Introduction

The standard economic prescription for countries burdened with a large, inefficient and costly public enterprise sector is to expose those enterprises to the rigours of market competition. The advocates of this prescription argue that the efficiency of an enterprise will be at its highest when it strives to maximise its profits in a competitive market, when its managers have the autonomy, the ability and the motivation to pursue this goal and when enterprises which cannot compete go out of business. The conventional diagnosis goes on to note that state enterprises seldom face competitive market conditions, that their objectives are often different from, and incompatible with, profit maximisation, that managerial autonomy and accountability are compromised by government interference in operational decisions and that the ultimate sanction for failure – liquidation – is rarely imposed.

Privatisation is one of a small number of strategies for exposing public enterprises to the discipline of market forces. Whether privatisation will lead to the desired transformation of an enterprise depends heavily upon the creation of a suitable institutional framework: a framework is allowed or encouraged to operate. One of the chief lessons in Ghana's experience with public enterprise reform is that a framework of existing law and customary practice can make it difficult to manage a profitable operation under any form of ownership. In our experience such institutional impediments to reform have been encountered in areas ranging from labour relations and collective bargaining, to the valuation of productive assets, to the calculation of production costs, and to the determination and taxation of profits.

Before we turn our attention to public enterprises, and in particular to Ghana's experience with their divestiture, whether through privatisation or liquidation, I shall first review briefly the development of our state enterprise sector and the circumstances which prompted Government to commit itself in the mid-1980s to a programme of major reform. This background is essential to an understanding
of the policy objectives of reform and of the place of privatisation in the overall strategy we are pursuing.

**Historical background of the state enterprise sector**

In 1981, the state enterprise sector included more than corporations. State-owned enterprises (SOEs) dominated the mining, energy, utilities, business and financial services sectors of the total economy. In the modern formal sector, SOEs were predominant in construction, transportation and communications as well as in wholesale and retail trade. More than 240,000 workers were employed in public enterprises at the Census of 1984. Nearly 60,000 were employed in the Cocoa Board and its subsidiaries alone.

The dominant position of state enterprises in the economy had its origins in the period following Independence when it was the view of government that the battle should play a dominant and active role in the development of the economy. It was during the first half of the 1960s that many of the largest SOEs were created. By 1966, cocoa marketing and mining had become virtual state monopolies and state enterprises dominated the financial and insurance services sectors. The number of state-owned manufacturing enterprises also increased in the context of government import substitution strategy for industrialisation. Between 1957 and the end of the 1966 employment in public corporations increased more than tenfold, rising from 11,052 to 115,826.

Between 1966 and 1972, subsequent governments pursued, more or less consistently, a policy of shifting the emphasis in development to the private sector. Even so, the public enterprise sector continued to grow. A feature of this period was the separation of a number of government departments from the main civil service and their establishment as statutory corporations. Examples include the Post and Telecommunications Administration (now Corporation) and the Electricity Corporation of Ghana.

By 1972, when another change in government occurred, the non-financial SOEs were generally in a very weak financial state although improved over the period of 1969/70. Even so, the financial returns to government from its investments in enterprise were negligible; about half of the dividends paid to government in 1972 originated with the National Lottery Corporation. At that time the poor performance of public enterprises was attributed to such factors as a lack of managerial skills, overstaffing, and inappropriate pricing policies, and under-capitalisation.

In 1972, the new government's policy shifted to one of "gaining control of the commanding heights of the economy". At this time, government acquired
majority interests in all significant mining and timber industries and progressively restricted participation by foreign investors. In the late 1970s, government also moved to confiscate a large number of private enterprises accused of financial malpractice of one kind or another. By the end of 1981, government had accumulated a large portfolio of state-owned enterprises whose poor performance had become a threat to the economic and financial stability of the country.

From Independence in 1957 through to December 1981, successive administrations have pursued different policy agenda respecting the role of the state in the economy. Often they have appeared to be mainly concerned with reversing or negating the policy framework of a predecessor government. Our political history has left its mark on both the composition of the public enterprise sector and on the legal and institutional framework for SOE governance. The legacy remains an important part of the background, circumscribing well as the scope for divestiture. In Ghana, the term "divestiture" embraces both the privatisation and liquidation of state-owned enterprises.

These circumstances are the background to Ghana's decision to launch the Economic Recovery Programme (ERP) in 1983. The reform of the state enterprise sector is an important part of the national recovery effort, supported domestically and externally as an integral component of the ERP. The adoption by the PNDC Government of the principles incorporated in the ERP and its SOE reform component marks a significant departure from the strongly interventionist role characteristic of most governments of the preceding 35 years. Moreover, the strategy adopted for restructuring and reform implied a substantial departure from the perspectives which had informed government development strategy from Independence to 1983, with the sole exception of a brief and aborted effort at reform in the late 1960s and early 1970s.

**The SOE reform programme**

In developing its Economic Recovery Programme in 1983, government recognised the need to undertake a comprehensive reform of SEES in Ghana. To assess the problems of the sector and prepare a reform programme, government and IDA agreed that a comprehensive diagnostic survey of the SOE sector should be undertaken. Using these studies as a basis, a government task force formulated a comprehensive SOE reform programme whose major thrusts included:

(a) policy reforms to ensure that SEES operate in a commercial manner, including decontrol of prices, increased competition, new policies and procedures on
government financial support for SEES, and strict limits on the creation of new SEES;

(b) institutional and legal reforms to ensure that SOE managers have autonomy in day-to-day operations while also strengthening their accountability to government through restructuring the State Enterprises Commission;

(c) rationalisation of the SOE sector through divestiture (sales or liquidations) and mergers to reduce the financial and managerial burden upon government;

(d) rehabilitation of selected priority SEES which have the potential to be financially viable and are deemed critical to the success of ERP;

(e) improvements to SOE management and efficiency through staffing reductions, training programmes for managers and accountants, installation of Management Information Systems, and the preparation of corporate plans and financial audits; and

(f) restoring financial solvency and discipline by clearing cross-debts and arrears and by establishing clear guidelines and procedures for government-SOE financial relations.

In 1987, the SOE reform programme was formalised with the establishment of the present Commission by the State Enterprises Commission Law, 1987 (PNDCL 170) and the start of the Public Enterprise Project funded by IDA. At this time government held, whether directly or indirectly, a financial interest in more than 300 enterprises:

- 200 SEES in which government held directly a majority interest;

- 88 enterprises in which government held an equity interest indirectly through the holdings of state-owned banks and other financial institutions;

- 29 enterprises in which government held a minority interest.

Of the 317 enterprises in these three categories, government acquired its equity interest in 62 through confiscation. A number of SEES in which government has a direct majority interest are also partly owned by state-owned banks.

**The Divestiture Programme 1987 - 1993**

Our divestiture programme grew out of a realisation that a large portfolio of under-performing was a severe burden on public administrative and financial
resources. A major motivation in formulating the divestiture programme was the need to realise the financial benefits that would result from relieving government of the growing drain on its resources. This had reached 12 per cent of expenditures in 1983/84, a level that severely reduced government’s ability to address needs in other areas. A second motivation, reinforced by the conditions of structural adjustment assistance from the World Bank and IMF, was to encourage growth of the private sector by reducing the role of the state in the economy. This would be accomplished through, among other measures, the transfer to domestic and foreign investors of ownership and management responsibilities for state-owned enterprises.

The policy objectives for the divestiture programme were defined, in terms that continue to be relevant, by a government task force set up in 1987 to formulate the public enterprise reform programme:

(a) to improve the efficiency of the economy by encouraging private sector participation and investment;

(b) to develop a domestic capital market;

(c) to motivate the private sector;

(d) to reduce the fiscal deficit;

(e) to raise foreign exchange.

The divestiture of public enterprises has proceeded at a much lower pace than some of us would have hoped at the beginning of the SOE reform programme. The results to September 1993, as reported by the Divestiture Implementation Committee, are as follows:

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<td>5</td>
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<td>13</td>
<td>4</td>
<td>1</td>
<td>22</td>
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<td>3</td>
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<td>SOEs in liquidation</td>
<td>22</td>
<td>2</td>
<td>2</td>
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<td>38</td>
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The total gross proceeds of divestitures to September 1993 are reported to be cedi 55.8 billion. Just under half of the gross proceeds of divestiture relates to enterprises in which a foreign investor participated with a hard currency commitment. Overall, some 58 per cent of the final agreed sale price had not been received. Delays in payment have been much more serious in the case of local investors, and a number of deals have failed to close. Some 34 per cent of the proceeds payable in hard currency, mostly by foreign investors, are also outstanding.

Offsetting the gross proceeds from divestiture are substantial liabilities of the divested companies, assumed by government as a matter of policy. These include liabilities in respect to retrenched workers as well as obligations due to other creditors. In 1991, the only year for which complete information is available, such obligations assumed by government totalled more than half the gross proceeds of divestiture.

As of 1993, and of the 317 enterprises in which government had a financial interest in 1987:

- 221 continue in government ownership;
- 32 have been liquidated;
- 40 have been sold to private investors;
- 10 have been reconstituted as joint ventures of government and private investors;
- 4 have been leased to private sector operators or managers.

It is a reasonable conclusion from our divestiture experience that by mid-1993, the programme had not realised the objectives set in 1987. Also, the momentum and pace of divestiture had slowed down to a serious extent in 1993.

In the course of 1993, and partly in response to the lagging pace of divestiture, government took a number of decisions to revive the process. These measures were implemented in the first quarter of 1994 and included the sale of a portion...
of government's equity in Ashanti Goldfields Corporation by public offering to both foreign and domestic investors. In Ghana, the invitation of share subscriptions from the general public was advertised in mid-March. This privatisation is estimated to yield in excess of US$ 300 million. In February 1993, government also sold its holdings number of international investors. The gross proceeds of this established a target of cedi 40 billion to be realised from privatisation, over and above proceeds from the flotation of Ashanti Gold Fields Corporation.

Problems in the divestiture programme and process

A number of specific issues that have affected the progress of the divestiture programme can be mentioned briefly. Their importance lies mainly in the lessons they offer for the formulation and implementation of our future strategy for divestiture. In most cases corrective measures have been taken and while the situation is not perfect, the measures have greatly improved the situation. In summary, the divestiture programme has suffered from both policy-related issues and practical difficulties.

These include:

· lack of a clear and comprehensive commitment and policy and privatisation;

· perceptions among a significant segment of the general public and the investment community of a lack of transparency in the administration of the divestiture programme;

· slowness in developing alternatives to the negotiated private sale mode of divestiture that would foster development of domestic capital markets and encourage broad public participation in the ownership of productive enterprise; and

· financial costs of workforce rationalisation associated with the privatisation of liquidation of public enterprises.

Lack of a comprehensive strategy for privatisation

A consistent policy stance is the essential signal to investors of government's intentions with respect to privatisation. Both government and the general public are aware that a large number of commercial enterprises owned, and generally poorly managed, by government serve no important policy purpose. The practice in divestitures to date of retaining a substantial minority interest, to the
order of 40 per cent of "divested" companies, does not communicate a serious intent to withdraw from direct ownership and management intervention in respect to commercial SEES.

The perceived absence of a clear and comprehensive strategy for privatisation over the first years of the reform programme can be related to a number of factors. The initial list of 32 enterprises identified as candidates for privatisation included a large number of companies which were distinctly unattractive and unsaleable. In the out-turn, nearly two-thirds were eventually liquidated. This particular list invited criticism to the effect that government was not serious in its commitment to privatisation.

The second list of 42 enterprises for divestiture contained a smaller number of highly unattractive prospects and some which have attracted substantial investor interest. However, the fact that the greater portion of SEES included in the first two divestiture lists were enterprises confiscated by government did little to communicate a serious commitment to the divestiture of state-owned enterprises. It is only with the proposed divestiture of some of government's shares in Ashanti Goldfields Corporation, announced in 1993, that a truly attractive candidate for privatisation has been actively promoted.

It has also been the case that divestiture planning and policy-making has been severely hampered by the lack of reliable and current information about assets, production, sales or other normal business information. Much of the effort of the State Enterprises Commission over the past two years has been devoted to an improvement of the public enterprise information database, including assistance to enterprises to improve their capacity to prepare accounts and financial statements. These efforts have led to considerable improvements in the timeliness and quality of financial and other information about state-owned enterprises.

This improved information base has contributed to the divestiture process in two ways. First, it has made much clearer the weak financial and performance characteristics of a large number of enterprises. This has been an important factor in government assigning a higher priority to divestiture than was previously the case. Second, the improved information provides a better basis for planning and implementing a divestiture strategy. The improved quality of information has combined with the disclosure and public review of the facts of SOE performance and condition to contribute to a much clearer expression of the policy framework for divestiture.

**Transparency of process**
Since 1993 privatisation has mainly taken the form of deals negotiated in private discussions with individuals and groups of investors. The characteristic atmosphere of secrecy in which these negotiations are carried out continues to be a serious weakness in the programme. The transparency of process that should be government's priority concern has been missing, creating opportunities for speculation that undermine investor confidence and public support for the programme.

The growing importance of alternative channels for privatisation, particularly by way of public offerings and stock exchange listings, is making the entire process inherently more transparent. The divestiture of Ashanti Gold Fields Corporation has taken place in the full glare of public awareness and debate. One consequence of the intense public interest generated in this flotation was the allocation of a portion of the international offering to residents of Ghana and ECOWAS countries. In the same vein, nothing could have been more transparent than the decision to convert 32 statutory corporations into public limited liability companies: the issue was fully discussed in Parliamentary committee and debated thoroughly in the House before enactment of the enabling statute. In contrast, the disposition of government’s shares in seven companies listed on the Ghana Stock Exchange to a group of foreign investors illustrates a Stock Exchange to a group of foreign investors illustrates a continuing lack of transparency in some parts of the programme.

The transformation of a major public enterprise into a closely held private corporation is not consistent with government policy objectives. Foremost among these is the desire to move away from the previous structure of closely held private sector enterprise that are not subject to public scrutiny and towards a more open, publicly accountable structure for private business enterprises. Unfortunately however, the weakness of domestic capital markets and of financial institutions has made the development of alternatives to the negotiated private sale heavy going.

**Alternative channels for divestiture**

The issues of transparency of process and of a perceived lack of clarity in government objectives and programmes are closely interconnected and are being addressed through efforts to develop alternative channels for divestiture. The changes being introduced are an attempt to broaden the channels for divestiture to include some that are inherently more transparent. These include corporatisation and the public offering of shares in major enterprises. The next phase of privatisation will be carried out so as to broaden the base of public participation in the ownership of profitable public enterprises.
The undeveloped nature of Ghana's capital markets makes it difficult to raise the capital required to purchase a more or less viable enterprise and to finance the rehabilitation of its productive capacity. Local investors have also encountered difficulties in securing local finance or guarantees through the banking system, even at a time when the system has a problem of excess liquidity. The difficulties of mobilising domestic capital resources remain a severe impediment to the privatisation process.

Government has therefore taken steps to establish a framework of institutions that would strengthen domestic capital markets. In January 1991, listing regulations of the Ghana Stock Exchange were gazetted (L.I. 1509); trading in the shares of a small number of companies (11) began in November, 1990. Since then, four additional companies have been listed and a fixed income security????. Trading volume has increased rapidly: from 2 million shares in 1992 to 36.8 million in the first nine months of 1993. The value of shares traded increased from cedi 173 million to nearly cedi 3 billion over the same period. There is little doubt remaining that, given a suitable institutional framework, domestic capital resources can be mobilised for investment purposes.

Further measures to develop access to broader capital resource pools are under consideration. These include regulations in respect of foreign direct investment and measures that will facilitate equity rather than debt as the means for raising investment and operating capital. While we understand the importance, and indeed the need, to tap external capital resources, we also believe that we need to emphasise the strengthening of our domestic capital markets. At the same time, we are concerned to encourage equity over debt participation and to encourage long-term capital resource commitments from both domestic and foreign investors.

**Costs of Workforce Rationalisation**

For government, one of the most serious problems raised by the divestiture programme relates to the rights of workers who are retrenched in the process. Over the years, staffing levels in most public enterprises reached excessive levels; levels completely out of touch with the functional requirements of a productive enterprise. This widespread situation was made worse by a general absence of responsible collective bargaining in the public enterprise sector over a period of at least a decade. The situation is, of course, one of the major reasons why a state enterprise reform programme is required.

For divestiture, and privatisation in particular, the twin issues of over-staffing and undisciplined collective bargaining posed a serious practical problem: how best to cope with the substantial liabilities for accrued end-of-service benefits to
which redeployed workers were contractually entitled? These were largely unfunded and, in many cases, exceeded the net worth of the enterprise.

Since 1990, government has taken a number of steps to correct problems in this area. The transition to a national pension scheme was announced in October 1990, replacing the retirement gratuity provisions of collective agreements. The outstanding retirement gratuity entitlements were frozen as of December 1990. All workers in both public and private sectors are now included in the retirement pension scheme administered by the Social Security and National Insurance Trust (SSNIT).

Measures to standardise and rationalise entitlements to severance or redundancy payments have been recommended by the Commission since 1988 as part of the necessary reform of legal frameworks. The re-drafting of labour legislation is now under way, the first major overhaul in nearly 30 years. While the costs of workforce rationalisation have not yet been completely resolved, we are optimistic that the key elements of the reformed institutional framework will be in place before the end of this year and that definitive arrangements for the full discharge of outstanding liabilities to workers will be in place.

**Priorities for strengthening of training capacity in support of public enterprise reform and privatisation**

In the overall strategy of the SOE reform programme, SEC training programmes focused on two primary objectives:

(i) to develop management capacity and support for the implementation of high priority corporate reform and restructuring measures; and

(ii) to establish at the level of the enterprise a "training culture", supported through the development of linkages with local training and management development institutions.

In 1992, the Commission, with the co-operation of local training institutions, conducted an assessment of their capacity to meet the training needs identified in the TNI project. It is the conclusion of the Commission, based on this assessment and our experience over a period of two years, that local training institutions, firms and individuals have the capability of meeting the general training needs of most SEES in such areas as:

- general management;
- management information systems;
- human resource management;
investment analysis.

In other areas of the Commission's assessment, local training institutions need to develop their capability to meet the requirements of the programme in such areas as:

- corporate planning and budgeting;
- organisational restructuring;
- performance contracting.

In summarising priorities for further strengthening of our capacity for public enterprise reform in general, and for privatisation in particular, it might be a good idea to define what we mean by privatisation. Here we can note work being done under the auspices of UNCTAD. In recently issued documents they have described privatisation in the following terms:

"Privatisation is part of a process of structural adjustment ... redefining the role of the State ... with the overall objective of achieving economic efficiency. It is first and foremost a political process, although it has to be carried out as an economic exercise."

and

"Privatisation may involve: (a) non-divestiture options: corporatisation, the privatisation of management contracts, leasing, concession, and the contracting out of public services and (b) divestiture options: the privatisation of capital."

Our corporatisation strategy involves, as a first step, the conversion of statutory corporations into public limited liability companies. Enabling legislation, the Statutory Corporations (Conversion to Companies) Act (Act 461), was passed by Parliament in 1993. The conversion of 32 major public enterprises employing more than 100,000 people, and their registration as limited liability companies under the Companies Code is now in progress. A principal objective of this strategy is to direct these enterprises to domestic and foreign capital markets as the source of funds for necessary capital restructuring. Recapitalisation may be by way of an equity offering, through the flotation of tradeable debt instruments, through the sale of assets or any of a number of other means open to public limited liability company.

Following from this, it is our expectation that the need to maintain access to capital markets will impose a discipline and concern for profitability in the management of these enterprises that has often been lacking in the past.
The changing structure of responsibility and accountability associated with the implementation of this strategy will impose new demands on enterprise boards and management as well as on the staff of sector ministries. This is one area in which the need for strengthened locally-based training and support services is particularly pressing.

Board members need to be prepared to assume their new responsibilities in such areas as collective bargaining, capital restructuring and executive compensation. Management needs training in these areas as well as professional support in the design and implementation of reform measures that range from organisational restructuring through pay and job classification issues to workforce rationalisation. For those of us with responsibilities in government for managing public enterprise reform there is a need for training in the relevant technical skills and policy analysis.