UGANDA'S PRIVATISATION STRATEGY: A DIAGNOSIS

William Okecho

The Policy Statement of PE Reform and Divestiture

As part of the country's Economic Recovery Programme launched in 1987, Uganda has been preparing to privatise some of her public enterprises (PEs). The Government has produced a Policy Statement on PE Reform and Divestiture (see Uganda Gazette November 1st, 1991) which outlines the country's privatisation strategy. It is the responsibility of the Public Enterprises Reform and Divestiture Secretariat within the Ministry of Finance and Economic Planning, to implement this strategy. The strategy elements and its support programmes are highlighted below against the background of appropriate strategy structure, effective privatisation strategy characteristics and implementation constraints.

Uganda's Privatisation Strategy vs Appropriate Strategy Structure

As already stated above, an appropriate strategy must have three structural elements: a statement of objectives to be achieved, a programme of action, and a commitment of resources to implement the action programme.

Uganda's privatisation strategy has two basic objectives which are fundamentally internal to the country. These are:

* to reduce the direct role of government in the economy; and
* to develop a correspondingly greater role for the private sector.

These objectives were considered imperative because:

* the Government wanted to reduce the financial and administrative burden upon it on account of:

6) the large number of PEs within its portfolio - there are 156 PEs of which 138 are
commercial, 20 of these are lying dormant and others are incapacitated due to the widespread destruction of building, equipment and records as a result of previous political conflicts, and the unresolved nature of ownership issues;

(ii) the financial losses and poor performance of the PEs in general - many are characterised by large operating losses, low capacity utilisation, low productivity and increasing illiquidity.

the Government wanted to increase private sector participation in the economy on account of:

(i) the presently large informal sector;

(ii) the need to get the private sector to participate in future purchase of the privatised PEs;

(iii) the need to improve entrepreneurship in the country and ensure uninterrupted performance of the privatised PEs.

These objectives are esoteric to Uganda and form the basis of the aspirations of the Ugandan people in the privatisation undertaking.

To ensure successful attainment of the above objectives, a detailed analysis of Uganda’s resource capability was carried out as part of the privatisation strategy formulation. It was apparent from the analysis that:

• For the enterprises to be sold at good price and to perform better after sale, some restructuring and rehabilitation would be required and this would need money, especially foreign exchange, which was not readily available in the banking system and the country.

• There was no appropriate organisation or legal framework to shoulder the complicated exercise of privatisation and these would have to be created.

• The country did not have skilled manpower to undertake the various tasks that go with privatisation, e.g. financial analysis, accounting, economic analysis, legal work, general management, etc; and this would have to be secured, either by importing foreign specialists or by training the presently available manpower.

As part of the privatisation strategy therefore, the acquisition and deployment of the necessary resources to implement privatisation was planned. In this connection, it was decided to:
recruit key technical staff to provide the necessary institutional advisory services and logistical support and to assist individual PEs to improve performance;

establish the agency and an organisation structure to implement privatisation; i.e. the PE Reform and Divestiture Secretariat and the structure within;

borrow additional funds from the World Bank to finance various aspects of the privatisation programme. Some $65.6 million has been made available by the World Bank under a loan agreement already negotiated and approved.

Further in the privatisation strategy formulation, the opportunities and strengths at the country's disposal to undertake privatisation were kept in view while at the same time the threats and weaknesses that might constrain accomplishment of the privatisation task were noted. In this characteristic SWOT analysis, it has been realised that the country's main strengths and opportunities include:

- the massive political goodwill and present realistic government;
- the failure of most PEs to live up to the expectations of most Ugandans as far as their performance is concerned;
- the presence of a strong culture of entrepreneurship and desire for private ownership;
- a relatively large educated middle-class, able and willing to be trained and acquire the many skills necessary to undertake privatisation;
- a realistic trade union movement in the country.

However, it was also found out that the weakness in undertaking privatisation and threats to success are significant.

These include:

- a large number of debt-ridden and non-performing PEs that may not be attractive to potential buyers;
- shortage of private Ugandan equity funds due to absence of capital market, low disposable income and savings, and limited liquidity in the undeveloped banking sector;
- shortage of foreign exchange in the economy to finance PE rehabilitation to improve value;
many ownership and legal issues surrounding most PEs;

lack of proper accounting records and standards, sparking the need to engage financial experts not readily available in the country, thereby delaying PE preparation for sale.

In view of the above strengths, weaknesses, opportunities, and threats, an action programme has been incorporated in the privatisation strategy framework which includes:

A classification of all the PEs with a view to reduce the size of the PE sector. In this regard, the Government adopted a set of criteria to classify all commercially oriented PEs into those which will remain in state hands with entire, majority or minority shareholding by government, those which will be privatised, and those which will liquidated.

The definition of a programme for the first five-year action which includes divestiture of 50 PEs in the first phase, to commence this year. This is to spread out the immense implementation effort so as not to overburden the limited resources.

A definition of the policies to facilitate divestiture. The policies are to improve the investment climate, ensure sustained investor interest, and bring optimal economic benefits to the country.

As is evident, the action programme is designed to reduce the impact of the weaknesses and threats while exploiting the strengths and opportunities at the country’s disposal.

From the above analysis, the accepted guidelines in formulating a privatisation strategy have been closely followed. The three key procedures, which are establishing objectives, committing resources, and planning of action programmes, are incorporated in the privatisation strategy framework.

Uganda’s Privatisation Strategy vs Effective Privatisation Strategy Characteristics

It can be recalled that an effective privatisation strategy must have the following characteristics:

It must have mutually consistent goals and policies which are clear and transparent to all.
- It must respond to the country's environment and be compatible with it, indicating relationships with other on-going policy initiatives.

- It must be feasible within the resource capabilities of the country.

- It must create more opportunities for the country and avail greater competitive advantage.

- It should be comprehensive in all aspects.

- It must have a mechanism for implementation.

As far as attaining internal consistency between the goals (objectives) and policies is concerned, it has to be recalled that the country's goals for privatisation are:

(i) to reduce the role of government in the economy; and

(ii) to develop a greater role for the private sector.

The policies to be pursued to realise these goals, as outlined in the strategy framework, include:

- selecting PEs for divestiture which are attractive investments to the private sector;

- ensuring that the new owners have access to term finance for rehabilitation of the acquired PE and that they have autonomy to manage the operations on fully commercial lines;

- freely permitting funds held abroad by Ugandans to be used for acquiring equity in divested PEs;

- generating interest by commercial banks in providing credit for purchase and rehabilitation of PEs.

These polices are further geared towards improving credit, the investment climate, and ensuring private investors’ interest in purchasing equity in the PEs. They are appropriate polices in Uganda’s context where every effort has to be made to attract private investors in view of the lack of investment capital, unavailability of institutional investors, and where the major surplus income is invested in the more lucrative trading activities and real estate.

Uganda's privatisation programme is one policy agenda in the overall Economic Recovery Programme. Privatisation is not being pursued in isolation, and pragmatism
plus expediency are the main motives behind it, as elaborated in Section 3.2 above. It takes into account and is assisted by such other policy initiatives like the Structural Adjustment Programme, the Civil Service Reform, Tax Reforms and investment promotion measures, such as the enactment of The Investment Code 1991. In this context therefore, the strategy meets the characteristic of being responsive to and compatible with the country's environment.

Furthermore, to ensure that the privatisation strategy is feasible within the resource capabilities of Uganda, the strategy included within its framework the acquisition of additional finance, notably from the World Bank. The strategy also incorporates an action programme which ensured phased implementation starting with 50 PEs to be privatised in the first five years so as not to overburden the limited resources available. Uganda's privatisation strategy has therefore tried to take into account the country's resource capability.

Uganda's privatisation policy explicitly states that the country's privatisation strategy is designed to ensure optimal economic benefits to Uganda. This is in direct consonance with the characteristic that an effective privatisation strategy must create more opportunities for the country and avail it greater competitive advantage. In this context, Uganda's privatisation strategy includes the provisions that:

- the valuation of PEs for sale will be based on market value rather than book value as most - especially industrial - PEs have obsolete machinery with zero book value but are still operational and command a price;
- no undue advantage or protection will be offered to investors at the detriment of the country's (national) interest;
- the Government will consider foreign investment where there is need for external equity, management and technology to acquire competitive advantage, especially in export-oriented PEs;
- all legal issues will be addressed before putting up any PE for sale so that neither the Government nor the investor is disadvantaged.

The above provisions, coupled with the strategy of flexibility in the implementation of privatisation policies, go a long way to ensure that Uganda achieves competitive advantage and acquires more opportunities through privatisation.

Judged against the characteristic that privatisation strategy must be comprehensive, thereby indicating/highlighting macro implications, expected gains, options available, privatisation candidate selection criteria, results evaluation, and political dimensions and commitments, Uganda's privatisation strategy states that 'Government will undertake an
annual review of the divestiture programme and its policies and modalities; this review will ensure attainment of such comprehensiveness. The strategy specifically has a comprehensive outline of the criteria for selecting candidates for privatisation. The basic principles in this regard are that:

- PEs that are unviable should not operate and cause more economic damage to the country, rather they should be liquidated;

- the Government should not operate any commercially oriented PE unless:

  (i) it is security (politically) sensitive, or

  (ii) it provides essential services;

  (iii) all other PEs are privatised, in whole or in part;

- the Government will take minority shareholding only in few enterprises where high cost projects will attract private equity and technology if, and only if, government were to take up equity holdings. All other new enterprises, except those falling in class (b) above, should be privatised.

Applying these criteria, all commercially oriented PEs (excluding banks) are to be grouped into five target classes and 112 PEs have already been classified accordingly, as shown in the table below:

**CLASSIFICATION OF PEs**

<table>
<thead>
<tr>
<th>Class</th>
<th>Shareholding</th>
<th>Number of PEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>100%</td>
<td>16</td>
</tr>
<tr>
<td>II</td>
<td>Majority</td>
<td>24</td>
</tr>
<tr>
<td>III</td>
<td>Minority</td>
<td>10</td>
</tr>
<tr>
<td>IV</td>
<td>Nil (Fully Divest)</td>
<td>46</td>
</tr>
<tr>
<td>V</td>
<td>Nil (Liquidate)</td>
<td>16</td>
</tr>
</tbody>
</table>

Total 112
The privatisation strategy has a comprehensive coverage of the implementation mechanism. As already indicated, the strategy incorporates a time-bound action programme (the five-year action plan), and advocates the creation of a high level body, the Divestiture Implementation Committee and the Policy Review Working Group to determine and review the privatisation policy. The strategy also recommends the creation of a privatisation agency, the Public Enterprise Reform & Divestiture Secretariat, and defines its powers and those of the key positions within its structure. The strategy leaves open the possible methods for disposal and ownership of the privatised shares; this is to be determined on a case by case basis.

As is evident from the above analysis, Uganda's privatisation strategy generally equates to the most demanding characteristics of an effective privatisation strategy.

Uganda's Privatisation Strategy vs Privatisation Strategy Implementation Constraints

Strategy implementation is the final test of the effectiveness of any strategy. Successful strategy implementation is a manifestation of sound strategy formulation. However, as stated above, one has to guard against certain general factors that may hinder successful implementation of any strategy.

In privatisation strategy implementation, there are, in addition, country-specific situations that could hinder successful implementation of a country's privatisation programme. Therefore, an effective privatisation strategy, apart from depicting the already outlined characteristics of effectiveness, should also incorporate mechanisms for neutralising these situations. Uganda's privatisation strategy can therefore be evaluated as to how best it can handle such situations to guarantee its successful implementation.

The common country-specific situations (constraining factors) include:

(a) lack of liquid capital to purchase equity in the privatised PEs;
(b) absence of basic economic policy features necessary to facilitate privatisation;
(c) poor financial and material conditions of PEs;
(d) scarce domestic managerial and technical skills;
(e) lack of entrepreneurs, and investors' reluctance to invest in equity in privatised PEs rather than in high yield trading and real estate ventures;
(f) thin medium- and large-scale private sectors,
(g) thin, scattered and uneven political support for privatisation;
(h) strong resistance by the state political and administrative cadre;
(i) previously strong reasons for PEs' original creation.

In Uganda, concerted efforts have been made at national level to counter the effects of
these factors and to create an enabling environment for privatisation. Some of the measures are incorporated in the country’s privatisation strategy.

A lack of liquid capital to purchase equity in the privatised PEs is a situation existing in many developing countries. It is usually as a result of low disposable incomes, an undeveloped banking sector, non-existent capital markets to marshal the little savings available, etc. In Uganda, efforts are under way to create a capital market, the Kampala Stock Exchange, and the privatisation strategy has as one of its objectives ‘to generate interest by commercial banks to provide credit for the purchase of PEs’. The country has also enacted The Investment Code 1991 to help attract foreign investment and stimulate local investment.

Privatisation in Uganda is being pursued as part of a comprehensive economic recovery package. Uganda has therefore several other economic policy measures which will assist in privatisation. These include the liberalisation of the foreign exchange market which permitted the establishment of foreign exchange bureaux, thereby permitting funds held abroad by Ugandans to be brought into the country, as provided for in the strategy framework. Other measures include the on-going infrastructure rehabilitation to stimulate marketing; trade liberalisation measures in the area of major exports; and the enactment of the Investment Code already referred to above.

Under the umbrella of the Enterprise Development Project, which incorporates the privatisation programme, the Government has embarked on a programme to improve the financial and material conditions of the PEs. Under this programme, the excessive debt situation plus foreign exchange and capital shortage in the PEs will be addressed. These moves are intended to improve PE attractiveness to potential buyers to facilitate the privatisation process. In this regard, the privatisation strategy has a provision to ensure that the new owners continue to have access to term finance for the rehabilitation of the PEs.

The scarcity of domestic managerial and technical skills to undertake privatisation activities has been fully addressed in the privatisation strategy framework. Provisions have been made to recruit and train the available manpower and to hire expert technical assistance from outside. Funds for this are to be procured from the World Bank as part of the total credit arrangement.

Regarding the scarcity of local entrepreneurs and the possible reluctance of the available investors to invest in low yielding equity in privatised firms, preferring instead to invest in high yielding real estate and trade, Uganda has taken note. The strategy underscores the need for the Government to attract investors by creating a suitable investment climate. This is already being done, for example, by enacting the Investment Code. The strategy further has measures to ensure investor interest in divestiture, which include selecting such PEs for divestiture as are attractive investments.
(good profit potential), and improving the financial plus operational attractiveness of the PEs as already explained.

The lack of robust medium-scale and large-scale private sectors with potential to take up privatised PEs has been addressed during the privatisation strategy formulation. To counter this situation, the strategy provides for the development of the private sector as a deliberate overall objective of the entire privatisation programme in Uganda. All policy measures recommended, instituted and taken so far, are aimed at creating robust private sector. Separate attempts are also being made by the Government to encourage institutional investment by such bodies as the insurance companies, the National Social Security Fund and banks.

Uganda's privatisation programme has received substantial political support. However, it is further planned to introduce the Public Enterprise Reform and Divestiture bill for debate in Parliament. The policy statement on privatisation has also been published in the media for public information and to stimulate constructive debate. The formulation and issuance of this statement has been a deliberate part of the Government's privatisation strategy.

The widespread failure of the PEs to perform to the expectations of the majority of Ugandans and the heavy administrative burden they have exerted on government administrative machinery have considerably eroded the usual tendency of the state political and administration cadre to resist privatisation of PEs. Further the political and administrative cadre have all along been involved in the privatisation policy and strategy formulation and implementation process through established institutional framework so they themselves have become change agents. The institutional framework includes:

- Divestiture Implementation Committee;
- Policy Review Working Group;
- Enterprise Development Project Implementation Team;
- Public Enterprise Reform & Divestiture Secretariat.

So far attempts by these groups to resist privatisation have been minimal.

The major reasons for original creation of PEs in Uganda include the following:

- the inability of the private sector to undertake certain large investments which were essential to the economy;
- the need to maintain control over strategic sectors;
- political and ideological considerations which led to the takeover of the private
companies;

the need for the promotion and development of indigenous entrepreneurs.

Most of the above reasons are still valid and the privatisation strategy has noted this fact and made appropriate provisions to accommodate them. In the selection of PEs to be privatised, for example, the classification of PEs is based on wide criteria already outlined that take into account most of these reasons. There are also deliberate policies in the strategy framework which are aimed at the development of indigenous entrepreneurs as already outlined above. This realisation goes a long way towards neutralising the impact of the old reasons for the creation of PEs.

In summary, it is apparent that Uganda has taken into consideration most of the factors that usually hinder countries from successfully implementing their privatisation strategies. She has incorporated various measures and support programmes into her privatisation strategy framework that should ensure an uninterrupted implementation. Uganda is considered as one of the few developing countries that has meticulously planned its privatisation programme and failures are least expected.