

PRIVATIZATION OF STATE-OWNED MINING ENTERPRISES IN DEVELOPING COUNTRIES: A REVIEW OF MOTIVATIONS AND PRACTICES

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Abstract

This paper briefly examines the historical reasons and motivations for nationalization and then privatization of state-owned mining enterprises. Factors contributing to success and failure of both cases are reviewed. It then focuses on methods, processes and structures used in recent privatization cases. The analysis of this paper indicates that if the recent privatization initiative of developing countries is to be successful, the glaring mistakes of its predecessor policy actions, following nationalization must be avoided. The mere act of privatizing state-owned companies will not guarantee success; however, government's commitment to creating up-holding a conducive and competitive operating environment, a supporting infrastructure and resembling the operation of open international markets, will.

Developing countries (DCs) as a group are so diverse with respect to type and size of economy, economic and political stability, mineral potential, and mineral policies and strategies, that few generalizations apply the entire group. In many developing countries, however, the mining sector has been historically seen as nation's heritage to fuel the engine of growth for generating substantial benefits in terms of government revenues and foreign exchange receipts to support economic growth.

The 1950s and '60s have witnessed a strong growth in the mining sector, both in developed and developing countries. This trend was basically due to rapid growth in the demand for ores and metals, resulting from the development of heavy industries and production of capital goods (Bomsel, 1990). The direct economic benefits from the mineral industry, combined with their impact on socio-political elements of the environment, have led to increased government involvement in the implementation and control of mining projects. State-owned mining enterprises (SMEs) involved in mineral production grew from practically nothing in the early 1950s to almost one third of the world's mineral industry in the 1980s. In 1981, for example, government equity holdings in developing countries were 41% in bauxite, 58% copper, and 62% in iron ore (Radetzki, 1985). As a result, government regulations restricted foreign investment, required higher level of national ownership and control, and placed limits on the repatriation of profits in the late 1960s and early '70s (Economic Commission for Africa, 1996, Daniel, 1993 and Walde, 1983). OPEC's success in increasing oil prices in 1970s and shortage of some mineral commodities further strengthened these trends (Sims, 1985). Nationalization of mining operations in, for

example, Chile, Ghana, Guyana, Bolivia, Zambia and Zaire were direct manifestations of higher desires for the control of mining operations on the part of host countries.

Since the beginning of the worldwide economic recession of 1981-1982, the world economy has changed dramatically. The recession had serious impact on demand, mineral prices and mineral investment; and consequently on the availability and terms of financing.¹

Mineral prices in real terms decreased to their lowest level for decades, and the economic recovery from 1983 to 1986, reflecting the cyclical nature of mineral prices, has done little to raise them. Few mineral development agreements have been signed. Investment has mainly focused on precious metals and on projects of a much smaller scale than projects of the 1970s (Walde, 1988).

The continuous weakness in demand and prices are further aggravated by an array of related factors, such as developing world's decreasing ability to invest in developmental projects, coupled with limited, if not shrinking, supply of funds for financing and investment (partly due to developing countries' increasing indebtedness), and exceeding reductions in metal use in developed countries (partly due to substitution and partly due to recycling and conservation), particularly in Germany and Japan (Economic Commission for Africa-ECA, 1996). These conditions combined with huge losses of some large scale state-owned projects (mainly due to mismanagement) have collectively necessitated a *reassessment of the mineral policies* of past decades, especially in developing countries (Economic Commission for Africa, 1996, and Walde, 1988). This reassessment in turn has paved the way for introduction of a sweeping change. The paradigm that emerged in the mid-1980s focussed on private capital initiatives and

privatization of public mineral enterprises (Morgan, 1994). This was a reversal in the past policies of 1960s and 1970s from increased state participation and control of mining industry² to privatization and denationalization³ of this sector in the 1980s and beyond.

Following this introduction, this paper reviews several critical issues surrounding privatization before presenting a brief discussion of privatization trend in the mineral sector. A discussion of common methods and procedures used in the privatization of state-owned mining enterprises follows. Summary and conclusions highlight the important points of this paper.

2. Reasons for privatization

The literature suggests that the performance of state-owned enterprises and the business environment are among the key factors that explain why privatization became so important in the early 1980s (Price Waterhouse, 1996; ECA, 1996; and Lieberman, 1993). Fiscal and debt crisis in many developing countries in the early 1990s became another key factor in favour of privatization (Mateen, 1994). This is also confirmed by Ramamurti (1992), who examined 83 developing countries to find the reasons that motivated them to pursue privatization. This study concluded that privatization is more likely to be pursued by countries with "high foreign debt" and "overused state enterprises."

2.1 Performance of State-owned Enterprises

Generally, state-owned enterprises' (SOEs) objectives are primarily economic and are designed to add wealth to the community. They can also be used as a vehicle to achieve socio-political objectives of governments (Powell, 1987). The particular form of state-owned enterprises under study here are those firms engaged in the extraction of minerals and the production of metals. Most of these enterprises were established in the 1950s (Radetzki, 1985), and have grown since the early 1960s. They perform a range of functions from the complete control of mining operations to helping private, usually foreign, investors (Sims, 1985). In most countries, the growth of SOEs was occasioned by substantial regulatory practices, such as tight controls over entry and exit in specific industries, control of prices and quantities, bureaucratic measures and labour laws that reduced mobility and competitiveness. The statistics on SMEs in developing countries suggests their performance has steadily declined (ECA, 1996; Strongman, 1994; World Bank Technical Paper No. 181, 1992 and Powell, 1987).

The poor performance of SMEs is partly due to the general problems that arise from the social, economic and political environment of developing countries. The environment often lacks an adequate supporting institutional infrastructure, which negatively impact both on quality and quantity, training centers and facilities, electric power and water supplies, transport networks, banking and insurance facilities, and consequently technical and managerial capacity (Powell, 1987).

Apart from the general problems mentioned above, other contributory problem areas to particularly poor performance of SMEs are as follows⁴.

- i. The objectives and goals of state companies are often unclear and ambiguous. Furthermore, there are often conflicts between their own microeconomic/commercial goals (e.g., profit maximization and high productivity) and macroeconomic, socio-politically-induced ones (e.g., job creation and regional development), which are mostly politically-motivated. These conflicting issues cause inconsistencies in decision-making rationale from the point of view of company objectives.
- ii. In the appointment of top-level management to state-owned enterprises, political considerations normally take precedence over business considerations. Managers are not necessarily experienced in the sectors in which they are appointed to serve. There is often lack of directly applicable management skills and expertise combined with frequent restrictions on management autonomy.
- iii. There is often a lack of qualified workers and technicians. State companies have difficulties in motivating employees. The level of wages and fringe benefits is often lower than that in the private sector, and there are poor employee training policies and facilities. Employment is often based on nepotism rather than on capability and competence.
- iv. From the government's point of view, a successful SOE may be viewed as termed by Morgan (1994), a "milk cow", i.e.; it funds other government projects when the business is good. Therefore, necessary reinvestment in the industry may suffer.
- v. State companies are difficult organizations to control. As Walde (1993) states, "they grow into powerful political, financial and economic empires, unbridled by public or government control." With SOEs, getting the right balance of proper control and necessary intervention is very difficult (Sims, 1985).

- vi. Government organizations are often bureaucratic. Efficiency is low and they are likely to be over staffed. Head offices of SOEs are often in capital cities and not necessarily close to their business in remote areas, especially in the mining sector. They generally suffer from faulty coordination and planning, often due to several levels of hierarchy. The SOEs are also weakly controlled, which may cause corruption and misuse of resources and facilities.
- vii. There are often unnecessary investments in SMEs due to the low cost of capital (i.e., treasury funds), and bureaucratic tendencies to maximize production rather than profit (Radetzki, 1985).
- viii. Most SMEs in developing countries are completely dependent on marketing expertise and structures created and controlled by the industrialized economies and large international corporations⁵. Large mining projects are technologically complex and at times sophisticated. Most state-owned companies experience difficulties in providing for the technical and managerial services required for operating these projects. This is the main reason why mineral projects in DCs have almost no forward linkage with the rest of economy.
- ix. The corporate strategy is often inward-looking, influenced by promotion of key decision makers from within the firm with few outside relationships or exchange programs.
- x. A lack of foreign capital along with restricted regulations applied to SOEs can quickly cause a critical shortage of spare parts and equipment.
- xi. Overall, state enterprises are often extremely inefficient as compared to private firms (Dobozi, 1989). However, some analysts believe that such inefficiencies are not inherent or systematic and proper management can mitigate against them (Shirley, 1983 and Sims, 1985). Many conflicting commercial and socio-political goals imposed on SMEs, unless prioritized, cause the sector to operate without focus. Performance cannot be extrapolated, nor compared with expectations. Poor management is concealed, as losses are often attributed to noncommercial goals (Shirley, 1983).

As mentioned earlier, the number of SOEs increased dramatically in the period from 1950 to 1980. Governments encouraged this surge, claiming that state ownership was an efficient way of confronting "market failures" and "asserting control over strategic sectors". Once established, most SOEs were extremely ill-equipped for the job and their market power was often abused.

2.2 Business Environment

The economic problems confronting mineral industry in the early 1980s, made it difficult for any mineral company to operate successfully. This unfavourable environment, coupled with the general problems of state owned companies, resulted in the poor performance for majority of state-owned mining companies, in DCs. This made privatization an attractive alternative to most governments. It was then argued that privatization would increase productivity and effectiveness, and eventually provide efficient and quality services to the public (Shahabuddin, 1993).

2.3 Other Factors Favouring Privatization

Other factors that encouraged privatization were:

- i. To raise funds necessary to cover budget deficits and other obligations of the government, and to provide funds for the government's other capital projects;
- ii. To reduce the participation of the state in the economy;
- iii. To minimize the financial dependency of SMEs on the national budget;
- iv. To increase domestic and international business confidence and to attract recognized mining companies willing to make a long term commitment (i.e., 15-20 years) rather than entrepreneurs and junior companies, which may be less stable;
- v. To lower costs, improve efficiencies, and return companies to the path of profitability;
- vi. To increase government benefits from the mining sector (taxes, royalties, duties, improved infrastructure, etc.);
- vii. To re-activate the mining sector with fresh ideas, companies, professionals, and equipment, in order to provide a more competitive mining base;
- viii. To provide for the efficient and profitable use of national resources;
- ix. To encourage wider business ownership through public offerings;
- x. To improve working conditions and rewards for mining-sector personnel;
- xi. To generate new sources of cash flow and financing for mining enterprises;
- xii. To improve the efficiency of SMEs through joint venture relationships; and
- xiii. To reduce levels of hierarchy and bureaucratic procedures, and make companies more outward-looking and market-orientated. (Adapted in part from ECA, 1996; Morgan, 1994; Bear and Corney, 1993; Powell, 1987 and Yarrow, 1986).

In addition to the above factors, maintaining efficiency in the mineral sector requires constant investment in technology such as computer-assisted process to reimburse these higher development costs. Although new processing technologies have enhanced the commercial plausibility of ventures in several mineral sectors, environmental legislation has increased the fixed costs of exploration and production, including the cost of impact studies, new technologies that ensure environmentally-safe operations, and future land reclamation. To meet all these costs, mineral ventures have been important targets for privatization in recent years (Price Waterhouse, 1996).

Surprisingly, as Morgan (1994) states, many reasons for privatization are similar to those that have been mentioned earlier for nationalization⁶. He argues that, "If appropriate legislation and controls are not put in place, there is a danger, therefore, that the cycle may repeat itself" (Morgan, 1994).

It should be noted that despite the considerable advantages of privatization in the long-term, there are some associated costs. Referring to the Ukraine privatization experience, MacNeil (1994) states that these costs include potential political instability and social unrest. Corruption, inflation and social inequality could also be by-products of massive privatization (Samson, 1994).

3. A Brief Review of Privatization Trend in the Mineral Industry of DCs

Governments globally often try to resist private interference in their extractive sectors by pronouncing these industries as "strategic" and placing them under state control. The extractive sectors (including the mineral sector) are considered strategic not only because they contribute to the GDP and the treasury, but also because they symbolize state supremacy and power. But, mainly due to the reasons mentioned earlier, most nations have opened their mineral resources to foreign mining companies. Since 1985, more than 90 nations have adopted new mining laws or are revising existing laws (Eggert, 1997 and Price Waterhouse, 1996).

Supplementing these changes, the impartiality of investment laws has allowed for the foreign ownership of state mineral enterprises for the first time in decades. In a number of countries, including Botswana, Ghana, Chile, and Indonesia, private investment in the mineral sector already exceeds public investment (Price Waterhouse, 1996). In a 1990 study, three out of the top ten mining companies were state enterprises or companies controlled by the state (Price Waterhouse, 1996).

Figure 1 shows the private sector share of mineral production in developing and transition economies.

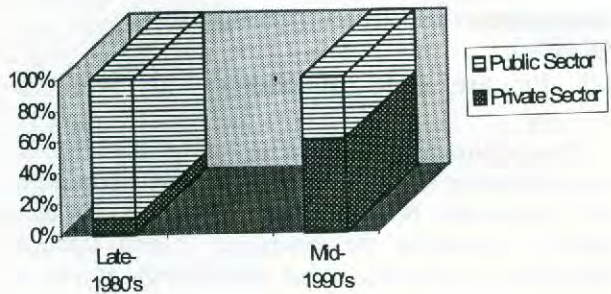


Figure 1. Share of Private and Public Sector in Mineral Production in Developing and Transition Economies
Source: Privatization in Extractive Industries, Price Waterhouse Publication, 1996, p.4, cf. Price Waterhouse Home Page.

As illustrated in the above Figure, because of privatization of important large SMEs in South American countries as well as in Russia in particular, the share of the private sector has considerably increased over the 1990s. At present, in countries with important mining sectors, private operators control an estimated 60% of mineral production; while a significant private sector mineral production in the developing world was limited only to a few countries, including South Africa, Namibia, Gabon, Indonesia, and Papua New Guinea, just about 10 years ago.

4. Methods of Privatization⁷

The most common methods of privatization are as follows:

4.1 Public Offering of Shares

This method consists of the sale of all, or part, of the shares of a company to the public⁸. This is particularly suitable when a mining company is in good condition but there is a lack of required capital for further expansion. As the price of shares is market-controlled in this method, it is more acceptable than other methods from an economic and political point of view (Vuylstecke, 1988 and Morgan, 1994). Walker (1988) suggests that the initial pricing of company shares should be low in order to attract more buyers and thus help support privatization. Such low initial price offering enables governments to spread share ownership

very widely. However, Nowell (1994) believes that highly dispensed share holding weakens the accountability and hence the quality of management. In some cases, two categories of shares (i.e., preferred and common) were created to enable a small group of shareholders to hold management accountable.

4.2 Private Sale of Shares to Selected Buyers

This approach consists of the sale of all, or part, of the government's shares in SOEs, through negotiation or a competitive bidding process, to an individual or a group to revitalize the enterprise, mainly through technological upgrading, but also through access to international markets. In most cases, the government retains an interest and some involvement in management. This is preferred for weak companies, because of its flexibility in negotiation, ease in determining the price of shares, as well as the simplicity associated with the procedure. It may also be the only alternative if the equity markets are not well developed or the size of the enterprise does not justify a public offering.

4.3 New Private Investment in SMEs

This form consists of a limited public offering (sometimes to selected buyers) of new shares so that a targeted company or groups of individuals can provide funds and special skills, technology, and markets. This method is often used when the primary objective is not divestiture but for provision of new equity by private sector. This can also be used to solve funding problems for undercapitalized enterprises.

4.4 Sale of SME Assets

In this method, the SME's assets are sold. Here, given the geological and surface assets of the SME, its performance and future potential, consultants assign a floor value to the company⁹, following which the government sells the company to the highest bidder.

This method is considered the most common form of privatization in the mining sector (Morgan, 1994).

4.5 Fragmentation (or Breakup into Parts)

On occasion, a state-owned mining company is vertically integrated with smelting, refining, and also fabricating plants. When there is no demand for the whole company or the government's objective is to privatize only certain components, the SME must be split into several entities and sold separately. This process also allows the application of different marketing methods to different entities. Morgan (1994) argues that this method may not guarantee a continuing healthy mining industry.

4.6 Management/Work –Force Buyout

This approach is recognized as a means of transferring SME's assets to management and employees, even when the projected value is low, in order to create an incentive for higher productivity. It is used particularly in smaller mines or facilities (Morgan, 1994).

4.7 Lease and Management Contracts

This approach is used when the government is unwilling to transfer its sovereign right to minerals to others. However, the operator would most probably require freedom to act and have complete control over operating procedures, planning and possibly development strategies over a limited contract period.

There is a major difference between a lease and a management contract. Under a lease agreement, a fee is paid to the government, but under management contracts, the government pays the contractor (which has good management skills and expertise) to run the mining company. This approach may also be planned as an intermediate step to full privatization.

The following Table summarizes the basic methods of privatization, each method's characteristics, applicability, pros and cons.

Table 1. The Basic Methods of Privatization

Methods	Characteristics	Applicability	Advantages	Limitations
1. Public Offering of Shares	Distribution to the general public all, or part, of shares in public	SOE around going concern with reasonable earning potential Objective is widespread ownership	Generally more appropriate for larger offerings from direct sale Often more politically acceptable	Structure or condition of company may not permit public offerings Pricing mechanisms to be defined Measures are necessary to

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<p>2. Private Sale of Shares Sale of government shareholding in a SME to a single entity or group. It can be partial or full privatization (e.g., transformation into joint venture).</p>	<p>Size of enterprise may not justify public offering</p> <p>In absence of equity market, may be only alternative</p> <p>Preliminary step to public offering when the presence of new partners necessary to turn enterprise around</p>	<p>Because of flexibility preferred method for weak-performing enterprises</p> <p>New owner known and can be evaluated</p> <p>Flexibility in negotiation</p> <p>Purchaser may bring benefits (management, technology, market access, etc)</p>	<p>effect management changes</p> <p>SOE may need private financial restructuring;</p> <p>Difficult decision on whether to rehabilitate prior to sale</p> <p>Often is not acceptable politically in developing countries</p>
<p>3. New Private Investment in SME Primary share issue subscribed by the private sector.</p>	<p>Where primary objective is not divestiture but provision of new equity by private sector</p>	<p>Addresses funding problems of undercapitalized enterprises</p> <p>Offers flexibility, used as first step to, and in conjunction with sale of government-held equity</p>	<p>Dispersed share holding among many can weaken the quality of management</p>
<p>4. Sale of SME Assets Sale of assets (instead of shares) to private sector</p>	<p>Where sale of share not feasible or objective is sale of individual assets</p>	<p>Permits privatization of SMEs not salable as going concern</p>	<p>Problems regarding to sale of assets as a result of liquidation or major restructuring</p> <p>Related debt liabilities often not assumed by purchaser.</p>
<p>5. Fragmentation Re-organization of a SME into several entities. Each entity can be privatized separately</p>	<p>Where objective is to only privatize certain components</p> <p>Where SME is a monopoly, and breakup will improve competition</p> <p>Where market will not absorb whole SME</p>	<p>Permits privatization of component parts when no taker for the whole</p> <p>Permits application of different methods to different parts</p>	<p>Complexity in applying different methods to individual entities</p>
<p>6. Management/Work-Force Buyout Acquisition by management and/or work force of controlling interest in SME</p>	<p>Used particularly in smaller mines or facilities</p> <p>Where the company has competent and professional management as well as skilled and stable work-force</p>	<p>Incentive to productivity</p> <p>May be solution for SME not salable otherwise</p> <p>May be solution for employment problems</p>	<p>Cash flow or other security required as underlying element of Management/work-force buyout</p> <p>Risk to employees</p>
<p>7. Leases and Management Contracts No ownership transfer</p> <p>Under lease, fee is payable to the government, under management contracts, the government pays for manager skills.</p>	<p>Where privatization of ownership of SME is not appropriate.</p> <p>Where state is unwilling to transfer ownership to private sector but wants private sector management</p>	<p>May be planned as intermediate solution rendering later sale possible</p> <p>May also be planned as an intermediate step to full privatization</p>	<p>Continued financial liabilities of the state with respect to ownership of assets</p> <p>Under management contract, the government still needs to inject funds to support operations</p> <p>Maintenance/renewal obligations</p>

Note: Adapted from: Morgan, 1994 and Vuylstecke, 1988.

Regarding methods of privatization, as Walker (1988) states, "there is no single perfect method for privatization. They all have their failings, and they can be mixed in a number of ways." Combinations of any of these methods can be used to meet certain requirements in the privatization process. All situations must be dealt with on a case by case basis.

However, Price Waterhouse (1996) states that governments have recently begun to favour the divestment of large-scale mining enterprises. World-class facilities often attract international interest, through public offering of shares. Management-service contracts and lease holding have not frequently been used.

5. The Privatization Process

Privatization implies fundamental changes, because of the transfer of SOE's assets and/or authority to "private" entities. This results in the redefinition of the role of the state in the production and distributing of income (Armella, 1994, and Aspe, 1994). In the competitive environment of private sector and global market competition, "there is no room for direct subsidies to production and nor for any other distortions that might inhibit the development of efficient enterprises" (Aspe, 1994).

The literature (ECA, 1996, Morgan, 1994, and World Bank, Technical Paper 181, 1992), stresses that privatization of SMEs will be unsuccessful if the fiscal regime, environmental legislation, mining code and institutional frameworks suitable for private enterprises are not yet in place. It is also quite important for a buyer to feel confident that a fair and competitive legislation is in place for incoming companies (ECA, 1996; Newell, 1994; and Aspe, 1994). Orr and Ulen (1993) suggest that in order to create solid buyer confidence, legislation must restrict the government's option of reversing the privatization in the future.

On the other hand, for a successful privatization, all necessary arrangements should be made to encourage employees and small investors to become shareholders (Miller, 1994). The privatization plan must formulate multi-year programs to deal with both small and large enterprises in the mineral sector. The scheme of these programs also needs to seriously consider social safety nets and labour retraining measures to diminish related welfare problems.

Many developing countries emulate their privatization strategies from the western world. These countries fail to realize that for any system to work, it must have the supportive environmental context, for which it was adapted and within which to operate. The experience of many developing countries suggests that

privatization without proper planning and the creation of the appropriate environment may fail. Unless the basic required environment is in place, more countries will fail in their privatization experiment and will blame privatization rather than the process used to privatize (Shahabuddin, 1993).

The full process of privatization must include the following as a part of the supportive environment, at least in the start:

- i. Creation of conducive legislative, structural and operational frameworks;
- ii. Technical and economic assessments; and
- iii. Financial and promotional activities.

5.1 Legislative and Structural Framework

An effective privatization process requires a fair legislative and an institutional framework in place before the actual privatization. This is particularly necessary for attracting qualified investors and for clearly establishing the basic rules and regulations under which companies must operate.

To do this, a methodical strategy for privatization is needed. This requires the formulation of multi-year programs, covering with both small and large enterprises in the mineral sector. To establish such a framework, governments need to clearly define and state their intent and mining policy.

Private mining investors normally require solid commitment and certain policy to be set before they can decide for a major investment. These typically include:

- i. Sound macro-economic and trade policies with few restrictions on mineral exports and imports of machinery, equipment, parts, etc.;
- ii. Fair, stable and transparent regulations that clearly explain the rights and obligations of an investor and the government;
- iii. A satisfactory fiscal regime that provides adequate returns to investors;
- iv. Clarity and stability in the fiscal regime and environmental management;
- v. Assured access to foreign exchange at market rates;
- vi. Guaranteed access to foreign arbitration bodies in case of disputes;
- vii. Access to internal-sourced finance;
- viii. Foreign exchange retention and profit repatriation rights, and
- ix. Effective support of private mining enterprises by well-organized organizations (World Bank technical paper No. 181, 1992 and Morgan, 1994).

In practice, the sequence of actions to establish those policy preconditions are as follows:

- i. Appropriate legislation (economic, investment and mining codes or acts) must be passed to cover, totally or partially, the above-mentioned factor.
- ii. Once the mineral policy is in place, it is necessary that the overseeing organization (e.g., Ministry of Mines and/or Natural Resources) be reoriented and restructured to carry out and uphold the law (e.g., to encourage and facilitate new private investments in the mining sector as opposed to acting as the ultimate authority to which SOEs would report).
- iii. Full coordination among all affected ministries and agencies (such as the Ministry of Finance, Revenue and Taxation agencies, Central Bank, Budgeting & Planning and Development Agencies, etc.) is necessary to ensure that the fiscal regime applicable to mining ventures is fully integrated into the country's overall financial and developmental framework and important issues such as tax rates (corporate, sales, export and personal), tax holidays, depreciation/depletion rates, offshore retention and tax write-offs are all addressed.
- iv. Guidelines for privatization must be established by the relevant ministries (Mining and Finance), covering, usually, the establishment of a privatization office with clear terms of reference with respect to assets to be privatized, objectives, timing, control and management (Morgan, 1994).

5.2 Technical and Economic Assessments

In the privatization plan, objective technical and economic assessments of the ventures must be made by an independent third party. The following important points in the evaluation process must be addressed.

- i. The evaluation methodology, designed by a professional consultant, has to be explained. Evaluation reports must reflect current trends in the industry and show the SME's competitive position.
- ii. Provision of site visits for the consultant must be provided and technical, commercial, environmental and financial assessments must be made. In assessments, optimization alternatives, that can be initiated with additional capital, must be considered.
- iii. Attention must be paid to the fact that large mining companies tend to harbor many small and sometimes hidden enterprises as service companies (e.g., engineering and drawing offices, warehousing and shipping services) which all need to be evaluated and included in the overall assessment.
- iv. All of the financial, social and environmental liabilities must be identified. This is a very

important step, since these liabilities could greatly affect future cash flows.

- v. Net present values at discount rates applicable to the industry must be calculated. Technical and economic reporting must be supported by sensitivity and risk analysis of the major variables (Morgan, 1994).

5.3 Financial and Promotional Activities

To attract foreign investors, it is suggested (Morgan, 1994, World Bank, 1992) that suitable experienced advisors be appointed to review all the economic aspects and put them on an international macro-economic and corporate/banking footing for the likely buyers. Other detailed activities include:

- i. A buyer's information memorandum (BIM) will need to be produced that contains the technical and economic information that an investor wishes to know.
- ii. The BIM will have to be sent to likely buyer(s) or interested part(ies) and the consultant must follow up by telephone, letter or visits, to encourage participation.
- iii. The bidding process and sale structure must be set within the government's objectives. The options for sale should be flexible enough to meet the buyer's wishes if possible.
- iv. Promotion must continue throughout the sale period. It can take the form of press conferences, symposia, visits, etc. Often, unlikely partnerships may develop; these should be encouraged to add value and attract better offers.
- v. Likely buyers must be listed and an on site information office must be prepared to receive them. Appropriate guides must also be available.
- vi. Following sound and transparent procedures in requests for tender, evaluating bids and executing the sale are very important. The key issues here are good pre-qualification of bidders, clear terms of reference and preferred bidding format, to make the sale decision fair and straightforward.

6. Problematic Areas in the Privatization Process

Critical issues that are likely to become problematic in the process of privatization include:

6.1 Pricing

In practice, pricing a mining venture is very difficult. A given price depends on the inherent value of assets and their productivity; but it is also affected by the procedures used in privatization process¹⁰. Many

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