The initial objectives of the projects having been accomplished, ATI officials wanted to prepare a five-year plan that would illustrate the new strategies for the ram-press projects. Being projects, and therefore by definition being a finite entity, ATI wanted to prepare the termination of the projects. It was widely expressed by ATI's field staff that the termination of the projects at this point would create a vacuum that would not be filled and therefore would lead to the eventual death of the ram-press technology in the different countries concerned.

ATI contracted Mr Andrew McPherson, a specialist in African agro-business development, to do a study that evaluated the possibilities available to ATI. The main objective of the study was to identify ways in reducing the involvement of ATI in the promotion of the ram-press technology without affecting the results already attained by the projects. The technology had to survive without the projects.

Mr McPherson arrived at a series of recommendations that would guide the strategies to be included in the five-year plans of the ATI ram-press projects. Of the recommendations made, two were of prime importance and upon which the others focused.

The first recommendation was based on the overall main finding of the study which was that the promotion of the ram-press technology had to be taken over by the private sector if it was going to survive without any donor assistance. Based on this finding the new challenge for the ATI projects was to develop a suitable environment for the transition of the promotional role of the ram-press technology to the private sector. The recommendation suggested that if private entities could not be identified to accomplish this role, then the projects themselves should privatise.

It was discovered during the research leading to the conclusions of the study that there was an absence of private entities in the different markets within which the projects were operating willing and able to take over the tasks previously held by the projects. The most likely candidates for this role were the different machine and metal shops that were contracted by the projects to produce the presses marketed. When approached, though, the owners of these businesses expressed near unanimous reluctance to fill the functions of ram-press marketers and promoters. The main reasons given for their reluctance were that of ; the lack of ability, experience and will, as manufacturing units to take over marketing functions ; the lack of resources to effectively engage in a viable promotion of the press ; and the lack of interest and belief in the viability of the ram-press technology as a commercial product.

Without any private sector candidates it was therefore up to the individual projects to privatise and continue their promotional role as private and self-sufficient enterprises.

The second main recommendation of the study suggested the establishment of a regional co-ordination unit to be set-up on the field and which would assist and monitor the privatisation efforts of the different projects. This recommendation led to the formation of the Regional Oils (OILS) office based in Zimbabwe but which covered all three country projects and even explored the possible development of new projects in neighbouring countries. Together with its co-ordination efforts, it was also hoped that OILS would initiate the process towards the independence of the projects by bringing the monitoring roles from Washington to the African continent. This would break the umbilical link, which previously assured the comfortable survival of the projects. As OILS was meant as a non-permanent entity, it would gradually relieve itself from involvement into the new commercial units which the projects were expected to become. Once the projects would reach self-sufficiency, OILS would cease its operations.

3.2 Privatisation efforts

It was decided that although the privatisation efforts would run simultaneously in all three country projects, ZOPP would act somewhat as a guinea pig and would initiate the policies. Since OILS was based in Zimbabwe, it was therefore easier to monitor and adjust the implementation of different policies in Zimbabwe. ZOPP also had developed a much more centralised operational system relative to the other projects that permitted greater ease when initiating and evaluating these new policies.

To assist the ZOPP Project Manager in the privatisation efforts, it was agreed to call upon WUSC to supply an advisor to the project. An advisor with commercial experience was required to assist in the additional workload brought on by the privatisation process. This would prevent the Project Manager from losing focus on the daily operations and more immediate objectives of the project.

The Advisor was responsible for setting up systems for a viable business enterprise through:

- Developing a market survey to determine the demand for the ZOPP products both in Zimbabwe and possibly the region (Southern Africa).

- Reviewing/developing the Business Plan - reviewing the existing plan and developing an appropriate one.

- Assisting in setting up a marketing plan for ZOPP products.

- Reviewing the existing product portfolio and recommend possible additions.

- Developing an appropriate reporting system for ZOPP Ltd - financially and qualitatively.

- Training ZOPP staff in appropriate areas.

The Advisor was meant to co-ordinate the commercialisation process, required prior to privatisation, by introducing to ZOPP's operations the systems and dynamics which would allow for its viability as a private enterprise. Unfortunately ZOPP's administrators did not differentiate between commercialisation and privatisation. To them, both policies were part of the same process. In fact, throughout the entire transition the word privatisation was almost never used, commercialisation defined the entire process of transforming the DCE into a viable enterprise and its proposed change of ownership into the private sector.
ZOPP was pushed into the deep end of the private sector before the appropriate commercial dynamics had been introduced. This created a great deal of confusion for the management and staff of the DCE which were told to adopt cost recovery policies but also to submit their projected annual budgetary requirements. At the time that ZOPP Ltd. was registered, ZOPP's costs were more than ten times larger then its revenues. Important restructuring was necessary to create a viable enterprise.

ZOPP Ltd was therefore only a name kept without any internal structure nor any ownership structure for some time until viability, or a resemblance of such, could be established. In the mean time it would have to be discovered if ZOPP had a potential as a private enterprise through a market study.

The market study did find the possibility of viability based on the markets demand for its products. But, the study listed a series of preconditions that needed to be fulfilled in order for ZOPP Ltd to have a chance at viability. An adequate distribution system would need to be developed, more efficient production, operation and administration methods would need to be developed, ZOPP's product line would need to be enlarged, intensive promotion of ZOPP and its products would need to be carried out, and export markets would need to be penetrated in order to increase the potential sales volume for ZOPP. Basically the Market study was calling for the commercialisation of ZOPP's operation before a viable private enterprise could take form.

During the first six months following the market study, ZOPP's staff made impressive progress in developing the commercial systems called for by the market study. An efficient distribution system was developed using existing national agricultural and hardware retail chains. The numbers of possible points of purchase for ZOPP's products grew from the one single Harare office to a network of over 60 outlets throughout the country. ZOPP led an initiative in collaboration with the Ugandan and Tanzanian projects to establish a mass manufacturing facility which could produce a superior product at a much reduced cost. Many internal systems within ZOPP were revised to increase operational efficiency and increase cost recovery. An intensive nation wide promotional campaign was initiated. And several market development initiatives were taken to attempt to introduce ZOPP's products within neighbouring countries with the result that close to 50% of the sales in ZOPP Ltd's first two quarters came from exports.

The commercialisation process was moving surprisingly well taking into consideration that the entire privatisation process had been very badly planned. Other than agreeing upon the concept of self-sufficiency through private sector involvement, ZOPP's administrators, ATI and Oils, did not really know where they were heading nor how to get there. ZOPP's staff, though, had more or less taken things into there own hands and were moving things forward.

Upon the commercialisation advisor's suggestion for the most equitable way of privatising the donor funded project, ZOPP's staff began developing an ownership structure for ZOPP Ltd which coupled an associative internal ownership with a strong but minor external unrestricted private ownership. It was known that ZOPP needed to improve its performance before it could attract any external interest for its shares. As for the internal shares, a savings scheme initiated and administered collectively by the staff was set up where an amount was deduced from the pays of each staff member and deposited into a high yielding, though secure and tax-free, savings placement. It was now a matter of negotiating with ATI for the transfer of ZOPP's assets to ZOPP Ltd and to agree on a delayed payment structure for the collective shares. The comprehension of the associative concept and the organisational abilities which ZOPP's staff demonstrated towards establishing the scheme was remarkable.

ZOPP's smooth and rapid transition towards becoming a commercial entity did not last very long, though. As was said before, change will bring about resistance. But the resistance in the case of ZOPP's privatisation came from a source that at first may seem surprising.

ATI had originally established ZOPP as a project and had initiated the privatisation process following Mr McPherson's recommendation in his study into the best way to terminate ATI's Ram-Press projects and assure the permanence of the appropriate technologies the project disseminated. Now though, ZOPP's pace seemed to quick for them. They could not keep track of the changes, and from their offices in Washington, they were beginning to think that things were out of control. In-fact things were not out of control, but rather increasingly out of ATI's control. One of the first measures which was taken by ZOPP's staff to help increase the operational efficiency was to change from monthly to quarterly reporting which ATI demanded from ZOPP's staff. This did not help to reduce ATI's feeling that it was no longer in charge. Some of ATI's staff began to question the necessity of privatisation and the effect that the process may have on their careers.

Therefore, in an effort to take back control of the process but also to protect their own self interest, ATI began to intervene within the privatisation process. These were most often unproductive. ATI interfered with ZOPP's progress creating set backs in the privatisation process. Also, ATI began demanding that it be allocated a significant percentage of ZOPP Ltd's shareholding. The developmental justification behind this request was never made clear other than the desire to maintain control. ATI then refuse to allow the planned transfer of assets to ZOPP Ltd's name. Without asset, therefore collateral, ZOPP Ltd could not approach the private financial markets for finance, forcing a continued dependence on ATI administered donor funds. Without collateral ZOPP Ltd's shares would also be quasi-worthless.

It would be wrong to say that these interventions on the part of ATI were deliberately counter productive. Rather, more at fault was the lack of business expertise and commercial dynamism within ATI's staff attached to ZOPP. ATI's staff did not well comprehend the concept of privatisation and what was needed to reach this goal. They also had very little confidence in the abilities of ZOPP's staff. Continuously ATI would delay the privatisation process in order to double check with their own advisors and consultants the recommendations made by ZOPP's staff.

ATI was adapted to working at a pace and with a dynamism not suitable for commercial operations. When they demanded that the privatisation process be slowed down to their pace with their methodology and reporting systems, it meant that the entire commercial dynamism which had been established by ZOPP's staff would now have to be regressed into its previous non-commercial form.

Consequently, now that their accomplishments were being questioned and sabotaged, the staff of ZOPP rapidly became disenchanted with the entire process. Motivation within ZOPP dramatically fell. And participation to the collective saving scheme halted.

At the time this essay was written, three years following the initiation of the privatisation policies, ZOPP's privatisation was still incomplete. The ultimate objective behind the privatisation was to put in place the appropriate business systems for the creation of a viable business enterprise which would continue the dissemination and promotion of the Ram-Press and possible other similar appropriate technologies in a self-sufficient manner. Yet today, ZOPP Ltd is in no way a viable and self sufficient enterprise. It has apparently abandoned all efforts of becoming such. The project's dependence on donor funds has poisoned its commercial intents. Unfortunately, when donors will cease to see developmental value in the Zimbabwe Oil Press Project, a project that will soon reach its tenth year of existence, ZOPP may be faced with closure.

The original objective of ATI, if we are to go back to the terms of reference of Mr McPherson's report, was to help find a way to reach continuity in the promotion of the ram-press technology within the countries served by ATI projects once the projects would be terminated. Mr McPherson's main finding was that in order to prevent the disappearance of the technology following the removal of the project, the private sector would have to take over its promotion. The absence of private sector interest at the time led to the suggestion that maybe the projects should be privatised and fulfil the role themselves. From the lack of private sector alternatives, the concept of privatisation was born. It is important to note that the preferred scenario would have been that a private sector enterprise take over the technology's promotion and distribution.

During the first year of its commercialisation process, ZOPP Ltd was able to bring market awareness of the ram-press technology to significantly higher levels then had ever reached ZOPP NGO in its eight years off existence. The popularity of the ram-press by the end of the intervention had stimulated the emergence of competitors in the market. This competition was aggressively countered by ZOPP Ltd who attempting to act as a commercial entity wanted to protect its market share.

Because ZOPP Ltd never became a true private sector enterprise, it not only failed to reach the ultimate goal which was to have a self-sufficient private sector promotion and distribution of the ram-press technology, but ZOPP is in fact actively countering and preventing this goal from being reached by fighting the emergence of private sector competitors. ZOPP, as it stand today, benefits from unfair economic advantages coming from the heavy subsidies which keeps it operating. ZOPP is creating disequilibrium in the market, which if persisted, may bring the market back to the point where it began, and private sector interest in the ram-press will disappear. With the higher quality of purchaser support established through the distribution system, a subsidised ZOPP, in the presence of private sector competition no longer has any role to play and should be terminated as a project.

ZOPP had its chance to become self-sufficient, unfortunately ATI was not ready to pay the sacrifices that this separation would cause. It can be strongly questioned whether privatisation was the proper policy decision to take following Mr McPherson's study. The failed privatisation attempt by ZOPP Ltd demonstrated clearly that through commercial attitudes and dynamics, an NGO project such as ZOPP could achieve their developmental goals by stimulating the proper market forces which would encourage private sector participation towards these goals.

ZOPP Ltd managed to achieve more in its one true year of transition to the private sector, through the use of commercial dynamics and efficiency stimulating policies, as compared to the previous eight years as an NGO using socio-developmental project management strategies. This period of transition can in-fact be compared to the commercialisation process as described earlier in this essay. ZOPP did not need to privatise to assure the continued promotion and dissemination of the ram-press. Following the year of commercialisation, enough interest had been generated in the market for the technology that players within the private sector were now willing to take over the objectives set behind the privatisation.

ZOPP Ltd could have become a successful and viable associative enterprise if ATI had not aborted the privatisation process. But it is also believed that the optimal developmental impact would have been reach if following one intense year of commercialisation, developing market systems which would allow for a viable promotion and distribution of the ram-press technology, ZOPP would have let itself be absorbed by its competitors.

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