INNOVATIONS FOR SUCCESSFUL SOCIETIES

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SCHER: My name is Daniel Scher, and I'm the Associate Director of the Innovations for Successful Societies project. I'm here with Mr. Joshua Galeforolwe, the CEO of PEEPA [Public Enterprise Evaluation and Privatisation Agency] in Gaborone, Botswana. Sir, thank you very much for taking time out of your very hectic schedule at this particular time to meet with me. I do appreciate it very much and I'm glad to have the opportunity to sit down with you before I leave.

GALEFOROLWE: Thank you for including me in this program. Indeed it is a pleasure.

SCHER: So before we begin with some specific questions I have about your work here, I wonder if you'd mind just giving us a very brief introduction to yourself and the career trajectory that has brought you to this point as CEO of PEEPA.

GALEFOROLWE: Thank you. I trained as an accountant, and served my articles with an accounting firm called Deloitte Haskins & Sells, then in the offices in London. On completion of my articles, I joined a mining company in a town called Selebi-Phikwe in Botswana. It was a mining company owned by an Anglo-American corporation and Amax, Inc., out of Greenwich, which was at the time one of the main natural resource companies in the United States. After working there for about thirteen years I moved to Gaborone, where I worked as Deputy General Manager of the national airline, Air Botswana at the time, way back in 1993. I was with Air Botswana up to 1999.

During my tenure at Air Botswana, I led a team that restructured the airline, so the airline's financial performance turned around to making a profit for the first time since the airline was established with independence in 1966. When I left the airline in '99, we had three years in succession been posting a profit, the maximum being 20 million pula at that time.

I joined the privatization agency when we were—because I was a part of a team that looked at the introduction of a privatization policy while I was with Air Botswana. Indeed, following the turnaround of Air Botswana's performance, it was to be a pilot project that we would submit for privatization. At that time I think it was quite—should I say—the market was very vibrant for airline privatization. It was the time when Kenya Airways was privatized, the time when South African Airways was privatized, but it was sad that the transaction was subsequently reversed. So when the opportunity came to join the privatization agency, I felt that with my understanding of how the private sector operated, with my understanding and contribution to the restructuring and turnaround of the financial performance of Air Botswana, I felt that I could make a contribution in other sectors of the economy in bringing about public enterprises reforms.

I'm emphasizing public enterprises reforms, because within the public sector reforms we have the civil service reforms, targeting the mainstream civil service as in government departments, and the reform of the public enterprise sector, the state-owned enterprises that government owns, which are managed somewhat differently, and jointly they would constitute public sector reforms.

Maybe I should pause at that junction—perhaps let me just add that with my recruitment here I started the organization from scratch in 2002, developed, undertook the organizational design, started a lot of other privatization agencies. There were many that were over since privatization was introduced in many of the developing countries, as part of a structural adjustment program driven by the Bretton Woods Institutions to try and assist governments in improving public *service delivery as well as curtailing public expenditure, most of which went into propping up unsuccessful, unprofitable state-owned enterprises.*

In Botswana the reform wasn't driven by the Bretton Woods Institution; it was a deliberate effort on the part of government, recognizing that they'd done relatively well since independence, when they inherited a country with minimal known resources at that time, little infrastructure: a vast country, small population, and largely within the poverty trap in 1966. But during the years, government played a critical role in developing the economy, both from public service as well as stimulating private sector investment, particularly in the mining industry. With the flow of diamond revenues in particular, that enabled government to invest substantial sums of money in infrastructure development, in delivery of public services in the form of health, education, infrastructure and sundry.

I think it was largely due to prudent financial management and resource management that the country was able to achieve that much. But notwithstanding the achievements, the government realized over time—the government felt that the economy was getting to a level where it no longer could be driven by government solely without the involvement of the private sector. It was in this context that with globalization, with the economic borders gradually being removed, government felt that the next level of development can mainly be reached with greater private sector participation in the economy. That is where the concept of privatization in Botswana was born, mainly to complement government's efforts in national development. That's why privatization in Botswana is broadly defined to include all measures and policies of government aimed at strengthening the role of the private sector in the economy, rather than suddenly saying, let's take assets.

The privatization program—the government decided that it would be done on a piecemeal basis, as such, when it feels comfortable with privatizing whatever enterprise. It was not driven by the desire to raise revenues. It was not so much driven by the desire to stamp out the flow of public funds. It was largely driven by the desire to achieve efficiencies, enhance productivity, and create more competition in the economy so that gradually government can reduce the size of the public sector, create opportunities for private sector investment and entrepreneurship, and in the process develop the capital market, ensure citizens' economic participation, and create wealth for all. These are the broad strategic objectives for driving the privatization agenda in Botswana.

The efforts made by government in moving in this direction has been to try and take everybody on board, so that we all see the benefits of promoting private sector participation, bringing about all these other benefits as a result of shifting the developmental focus of government. The model—the focus obviously poses various challenges. The first challenge that emerged from that type of approach was that there was no evident burning platform to want to drive this type of reform agenda. Obviously, up until recent economic downturn, government was endowed with resources and generating a lot of money from taxes, royalties [...] from the natural resource sector, generated revenues from tourism and other areas.

Until recently, the government had earned substantial foreign reserves, I believe sufficient at some stage—in the not too distant past—sufficient to cover 27 months of imports. But, obviously, following the economic downturn globally and the decline in the demand for diamonds as well as prices for diamonds, very little or no revenues have been flowing into the national treasury from diamond sales, and therefore government has been relying on the savings it has made over the *years. Clearly, it is only now that there seems to be a burning platform for people to want to contain costs, to want to grow other revenue streams, such as the disposal of some of the mature national assets to finance new investment in national assets.*

At the same time, the desire to hive off a lot of the public sector functions to private sector service providers is a way of bringing down the expenditure on the public sector. So there is now that burning platform that has not been there for a very long time.

The other challenge is that because reforms were self-imposed, wherever there was a resistance to privatization on account of the perceived potential job losses—concern often raised by the opposition parties, the labor movement—the government will stall and move slowly to take account of some of these concerns. That has had the effect of dampening the desire to move the privatization program forward at a pace that we think it should have been moved at.

So these are some of the challenges of the self-driven structural adjustment program. In a middle-income country that has achieved the sort of successes that you made reference to, largely driven by civil service—at times success brings in other challenges, which I think in our case, from the privatization perspective, if we were to compare ourselves with what has been achieved in Tanzania, for instance, we could have done more in driving the privatization program.

The focus largely for the program has been in those areas where there has been less resistance, particularly in areas related to the outsourcing of the delivery of public services to private sector service providers, where we were going to contract out the provision of various services: road maintenance, buildings, construction, building maintenance, refuse collection, catering, and including outsourcing of some of the services of the core functions in other areas. We are looking at outsourcing the delivery—correctly evaluating delivery of healthcare using several government facilities. We find with this model where government retains the responsibility for the delivery of services but contracts a private party to implement the delivery function, there has been less resistance to that form of privatization.

The other focus of our reform agenda has been mainly to restructure state-owned enterprises. The restructuring comes about as a result of—. Our state enterprises are fairly functional. They are performing the functions that they were set up to do. Not all of them are loss-making. The majority are profit-making. It is only when you look at the profits that they make in relation to the investment that has gone into them that you begin to ask yourself, is government getting value for money? In most instances it has been felt that—I think—the returns that have been made are not commensurate with the original investment that has been made, or that could be made had the services been provided by a private sector party.

So the restructurings have taken the form of reducing the cost structure of these enterprises, improving the performance and delivery, performance from a financial standpoint, performance from the delivery of certain universal service obligations, performance from playing the developmental role as public enterprises as an instrument of government to prop up development, provide services in those areas that would otherwise not attract private sector investors. So that has been the focus of the restructuring program.

Focus has also been in commercializing some of the government institutional functions such that several of the functions can be accounted for on a full-cost basis, rather than the approach that is typically found in the public service, where one is only looking at the direct cost of provisional services. But in the commercialized environment, one would be looking at the direct and indirect costs. One would be looking at changing the accounting system from a cash accounting system to an accrual accounting system. One would also be looking at setting up some of the big state-owned enterprises in the form of business units so that you are able to know and freely account for which are the cost drivers, and therefore how could you then bring down the cost structure, how could you improve services by disaggregating the manner in which we account for costs, we account for revenues, we account for service delivery within our public enterprise sector.

So the restructuring has played a very critical role. The restructuring has also been in the form of recapitalization of several of the state assets, state-owned enterprises. State-owned enterprises because, by their nature, they have always been seen to be playing a developmental role. Government initially invests money, and then the growth of the enterprise is largely out of retained earnings and in some instances government used to lend money and finance these enterprises through provision of loan finance to the enterprises.

There was a public debt service fund that was created that was a vehicle for lending to state-owned enterprises. What tended to happen was, you would have an enterprise solely financed with debt, especially when the initial equity injunction got eroded by the accumulated losses over a period of time, and then you'd end up with an enterprise whose growth, expansion and sustenance was built on loan financing. Obviously, we all know what happens when you finance a business solely with debt financing. The cost of that financing, which is the interest, tends to outstrip the revenues, and the circumstances leave very little of retained earnings to plow back into the business. So the financing structure of some of the enterprises was not commensurate with modern business practice, and therefore a good number of them had to be restructured—but the conversion of debt into equity, so that you had the right, appropriate mix of debt equity financing characteristic of certain industries which would eventually lead to viability and sustenance of that particular state-owned enterprise.

On the divestiture front, sale of state assets, I think that is an area where we don't have much to show for our efforts. It certainly is not out of lack of trying, it is just out of—I think the environment as I've described it, driven by a government that is comfortable with doing whatever it has been doing, and doing it well, or relatively well, a government that is fairly sensitive to public opinion, especially where people perceive privatization to be a way of selling the family silver and in most instances is given a level of awareness in the country and the means of—the financial means of those that can afford. The view has been that privatization would only benefit foreigners and not the citizens.

For that reason government has been loath to push through several transactions. We advised that Air Botswana should be privatized in 2007, to get a strategic equity partner. We would also have a management contract to run the airline and get the small Air Botswana to fit into the broader regional airline network and therefore expand the reach, make frequent flyer programs viable, allow the airline access to global distribution systems. All of that—government decided at the end of the transaction not to proceed with it because it was perceived as a South African carrier, or a carrier operated out of South Africa at the stage where *promotional tourism within the SADC [Southern African Development Community] region had received critical focus, that it may not be in the best interests of promoting tourism in Botswana that an airline could be put into private sector hands, especially when the investor as the strategic equity partner was an airline from outside the country.*

So that made them not to proceed with the transaction, not because there was no business case that could be made to justify the privatization, not because there was no investor interest to warrant the conclusion of that transaction, but for various political as well as perceived strategic interests of government, viewed from the perspective of tourism promotion, that government decided they would not privatize at this stage, but restructure the airline further to ready it for eventual privatization in the future.

Now, in the case of the Botswana Telecommunications Corporation [BTC], where again a lot of work has been done to privatize BTC, government, as a run-up to the elections, has decided that they would not drive the transaction according to the program that was agreed, largely on account of, again, unstable financial markets. The government has decided that they would need to see an upturn in the global economy, and only then would it move forward to privatize the BTC. The same applies to the work that we're currently doing to privatize the National Development Bank [NDB].

So on the divestiture front, work has been done. Decisions have not been forthcoming at the time expected, or the type of decisions that were expected to at least test the market and put one or two transactions in the marketplace. But we think, not in the too distant future, clearly, certainly I'm sure—I'm just speculating here—after the elections in October, I'm sure we will start seeing some transaction flow into the market.

The aspect of private sector participation in the economy that has been driven with some degree of success has been the promotion of private sector investment in public infrastructure. We call it public/private partnerships; we call it concessioning public infrastructure, but all it means is promoting private sector investment in public infrastructure. The number of successful transactions in the marketplace were some including the provision of serviced office accommodation to government by private sector investors where government pays for the use of the facility over a concession period of some ten to fifteen years, and the financing, development, and maintenance of the property is done by private sector investors.

We have a number of two office accommodation projects. We have the second University of Botswana International University of Science and Technology, which is about to be constructed in a place called Palapye according to an MIT [Massachusetts Institute of Technology] model, but with the campus infrastructure facilities being financed, managed, and maintained by private sector investors. There is further work in the pipeline to look at other sectors, rail sector, the toll bridge linking Botswana and Zambia. So on the public/private partnership front there has been a fair degree of success. We've also developed and got government to agree to the PPP [Public/Private Partnership] policy and implementation framework to facilitate the delivery of public infrastructure using the concessioning model.

So that's by way of our experience with privatization. The model that has been adopted, again, which is perhaps Botswana-specific—I think it was tried in the United Kingdom, didn't make success in the UK largely because privatization *there was largely driven by the Prime Minister's office during the [Margaret] Thatcher days—but the implementations of some of these transactions were left in different government departments. I think South Africa decentralized most of the enterprises that would be candidates for restructuring and privatization; they call it restructuring in South Africa.*

I've got a Department of Public Enterprises where [...] Transnet moved from the Transport Department, Denel was moved out of the Defense Department as Eskom moved out of Energy. But they were all put in the Department of Public Enterprises to ensure that the program is driven from the center, where there is one authority possible for driving the program.

In Botswana what was centralized was the provision of advisory support, which largely comes through the public enterprises evaluation and privatization agency paper. But once the advisors in attendant aligned ministries, implementation then will reside in aligned ministries. So if you are privatizing Botswana Telecommunications [BTC], it will be the Ministry of Communication, Science and Technology that will implement that documented privatization strategy for BTC. If you are privatizing Botswana Power Corporation, you deal with the Ministry of Minerals and Water Resources that would be responsible for implementing the transaction after the Ministry of Finance has recommended the transaction structure.

That's a decentralizing privatization implementation. It has its own setbacks. The setbacks were largely due to the lack of capacity within line ministries to present such complex transactions and processes. The people who understood better the issues and the challenges and the transaction structure were those that are advising, largely advising, with the support of various transaction advisors, investment bankers, and specialists in the discipline. But when it came to implementation, it was difficult for the implementing ministries to implement something that one, either they don't understand fairly well; two, they may not necessarily agree with; three, it may not be one of their major priorities, given that government has a lot of other issues that they have to deal with.

So up until recently, the beginning of this year, government decided to centralize the implementation of privatization under the Ministry of Finance and PEEPA so that PEEPA will be advising on the privatization strategy, while cabinet has agreed that PEEPA will be responsible for leading implementation, of course with the participation and involvement of other client ministries. So we think that through centralization you can develop capacity and competency within one outfit, and the lessons that can be learned in one transaction can then go and benefit the next transactions rather than the previous decentralized approach.

Let me pause that far, and perhaps give you the opportunity to put to me any specific questions that you may have identified.

SCHER: Sure, thank you. This has been a very helpful overview of the numerous things that you are involved in. Your mandate seems exceptionally broad, but also it strikes me that you're in quite an unenviable position in many ways, because you're charged with advising and attempting to get the ball rolling on these processes, on the privatization processes, but at the same time the necessary support is perhaps not quite there.

GALEFOROLWE: Absolutely.

SCHER: One of the things I was quite interested in is that there does seem to be this perception that—a bit of a misperception, rather, about what your exact responsibilities are, because when some of these privatization processes haven't gone through, then it falls at your feet in many ways, which seems a little bit unfair. At the same time you have this perception that PEEPA was created to sell state assets. So it seems like you have quite a job in terms of just getting across what actually your responsibility and your role are.

I'd be interested to know the types of initiatives and the types of strategies you've tried to adopt to get this idea across of what it is exactly that your responsibilities are.

GALEFOROLWE: I think one of the things, especially after the privatization of Air Botswana didn't go through—some of these things when they happen they can be a blessing in disguise because the client ministry disowned the privatization. The client ministry said, well, it was PEEPA that was advising on the privatization. When PEEPA tended to advise, then the client ministry picked and chose what they wanted to do with the advice that has been tendered. Once we had a portfolio of projects, I think there were something like fifteen projects and none of them had been taken any further by the implementing ministries, and we were able to quantify how much resources had been expended on these projects and fortunately with, again, some of the reports that were coming out from the visits by the IMF, the visits by Standard & Poor's, the visits by the sovereign rating firms.

It became clear that there was need for policy coordination and policy implementation. That's when the chickens came home to roost, because it became evident that there was a barrage of advice that had been tendered on a range of projects covering a broad portfolio, but that very little was happening, and it became clear that the decentralization model was partially to blame. The decision, therefore, to centralize implementation I think was a key step.

The next initiative that we sought government to approve was to agree to a revision of the privatization master plan. It is a strategy document that spells out what the roles of the different stakeholders are in the privatization process. We are going to have a revision of this document on roles and have this document taken to cabinet so that a presidential directive can be issued which will bind our ministries once it is elevated to that level.

A draft-kept memo was prepared, circulated. Ministries made their comments; the comments were incorporated. The document, I think it has either has gone to cabinet or is about to go to cabinet now, because our minister has been out sick for quite a while. A lot of key policy reforms are awaiting his return. But notwithstanding that the document is a work in progress, the decision by the President in January was to say, this is how things are going to be done now. Basically what the document is seeking to do is to regularize, formulize, and see the consultation process through, so that at the end of the day all of us would have input. So we are continuing to operate under a centralized mandate. Therefore this initiative to tie down ministries to ensure compliance to ensure that they come to the party and don't just jump in when it is convenient and jump out when it is uncomfortable. I think that's one initiative that we brought about.

It is not 100% satisfactory intervention; it's a halfway house. The ideal would have been to have passed a legislation governing privatization, so that the roles and responsibilities are institutionalized by law and some of the enabling interventions, like the conversion of state-owned enterprises from statutory *bodies to limited liability companies, could be effected by legislation across the board, so as to facilitate the issuance of shares as part of the privatization process. But we recognize that, given the run-up to elections, governments generally tend not to have appetite for passing new laws, particularly controversial subjects like privatization. So we are working on, post-elections, putting before government a piece of legislation to drive the privatization program as the desire to end state-measure.*

SCHER: You mentioned your privatization master plan. As I understand it, in this document there are 27 units or enterprises that you have identified are candidates for privatization. I was wondering if you could tell me a little bit about how you went about identifying the 27 top candidates for privatization and a little bit about the criteria that you use.

GALEFOROLWE: Firstly, as I said, the objectives of privatization have to be borne in mind before we look at the process that we went through to select those 27 enterprises. The objectives are to improve the efficiency of the state-owned enterprises through bringing about competition, and to improve efficiency through bringing about competition and liberalizing the markets. We also were looking at achieving the withdrawal of government's involvement in the delivery of—in the management and financing of some of the activities of these entities so that government doesn't crowd out private sector opportunities.

So we would look at: is this particular function, can it be best performed by the private sector? Is there a specific reason why the public sector should continue to provide this service? So one would look at the readiness of the private sector to role-play in that kind of sector. We also were looking at where the private sector wanted to invest. Where could we easily get entrepreneurs to invest in these activities? And, therefore, the attractiveness of the enterprises became relevant, because the private sector would not to invest in something that is not attractive to them.

We looked at which enterprises would contribute to the development of the capital markets, and therefore in deciding which entities would need to be privatized. There were two main principal criteria. One was the desirability criteria: is it desirable to have this particular function performed by the private sector, or to be performed by somebody else other than the public sector? Two: is it feasible? That was the other criteria, the feasibility of privatizing or outsourcing that particular function. It is our minister who recognized it may be feasible but it may not be desirable, especially where a particular enterprise is a monopoly, is a utility; it is providing a commercial service but it is also providing a universal service. Therefore it may not be feasible—it may be desirable to privatize it, but perhaps after further reform. The reform could be by market liberalization, removing the monopoly power, creating competition, bringing in other competitors and then privatizing it. Or it could be by way of restructuring. You bring first those functions which involve provision of universal service, rural telecommunication, rural water supply, rural electrification, [...] and you provide it on the basis of negative tender where you invite bidders, private sector bidders to provide that service, and government either through using license fees pays private sector such providers for the service they are providing to those rural areas. Because it may not be attractive to a private sector party to come in and then be burdened with provision of rural water supplies, as it would dilute their profitability from the provisional services in urban centers.

SCHER: I see.

GALEFOROLWE: *So all of these measures were balanced, and one was to say, how do we balance these often conflicting public sector objectives. As you say, public policy is a double-edged sword. So this test was applied after we had done a detailed due diligence of all these enterprises, looked at the environment in which they operate, the policy, regulatory environment, the financial performance, markets and competition issues, and the environment issues.*

Then applied the test of desirability and feasibility, and arrived at some of the enterprises that can be privatized immediately because, one, it is feasible to privatize them, and two, it is desirable to privatize them. Some of the enterprises that are desirable to privatize but not immediately feasible to privatize because you need to restructure them, either to bring about competition or do balance sheet restructuring, organizational restructuring, so that later when the private sector party gets involved they would not focus on commercial objectives and disband and turn away from providing the social and developmental objectives. So that was a test that was applied and these organizations were put into various quadrants.

We are currently reviewing the status of those organizations. Some of them we are seeking to elevate them from quadrant B to quadrant A, quadrant B being those that were subject to further reform before they could be privatized. In cases where such reforms are privatized, restructurings have taken place where we're announcing client ministries less committed to bring the private sector participation within this timeframe. It is quite a lengthy and quite involved project because, as you can imagine, there is always a lot of resistance and protection of some enterprises that we get from the ministers.

SCHER: That actually feeds very well into the next question that I had for you. Now presumably, as you mentioned, some public enterprises there's more resistance than others. I've heard from other people who have had to deal with these types of issues, these types of privatization issues, that there are two schools of thought maybe, that firstly you should perhaps start off with the most difficult ones first and try and get the big ones privatized first, or do you start out with the smaller, perhaps easier ones, and build up some knowledge, accumulate some experience before attempting to tackle the really big ones that are going to be more challenging. What is your view on the sequencing of privatization efforts?

GALEFOROLWE: *Initially, the sequencing was on the basis of which are the easy ones, let's go for the low hanging fruit. Let's start with them, those that don't require major restructuring, those that don't require a lot of legal changes, and we found that in some cases they were profit-making, they were not loss-making; they were not perceived to be burdens on the state. The question was, why do you sell the family silver instead of ditching those that are a drain on the public coffers. So it was perceived as some obstruction of value away from government. The resistance came from that perspective.*

We also found that there were certain ministries that had problems with some of the state-owned enterprises with loss-making, coming to government for further major capital injection, and the Ministry of Finance would say, why should government put money in when the private sector couldn't be putting money in. Then we would use our money for development of education, health and other sectors. That may not necessarily be attractive to private sector service providers. Because you are driving the horse to the pond, but you are not going to force it to drink when you take it there. So we found that even those that like the Air Botswanas of this world, like the BTCs of this world, we found that even *after doing all that work, reasons are always found why they should, why somebody should not let go.*

This experience is not unique in Botswana; we've studied quite a lot of case studies in other jurisdictions, and in Zambia and Tanzania to some extent. They started with the loss-making ones and the [...] government said, well, we're not going to put money in if you don't go the privatization route; we're going to let you collapse. We saw the collapse of Zambia Airways; we've seen the collapse of a number of other state-owned enterprises. When people realized it was that bad, they're either without a job or maybe with guaranteed employment in the private sector; others are going the privatization route rather than to be completely shut down.

In other jurisdictions in the Scandinavian countries we've seen how successful privatization of profitable enterprises are then restructured. We've seen it with British Telecom; we've seen it with a number of other enterprises where they're ready for the taking, they've been restructured. They may be complex, but everybody has volunteered to go that route.

We have seen—the few volunteers that have come our way are the most difficult ones, the most controversial ones. So I think the long and short of it is, you need government's resolve to privatize state-owned enterprises. The commitment to cause government as a unitary institution to move ahead with the implementation of the program, to cause ministries to volunteer once government has agreed to volunteer the candidate state-owned enterprises. I think that's what you need. You need that resolve, you need that resolved backed by legislation. I think you will see transaction flow.

In the case of the UK it took a long time. It was trials, hits and misses, but the Thatcher government had that resolve to drive the program. You either were in it or you were out. In South Africa it blows hot and cold, start and stop, because there's no such actual legislation. One moment it is the right way to go, let's privatize SAA [South African Airlines], then let's take it back. Let's privatize telecom, it was privatized, and so on and so forth. So it happens in many other jurisdictions.

I thinking our situation we needed that resolve and we are seeing the resolve come through National Development Plan 10—that's next year, NDP 10, where government says a primary focus of Botswana is private sector development and privatization program is a vehicle they are going to push to achieve private sector development.

SCHER: I wonder if I could just pull the conversation back a little bit. We're always interested to hear from people such as yourself who have had to essentially set up organizations from scratch, as you mentioned you had to do. One of the things we're interested in is how you go about finding the right people for the jobs, how you adequately staff an organization such as this one. What were the processes and the procedures you used to identify the people with the capacities you felt you needed at the time?

GALEFOROLWE: It is a very difficult question and I doubt whether I can say we were that successful in getting it right from the onset. You know, it is a trial-and-error-type initiative. Firstly, I think our focus was, what is this organization going to be? What is its remit? How best can this remit be achieved? We are an organization that is going to advise on privatization, commercialization, restructuring private sector participation of all forms and shapes, as well as something that I didn't talk *about: assist government in monitoring the performance of state-owned enterprises and promote good corporate governance within the public enterprise sector.*

Now, as I said earlier, it is a mixed bag of broad elements—elements of a broad remit. So we said, how are we going to achieve all the different elements of this remit. So we segmented the remit into particular elements, and we said, in this particular element, what will we see if we are going to achieve the goal that this organization has been set up to do. So having identified the desired end state or achievables for each element of the remit, we then said, what is the best way of constituting ourselves in a most efficient and cost-effective manner to achieve those goals under each remit element.

We could have said, we will employ engineers, architects or functional specialties that will allow us to deal with each and every sector of the economy ranging from telecommunications, education, health, water, energy, you mention it. We would have ended up with an organization the size of the Public Service [laugh]. But we felt we are an organization that is to promote private sector participation. Some of this expertise could reside in the public service—in the private sector, rather. So why don't we use a delivery strategy where we would contract private sector service providers to deliver some of these mandates on our behalf. So the skills and competencies that we would need would at once advance the many projects' management. We would contract private sector service providers to intervene on a particular function, and ours is to spell out what we need, monitor how they go about delivering it, and take the results, take them for processing and decision making and then work with the private sector party to see the implementation through.

We then decided that we would focus—that the delivery model would be a consultancy-type model which you bring in economist, financial specialist, a few technical people, engineers, architects here and there, but by and large buy in expertise—if you want an investment banker, you want a telecom expert, you want social policy analyst, if you want governance specialist, you bring them for each and every transaction. We followed that project management approach. And you could find economists, you could find accountants, but you would not find investment banking skills in a public sector environment. You need to bring investment banking skills to carry out company evaluations, how you structure a sale deal, because investment bankers are in the business of selling businesses. Public service has never been in the business of selling businesses. The public service's role is creating, enabling the environment for business to flourish in our economy.

We then went out into the market and employed staff. We were paying particular attention to people coming in from the private sector, the reason being we did not want to shift people from the public sector into the privatization agency. So the reform of getting public enterprises started off operating on a commercial basis, like private sector companies, would have otherwise been missed had we migrated civil servants into a privatization agency. But somewhere along the line, we started getting—trying to bring that balance. You're running, driving an economic reform within a political environment, so you needed somebody, some people that understand the political system in which we operate.

We are now caught at crossroads, as it were, with government saying that with the financial squeeze they want to curtail the use of consultants, but we have not had a sufficient number of transactions to have learned and benefited from the earlier successful transactions. So we are challenged, and we are still engaging *government to understand that to change the modus operandi of a privatization agency, you just can't change it by the stroke of a pen, because you've got to build that capacity. Government can't afford that expertise that you find resident in the private sector companies.*

You know what the Citibanks and J.P. Morgans of this world pay their analysts and their dealmakers? There's not a single government that can pay that. That's why the World Bank, through the International Finance Corporation, has provided the advisory services arm to allow governments to access specialists in investment banking and corporate finance skills in the public sector environment. So what I'm saying is, yes, it's doable too, but at the same time there are equally a lot of challenges, because contracting private sector service providers comes with a cost. But if one wants to try to be penny wise and pound foolish, again it could come back to haunt us if we were to cut corners and avoid using the specialist, especially in the initial stages of the project, to try to save money, and then you're disposing of assets worth two billion, three billion. And some of the parties that we're negotiating with in these transactions are shrewd business people, international operators, who even with their equals always pull smart deals below the noses of their counterparts.

I think that's one of the challenges that we have as the government to try to strike a balance between containing the costs of service provision, but at the same time not throwing caution to the wind.

SCHER: I'm very conscious of demands on your time, and I was wondering if you'd mind if I asked just one final question, seeing that we've addressed a lot of the issues that I came here wanting to find out more about. My final question would be, what are the types of advice that you would offer for people who find themselves in a similar position to the one that you now hold in other countries? What are the types of things that you wish you knew when you first started this job that you now know?

GALEFOROLWE: I think, firstly, one has to have the appetite to learn, and learn on a continuous basis, and learn from the experiences of other countries. Because if you look at privatization, many countries started in the '80s, and a lot of mistakes and successes were made in the '80s, in the '90s, in Eastern Europe for instance. Coming in at the tail end of the privatization drive, if one wants to call it that, there are lots of lessons that can be of benefit to a program such as ours here in Botswana. The challenges—that appetite and greed to learn and to inform themselves and to relate whatever has happened elsewhere to our environment here, not many of us, I suppose, are too keen to apply ourselves to that extent.

The other is, I think, the appreciation that privatization cannot be driven in isolation of the desire to transform the economy as a whole. We have been talking about the private sector being the engine of growth, partnering with the private sector, and so on and so forth. But I think when you look at what else has been done elsewhere to promote private sector businesses, creating an enabling environment, come up with good tax rates, and create opportunities when we send missions overseas to look for markets for Botswana produce, to look for investment opportunities for investors in Botswana, very little was done in the early stages. Therefore to try and think you can promote privatization in isolation, of just the general reawakening that government needs to do more to promote doing business in Botswana, that Botswana is competing with many other countries now which never used to attract FDI [foreign direct investment], countries like Angola, DRC [Democratic Republic of Congo], Mozambique, *Tanzania, where Botswana used to—because it had a stable political environment, we used to think people would compete, would come and fall head over heels to come and do business here.*

Now capital is footloose, people are finding other markets where there is now some semblance of calm. I can't remember the expression used for these countries like Liberia—.

SCHER: Fragile states.

GALEFOROLWE: Fragile states, you see some of those fragile states got their act together, create that enabling business environment and going out to attract investment, rich in resources. Though the risks might be high, the returns, the resources are quite enormous. So there's just that sudden reawakening in Botswana. It makes it easier to drive and handcuff our privatization program on the activities of various other arms of government. The Botswana Enterprise Development Authority, the DRBDC, and many other agencies of government, International Financial Services Center—they're all out driving, doing business in Botswana and showing Botswana to be the right place to do business.

Therefore, privatization in this setting finds allies, and therefore it is easier to sell privatization. Had we realized this earlier, we would have realized that we were too early coming in without allies, and we were going to meet the sort of resistance that we've come across. We also have found the involvement of governments, cooperating partners, very useful in leveraging our agenda. The Sovereign Rating Companies, the World Bank, recently they came here on a mission to provide funding to government, the African Development Bank. So the Canadian CIDA [Canadian International Development Agency], Private Infrastructure Advisory Facility, all of these organizations have recently played a role, a very critical role either in financing studies that showed there was need for policy reforms on PPPs, policy reforms and even financing, the drafting of legislation on privatization.

So suddenly the whole privatization agenda has been driven by other parties who are coming in as our endorsers and therefore giving legitimacy to the agenda that we've been trying to push single-handedly. I think one of our advices is, to drive such a reform, one needs a very strong champion, and if you haven't got that champion you know you have an up-hill battle. If you don't have a champion, at least have legislation, because you're dealing with reforming organizations that are formed under specific legislation. When the chips are down they'll hide behind legislation to stall the entire reform agenda. We all don't like reforms. You're pushing people out of their comfort zones, and they have the fear of the unknown.

So these are some of the lessons Botswana has learned. But I think some of the experiences that we realize, is that if you can demonstrate that you have researched your subject, you are coherent and you're credible, I think it goes a long way in getting an audience from so many of the resisting parties. I think that has been a plus for this organization. The other plus is divestiture, same as public procurement. They are two of the very sensitive functions prone to all sorts of—for lack of a better word, should I say impropriety? If you can demonstrate that you want to hold the organization as credible as it can be, all aboveboard, follow procedure to the letter, follow the principles of transparency to the absolute maximum. Then, I think, as the agents of resistance take different forms and shapes to run down the process, run down the institution, run down the *individual, I think that is some armor that you could use to protect the agenda of privatization, to protect the individual, to protect the institution.*

I think that is something that I would say. If the public were to impute any form of impropriety in the disposal of an asset, that would then give grounds for resistance to privatization. And therefore everything needs to be done, [...] giving privatization detractors any reason to resist privatization.

SCHER: Excellent. Well, thank you very much. I think that's excellent advice to close on. I do appreciate your giving so much of your time this afternoon.

GALEFOROLWE: Thank you very much. This has been a very interesting interview.