



The Pathfinder Economic Alert

Increasing Investor Confidence, Attracting Investment: A Golden Opportunity for the Government

The previous Economic Alert sought to highlight some of the threats to the investment climate generated by the Revival of Under-Performing Enterprises and Under -Utilized Assets Legislation.

It concluded that such legislation was potentially damaging at a time when the country needs private investment (both domestic and foreign) to increase by at least 6% - 7% of GDP (USD 3-3.5 billion) in order to meet the government's minimum growth target of 8%. It was argued that the legislation had the potential to undermine both domestic and foreign investment. At a time when domestic investors need to increase their risk appetites and extend their pay-off periods, following the end of the conflict, it is important to pursue policies that encourage them to do so. In addition, any legislation that has even the slightest sense of expropriation is likely to concern potential foreign investors who have numerous destinations to choose from both in the region and elsewhere.

The ultimate impact of this legislation on investor confidence will be determined by the way in which it is implemented. A Statement following a meeting between the President, Senior Ministers and Officials, and the Chambers announced that the following was agreed:

1. That this is a one-off bill (*Can or should this be so? How should a government respond to mothballed factories abandoned by foreign or local investors 10 years down the line? It is important, however, that any response in the future should be based on wide consultation and parliamentary scrutiny. – Comments by the Pathfinder Foundation*)
2. The intention of this one-off bill is purely to revive the 37 underperforming enterprises and underutilized assets listed in schedules 1 and 2.
3. The government proposes to revive these enterprises or assets through the private sector.
4. The present holders of these enterprises or assets will be given the opportunity to submit proposals to the government to revive their respective enterprises or assets. (*This should be in competition with any new bidders, particularly when there has been non compliance with the original proposal made by the owners*)

It is, therefore, important that there is not only consistent messaging and but also predictable action that confirms this is a one-off piece of legislation. Above all, it is crucial that the assets vested in the state are disposed of in a timely and transparent manner. Given the very poor record of state-owned enterprises in this country, any attempt to retain these enterprises within the state sector are likely to result in both a loss of confidence among investors and continued underperformance of these assets at the expense of the ordinary people of this country. It is therefore, important that early action is taken to divest these enterprises in an orderly manner.

Though some of the privatized enterprises have not performed according to expectations, many others have brought direct benefits to the economy, in general, and customers, in particular. The best example is the telecom privatization. Privatization or Public-Private Partnerships should not be given up as an option nor should state ownership be continued, due to a few mismanaged deals in the past.

If the government does these transactions right, it will more than offset the negative publicity given to this piece of legislation. In other words, this has created a golden opportunity for the government to prove its commitment to private sector development and attract local and foreign investment.

The transactions involving the divestiture of these enterprises should reflect international best practice. The process needs to be transparent, competitive and based on sound technical evaluation.

Privatizations in developing countries are often seriously compromised by the politicization, nepotism and cronyism of processes and procedures. It is important, therefore, that the government attaches high priority to avoiding these pitfalls particularly as the manner in which this legislation is implemented will be extremely closely scrutinized both at home and abroad.

This is the Seventeenth in the series of Economic Alerts issued by the Pathfinder Foundation.

Readers' comments via email to pm@pathfinderfoundation.org are welcome.