THE STATE SECTOR AND DIVESTMENT IN TRINIDAD AND TOBAGO: SOME PRELIMINARY FINDINGS

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I. INTRODUCTION

Over the past few years, very many economists have argued that the state should retreat from some of its economic activities which had expanded during the postwar period. The expanded role for government has been a phenomena of both the highly industralized as well as the developing countries and owes much of its impetus to the Keynesian revolution. Economic thinking has however returned full circle with calls for a retreat of the state and moves towards the market forces and the private sector. Trinidad and Tobago is no exception to these trends; the role of the state has changed from one of a passive actor to active entrepreneur and more recently, the state has begun to retreat from some of its activities.. The moves to privatise the large state sector have been partly at the state's own urgings and partly at the urgings of outside forces.

This paper traces the growth, financial performance and efforts to dismantle the state sector in Trinidad and Tobago. In large part the record of the State as an entrepreneur has been very dismal and this has led to the

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calls for a reduction in the size of the sector. The large fiscal burden, created by the state enterprises, became particularly acute in a period, in which the state itself was undergoing structural adjustment, both self imposed as well as within the confines of an IMF/IBRD programme. The dismantling of the state sector has resulted in a number of privatisation initiatives, and to date, five (5) state companies have been divested. Future plans call for the further divestment of other companies and the introduction of a National Investment Corporation (NIC), an unique financial institution.

This paper is divided into four (4) sections. Sections II traces the growth and performance of the state sector in Trinidad and Tobago. The poor financial performance of these companies has provided some of the justification for divestment of the sector. Section III discusses the divestment that has occurred to date. The paper closes with an agenda for future research. In the remainder of this section we trace briefly the intellectual origins of privatisation with special reference to Trinidad and Tobago.

The origins of the recent interest in a return to market forces can be traced to the conservative revolution of the 1980s, which swept both sides of the Atlantic. Locally, the seeds of this initiative can be found in the Manifesto of the National Alliance for Reconstruction (NAR) administration, as well as in the very White Papers on Public Sector Participation, which emphasized the interventionist state. The rise of a conservative revolution witnessed the elections of President Reagan and Prime Minister Thatcher. The new conservatism emphasized the role of the free market in determining economic outcomes and the the reduction in government regulation. Behind the emphasis on market forces and the greater role for the private sector is the view that when the market operates, it does so in an efficient manner. This has been in sharp contrast to the record of many governments during the 1970s and 1980s which have had to provide large subsidies to a number of inefficient state enterprises.

The conservatives take the view that the market would serve to discipline all inefficient firm; and by reducing state intervention there would be greater allocative efficiency as well as productive efficiency. The Thatcher administration felt that greater efficiency in the economy could be obtained by selling off of many of the nationalized industries, which were a drain on the Treasury. In the United States, state intervention at the Federal level had taken the form of regulation of a number of monopolies; the Reagan administration which promoted supply side economics advocated the removal of many government regulations.

The groundswell for a return to market forces could also be discerned in many of the reports of the international institutions and in particular the World Bank. The World Development Report 1983 expressed some concerns over the worldwide growth of the public sector and the loss of efficiency given state intervention. In its 1991 Report, the Bank argues that just as market failure signalled the need for government intervention, now government failure implied the need for a return to market forces.

These arguments and discussions on the redefinition of the entrepreneurial state also found expression in the NAR Manifesto. The new

1. The Pre 1970 Era

When the People's National Movement (PNM) administration assumed office in 1956, it saw its role as limited to the provision and expansion of the infrastructure of the country. In so doing it would create the conditions within which the private sector would invest, and contribute to development. This view was expressed in the government's First Five Year Development Plan, 1959 - 1963 as follows:-

> *"What Government has to do is create a framework which is favourable to investment, and to try to persuade as many persons as possible, here or overseas, to create new employment opportunities."*

Government policy embraced a model of economic development, whose philosophy could be traced to Lewis' 1954 classic article. The assumption of Lewis' model was that the provision of certain amenities would attract foreign investors from the North, who would bring capital, technology and managerial skills to the region. In turn, there would be set in train a multiplier process, whose final outcome would be employment creation, coupled with a new culture of entrepreneurship. As a result, one saw the establishment of an Industrial Development Corporation, an attempt to provide fiscal incentives together with the provision of factory space and other facilities, all designed to attract investors in the country.

The above strategy, popularly called "industrialisation by invitation", did not deliver all that was expected because of certain structural and institutional rigidities in the economy. Employment did not grow as was administration intended to ensure that the management of the state enterprise sector was improved and where necessary government would divest itself of its holdings. Yet, this notion of divestment was not new to Trinidad and Tobago since it was always an option of the previous administration and properly acknowledge in the White Papers (1972; 1975). Divestment would take place, whenever the time was appropriate.

By 1988, the stage was already set for a dismantling of the state sector. The philosophical groundwork was already laid; the financial performance of state firms was less than outstanding; the Rampersad Committee was appointed and had reported some findings. Before we examine the initial attempts at privatisation in Trinidad and Tobago, it is important to trace the origins and growth of the state sector in Trinidad and Tobago.

II. *The State Enterprises: From the Fifties to the Eighties*

The issue of state involvement in directly productive activity in Trinidad and Tobago can be traced back to the pre-independence era. Such a historical approach to state involvement in the economy is designed to assist our understanding of the present scenario. Three (3) periods can be examined. (1) The pre 1970 era; (2) The years 1970 - 1986 and (3) 1987 and beyond.

The government had argued, that it was to be the prime mover in the economy. It considered that it was its responsibility to generate new activities designed to create jobs and transform the economy to ensure overall national development. However it had lacked the necessary finance to undertake very many new projects. After the first oil shock in 1973 however, the increase in the price of oil radically altered the revenue position of the government. The government was now given a fillip to effect its objectives of widening and democratizing the economic base. By embarking on productive activity, the government would operate on behalf of the mass of the population in activities from which they would otherwise be excluded, as employers, shareholders or managers.

The two (2) White Papers on Public Participation in Industrial and Commercial Activities, (1972; 1975) provided a justification for its involvement in commercial and industrial activities, areas which had hitherto been the domain of the private sector. The White Papers highlighted three (3) primary objectives as follows:-

(1) to accelerate the transfer of control of foreign-owned firms to local hands - the localisation objective;

(2) to encourage and support new local industry - the development objective;

(3) to save jobs;

The state however intervened for additional reasons to circumvent bureaucracy within the public service or for distinct strategic reasons. In short state intervention may have occurred for reasons unique to the projected. The commanding heights of the economy, (the oil industry and the sugar plantation economy), remained controlled by foreign transnationals. Despite these factors, the period 1956 to 1970 was one in which there was minimal state intervention.

The state intervened directly in productive activity only when circumstances so warranted. In this respect, the Public Transport Service Corporation (PTSC) was created, when the government bought out existing concessionaires given the need to rationalise public transport. A similar need to rationalise existing services also led to the formation of the Water and Sewerage Authority (WASA). The withdrawal of British Petroleum (BP) from the Trinidad and Tobago economy forced the government into a joint venture with a small American company; if only to save jobs and to avoid trade union militancy. The Telephone Company had been acquired by the government after a long and bitter strike against the foreign owners. Between 1956 and 1970, the State acquired and controlled approximately eight (8) enterprises in the economy. The events of 1970, however, marked a turning point in the national economy, and the passive approach by the State was replaced by an active role in directly productive activity.

2. 1970 - 1986

The social revolution of 1970 set the stage for a change in the economic strategy of government, in respect of state involvement in economic activity. In its Third Five Year Plan, 1969 - 1973, the Government had outlined a more positive and systematic approach for participation in industrial activities. [1]

TABLE 1:A

STATE ENTERPRISES:
CASH INJECTIONS BY TYPE AND SECTOR
1973 - 1983
/Dollars Million/

GROUP	EQUITY	LOANS	ADVANCES	SUBVENTIONS
Agro-based	138.7	914.9	93.7	129.5
Energy based	1,080.4	245.4	1,268.9	-
Other	405.4	1,046.7	1,271.5	728.5
TOTAL	1,624.5	2,207.7	2,634.1	858.0

SOURCE: Appendix Table 1..

TABLE 1:B

STATE ENTERPRISES:
CASH INJECTIONS BY TYPE AND SECTOR. PERCENTAGE CONTRIBUTION
/1973 - 1983/

SECTOR	EQUITY	LOANS	ADVANCES	SUBVENTIONS
Agriculture	8.5	41.5	3.6	15.1
Oil and Energy	66.5	11.1	48.2	-
Manufacturing/Processing	6.1	5.6	8.6	19.9
Banking & Finance	2.4	19.7	5.0	-
Transport, Communication & Other Services	15.5	22.1	34.5	65.1
Hotels	1.0	-	0.1	-
Total	100	100	100	100

SOURCE: Appendix Table 1

The large loans provided to the Agricultural sector can be located against the background of the government's developmental objectives. In the case of Banking and Finance the government intended to help in the deepening of the financial system with especially localised interests. The equity held in the energy sector demonstrated the importance of this sector to the national economy and its ability to contribute to economic development. Appendix Tables 2 - 4 outline in greater detail the list of firms, the reasons for their acquisition and the value of shares held by the state.

The Utilities

Public utilities are seen as different from other enterprises on account of their "peculiar characteristics and social responsibilities".[3] The legislation governing the five (5) pubic utilities under the jurisdiction of the Public Utilities Commission requires these utilities to generate sufficient revenue to cover operating expenses, and to create reserves to finance a reasonable part of the cost of future expansion. Clearly the utility rates paid by customers should reflect the cost of providing the services required.

However, in Trinidad and Tobago funds and resources of utilities are raised from parliamentary appropriations from their operations, and from borrowings. However, TELCO was unique among public utilities in that, its legislation required that the company finance its operations and to earn a minimum rate of return through rates only.

The period 1970 to 1985 was a period of unanticipated and unplanned demand for utility services. The demands were made possible by the higher incomes derived from the oil boom years. However this was also a period when utility rates were, in effect, frozen and these increased demands were met principally through the injection of government subsidies.

Tables 2, 3A and 3B give an overview of the performance of utilities (T&TEC, TELCO, PTSC, WASA and PATT) during the review period, and the following picture emerges.

(i) Their contribution to total employment varied between 3 - 5 per cent while the contribution to GDP varied between 3 per cent and 4.8 per cent.

TABLE 2
PUBLIC UITLITIES: EMPLOYMENT AND VALUE ADDED
/Selected Years/

YEAR	TOTAL EMPLOYMENT	of which Public Utilities	% OF TOTAL	VALUE ADDED ($M)	% OF TOTAL GDP
1970	313,900	10,288	3.3	61.7*	3.8
1975	329,000	12,004	3.6	108.0	2.6
1980	387,900	18,145	4.7	442.7	2.3
1985	392,400	18,394	4.7	879.0*	4.6

SOURCE: Statistics of the Public Utilities.
No. 2 - Public Utilities Commision; 1986.

* Telco's figure not included.

TABLE 3A

NET PROFIT (LOSS) OF PUBLIC UTILITIES, 1970-1985
/Dollars Million/

YEAR	T&TEC	TELCO	WASA	PTSC	PATT
1970	2.0	2.8	(10.8)	(5.6)	(0.07)
1971	2.4	1.6	(12.7)	(7.8)	(0.9)
1972	1.0	(0.05)	(14.2)	(8.9)	(4.4)
1973	2.5	(2.5)	(19.2)	(9.8)	(3.7)
1974	(5.4)	(0.9)	(23.5)	(16.1)	(6.2)
1975	(14.3)	(3.6)	(33.7)	(20.8)	(11.8)
1976	(17.7)	(9.0)	(39.7)	(26.6)	(22.4)
1977	(23.0)	(4.6)	(50.5)	(44.6)	(33.6)
1978	(28.1)	(15.5)	(51.7)	(56.9)	(56.0)
1979	(50.7)	(26.0)	(94.7)	(72.6)	(101.6)
1980	(73.0)	(42.6)	(114.5)	(85.2)	(100.7)
1981	(91.9)	(72.2)	(192.2)	(90.0)	(141.2)
1982	(137.5)	(84.8)	(223.8)	(124.4)	(194.3)
1983	(183.3)	(80.1)	(257.0)	(153.0)	(216.1)
1984	(58.9)	(54.3)	(261.4)	(186.6)	(211.6)
1985	(63.3)	(48.8)	...	...	...

SOURCE: Statistics of the Public Utilities, 1986.

TABLE 3B

PUBLIC UTILITIES SHORT AND LONG TERM DEBT, 1970-1985
/Dollars Million/

	T & TEC		TELCO		W.A.S.A		P.T.S.C.		P.A.T.T.	
YEAR	SHORT	LONG	SHORT	LONG	SHORT	LONG	SHORT	LONG	SHORT	LONG
1970	-	54.7	-	37.6	1.4	40.2	1.2	22.2	-	11.6
1971	-	50.0	-	28.1	2.3	11.0	0.4	27.9	-	10.3
1972	0.8	67.5	-	30.1	0.2	22.4	0.3	34.0	-	7.5
1973	0.7	65.8	-	45.9	2.9	35.4	-	42.4	-	7.4
1974	9.2	60.7	-	45.5	3.1	57.0	0.9	57.2	-	16.3
1975	5.2	77.8	5.0	47.0	2.3	86.9	1.0	83.2	-	23.1
1976	2.0	146.6	1.0	77.0	-	119.5	2.9	111.2	0.7	57.3
1977	-	200.7	-	62.9	0.8	164.6	3.2	149.8	-	95.4
1978	-	247.4	0.7	79.2	-	208.6	3.0	193.7	-	128.6
1979	-	356.7	1.3	111.1	-	331.4	3.1	284.4	-	245.5
1980	-	451.8	11.7	155.7	-	462.4	3.2	361.5	-	332.1
1981	9.6	521.8	44.4	245.8	-	608.5	5.2	457.0	-	439.6
1982	-	676.9	53.0	352.3	-	882.2	6.6	572.6	84.4	542.2
1983	...	....	161.8	432.5	11.0	1,032.0	...	...	-	805.4
1984	-	1,089.2	133.1	723.9	11.0	1,034.0	...	...	-	910.3
1985	-	1,252.1	59.1	1,302.9	...	...	...	...	...	...

SOURCE: Statistics of the Public Utilities, 1986.

(2) With the exception of T&TEC and TELCO in the early years 1970-1972 and 1970-1971, respectively, the utilities experienced losses in their operations;

(3) All the utilities had large debt obligations, especially long term debt, and in some cases foreign debt.

Although their financial performance was poor with large annual losses an attempt was made between the period 1981 and 1986 to arrest the negative performance. This was as a direct result of the recommendations which came out of The Demas Task Force. The Report noted:-

> *"Given the changed economic circumstances of the country and in particular the lower revenue profile of the Central Government ... there must of necessity be some change of emphasis in the roles the utilities are expected to play ... Utilities wherever possible, must achieve self-sufficiency in the shortest possible time, in terms not only of meeting current operating costs, but in the generation of a surplus over recurrent expenditure, to contribute totally or at least substantially to their own development programme ....".*

All five (5) major public utilities were granted substantial rate increases although financial losses and inefficiencies continued in most cases.

By the end of 1985, the state enterprises and utilities dominated the economy in respect of their contribution to GDP, employment, exports and capital investment. There was however a much more negative side to this, in that very many of the companies were making losses on their operations. Losses were underspread amongst almost all the state enterprises, and especially those which operated in Manufacturing and Agriculture; those companies which had been acquired to save jobs were included among the loss; while some of the investments in the petrochemical sector were severly affected by falling international prices for their output.[4]

The dismal financial performance was further complicated by the fact that many state enterprises had contracted external debt, which was government guaranteed. In an effort to modernise plant and equipment, some of the utilities, which earned no foreign exchange, had also acquired foreign debt. At the end of 1985, the external debt amounted to $2,575 million or about 60 per cent of the country's external debt. The debt burden meant additional financing from the state in a period of contracting revenues. When this debt was added to the subsidies it is clear that there were severe pressures on the fisc and there was a need for adjustment.

The question of adjustment and the form it should take was not entirely new to the government, since there had been at least two earlier warnings. The Bobb Committee Report and the Demas Task Force Report. While some measures from the latter Report had been adopted, there was still the need for further adjustment.

The issue of divestment, was not entirely new since in fact, it had been mentioned in the original 1972 <u>White Paper on Public Sector Participation</u>.[5] In fact, in many of its public statements, government had always emphasised that its shareholding was a trust held on behalf of the people of the country to whom the shares would be eventually transferred. These statements could be traced even as far back as the 1970 and 1972

Budget Speeches.[6] In this respect, Cabinet in 1979 agreed to the establishment of a Committee, headed by Mr. Victor Bruce, with terms of reference "to consider and make recommendations . . . . on the question of divestment of shares in State Enterprises". The Committee agreed on and is fact identified four (4) enterprises for immediate divestment[7]. However, there was no rigid timetable for the state to follow. Divestment and adjustment re-emerged once again as issues in the post 1986 period.

3. <u>1986 To the Present</u>

The period since 1986 has been marked by three significant events:-

(a) The election in December 1986 which brought to power a new administration with a commitment to restructure the state sector;

(b) the appointment in 1987 of the Rampersad Committee on the Rationalization of State Enterprises;

(c) the adoption of an IMF Stand-By Arrangement in 1989 and the IBRD Structural Adjustment Loan (SAL) in 1990.

The new administration given its overwhelming mandate at the polls and its claim to represent all races and classes, pursued its programme of restructuring the state sector. In 1987, the Government appointed a team (the Rampersad Committee) to advise on ways and means of re-organising, restructuring and rationalising the state enterprise, utilities and statutory bodies. The Committee's, mission involved consultations and an indepth analysis of all the state enterprises and utilities. The Committee in its report to the government outlined certain problems of state enterprises.

The Committee found that in general many of the state enterprises were inefficient, suffered from technical problems, and lacked effective budgeting arrangements. In addition their debt service burden was particularly worrying as some of the loans were government guaranteed.

The total external debt of the state enterprises amounted to (US$715.7 million) of which US$654.8 million, i.e. 35.3 per cent was government guaranteed. In addition 60 per cent of the debt was denominated in currencies other than the US dollar so that in the event of exchange rate changes there would be even higher costs for debt service. The size of the external debt and the inefficiencies of the enterprises were two factors which may have influenced the Committee's recommendations for divestment of the state sector.

These developments in the state enterprise sector were taking place against a background of continued economic decline. The economic decline, underway since 1983, had been further exacerbated with the collapse of oil prices in 1986 and the devaluations of 1985 and 1988. In 1989; the country signed the first of two Standby Agreements with the IMF and in 1990, there was the first drawdown of funds under the SAL.

Under the terms and conditions of the SAL there had to be some restructuring of both the state enterprises and the public utilities. The recommendations of the Rampersad Committee however were quite consistent with the conditionalities of the SAL. And so the privatisation initiatives were now set in train.

TABLE 4

STATE ENTERPRISES AND PUBLIC UTILITIES: PERFORMANCE INDICATORS
1985
/Dollars Million/

	NON-PETROLEUM ENTERPRISES	PETROLEUM & RELATED ENTERPRISES	UTILITIES	TOTAL
Value Added	674.2	2,037.4	231.9	2,943.5
Capital Investment	274.9	572.5	168.0	1,015.4
Employment	25,046	9,665	19,021	53,732
Exports	261.0	3,611.2	-	3,872.2
Financial Data				
(a) Inflows				
- Operating surplus	-404.5	938.6	-82.7	451.5
- Non operating receipts	238.1	82.6	-	320.7
- Transfers	7.2	0.3	17.8	25.3
- Total	-159.2	1,021.5	-64.8	797.4
(b) Outflows				
- Taxes, dividends, interest, rent and royalties	433.4	295.9	19.4	748.7
- Transfers and Provisions	42.1	60.2	21.8	124.1
Saving	-687.7	207.5	-106.0	-586.2
Total	-159.2	1,021.5	-64.8	797.4

SOURCE: Central Statistical Office.

TABLE 5

STATE ENTERPRISES AND PUBLIC UTILITIES; PERFORMANCE INDICATORS
1988
/Dollars Million/

	NON-PETROLEUM ENTERPRISES	PETROLEUM & RELATED ENTERPRISES	UTILITIES	TOTAL
Value Added	1,083.5	2,172.5	318.0	3,574.0
Capital Investment	205.7	371.0	40.5	617.2
Employment	20,266	8,696	15,000e	43,962
Exports	737.6e	4,249.5e	–	4,987.1
Financial Data				
(a) Inflows				
– Operating surplus	27.8	789.2	-176.3	640.7
– Non operating receipts	216.9	45.6	1.0	263.5
– Transfers	20.8	68.1	1.1	90.0
– Total	265.5	902.0	-174.2	994.2
(b) Outflows				
– Taxes, dividends, interest, rent and royalties	525.1	385.2	26.7	9.37
– Transfers and Provisions	68.8	85.2	6.5	160.5
Saving	-411.9	79.4	-207.4	-539.9
Total	265.5	902.9	-174.2	994.2

SOURCE: Central Statistical Office

Before considering the privatisation that has taken place to date it may be useful to compare the state sector in 1985 prior to the Rampersad Committee and 1988 before the start of the active privatisation process. Tables 4 and 5 contain the data and these are summarised as follows:-

(a) The State Enterprises and Utilities contributed $2.9 million or 17 per cent to the Gross Domestic Product (GDP), in 1985 and this rose to $3.5 million or 21.5 per cent by 1988. Direct employment provided fell from 53,732 in 1985 to 43,962 by 1988, whilst capital investment by these enterprises fell to $617.2 million from $1,015.4 million in 1985, a decline of $398.2 million or 39 per cent.

(b) The State Enterprises' contribution to exports was $3,872.2 million in 1985 and estimates show that this figure rose to $4,987.1 million by 1988.

(c) The non-petroleum enterprises and utilities were generally dissavers. The petroleum and related enterprises however registered positive savings in 1985 ($207.5 million) and 1988 ($79.4) although there was a marked decline in their respective level of savings between 1985 and 1988.

There is some evidence that there might have been some improvement in their performance; for example export performance improved as well as the contribution to GDP but this was not enough to halt the privatisation process.

SECTION III - PRIVATISATION IN TRINIDAD AND TOBAGO

The previous sections provided evidence on the health of the state Enterprises and Public Utilities in Trinidad and Tobago; and by 1988 all the conditions were set in place for restructuring of the state enterprises. These sections also provided some answers as to the 'why' of privatisation. We will now examine how privatisation has occurred in Trinidad and Tobago. Our initial view is that too little has taken place and the time span is too short for any proper assessment.

Privatisation arguments in the context of Trinidad and Tobago implicitly assume that the private sector would have performed better under similar circumstances. However, there are no empirical studies which can support or reject this assumption. During the 1970s-1980s period, the local private sector had neither the financial resources nor the inclination to acquire some of the companies which the government acquired nor even to make some of the large scale investments that were made. Most of the economic rents and the savings from the boom years accrued primarily to the state. In turn, the state used these resources to achieve objectives outlined in the Third Five-Year-Development Plan (1968). Over these years, private sector interests concentrated on expansion in Distribution, Construction and Manufacturing. The local Manufacturing sector operated within a highly protected market, with little or no reference to competitive criteria. With the onset of economic decline, very many firms in Distribution and Construction collapsed. The record of the local private sector as an entrepreneur may be just as dismal as that of the state sector.

So far, we have used the word 'privatisation' without an appropriate definition. Following Kay and Thompson (1986) privatisation may be seen as a term which is used to cover several distinct means of changing the relationship between the government and the private sector. Essentially, privatisation transfers authority, decision-making and power from the state into the hands of the private sector and the market place. This can take the form of the sale of publicly owned assets (divestment); deregulation and contracting out. In the United Kingdom for example because of the large build-up of nationalized industries, privatisation has taken the form of the sale of public assets. In the United States, in the absence of any companies owned by government at the Federal level, privatisation initiatives have found expression in the deregulation of large monopolies. e.g. the airline industry.

Although we are not here concerned with actual methods of privatisation, one notes that the sale of publicly owned assets may take many forms: outright public sale to locals or foreigners; management/employee buy-outs; sale of component parts. In similar fashion, there can be the contracting out of services which are usually publicly provided or the use of lease and management contracts; in some instances, a government may opt not to sell the whole enterprise as an entity, but to dispose of just one or more activities or subsidiaries. It may also choose to dilute some of its ownership in the enterprises, by opening up the capital base for private participation. In other instances some firms may have to undergo extensive financial restructuring before they are offered for public sale.

The Rampersad Committee Report has informed public policy on privatisation and some of the recommendations have been implemented. Recommendations were made in respect of wholly owned , majority and minority shareholdings. In the case of the latter, the Committee recommended that all minority shareholdings, should be divested. Divestment however should take place when market conditions were appropriate. By 1991, only one of these companies had been divested. Of the remaining wholly owned and majority owned enterprises, recommendations were made in respect of twenty (20) such enterprises. Twelve were recommended for divestment, six (6) for liquidation, one to be leased and no action was to be taken in respect of one. To date four (4) firms have been wound up, one leased and five (5) divested.

The divestment of each enterprise was treated differently. A foreign shareholder was found for the telephone company and part of the proceeds was used to pay off external debt. In similar fashion foreign interests acquired shareholdings in the Development Finance Corporation (DFC). In only one instance were the shares of a state firm offerred for public sale. The steel company was leased to a foreign entity and it was recent announced that the holder of the lease was interested in acquisition.

Tables 6A and 6B summarise these actions taken with respect to divestment of the enterprises. Of the five (5) firms divested so far Universal Metals is the only firm in which the state had minority interests. The proceeds from privatisation amounted to US$6.8 million from firms divested via public sale, and US$84.9 million from private sale to foreigners. This represented 0.17 per cent and 2.1 per cent of GDP respectively. Most of these funds were directed towards the repayment of government debt.

From the evidence presented in Tables 6A and 6B, the effects of privatisation on the local economy may be minimal at best. The impact on government revenues/expenditures has been marginal; by applying part of the proceeds of the sale of TELCO to debt service, there may have been some reduction in the pressure to meet debt service obligations. Data on share

TABLE 6A

FIRMS DIVESTED IN TRINIDAD AND TOBAGO
1988 - 1990

	Date Divested	Public Sale	How Divested (%) Private Sale Local	Foreign
T & T Telephone Co.	December 1989	-	-	49% to Cable & Wireless
T'dad Cement Ltd	Jan 1989	12 M ordinary shares at 75		
	Jan 1990	21 M ordinary shares at $1.00	-	-
T & T Development Finance Corporation	1989	-	66	34
National Commercial Bank	1988	-	15	-
Universal Metals Ltd.	1988	-	22	-
Iron & Steel Co. of Trinidad & Tobago	-	-	-	-

NOTE: ISCOTT LEASED TO ISPAT (Indo) in 1988.

TABLE 6:B

STATE ENTERPRISES: LIQUIDATIONS, 1987-1990

NAME OF FIRM	DATE LIQUIDATED
Food and Agricultural Corporation	July, 1989
School Nutrition Company Limited	July, 1987
National Hospital Management Co. Ltd	April, 1987
National (Secondary Roads) Div. Co. Ltd	December, 1990

ownership suggest that sale of Trinidad Cement Limited's (TCL) share had little effect on the widening share ownership. The initial findings therefore are that privatisation has occurred over a short time period and with a small number of firms to have had any significant impact on the economy.

What of the remaining thirty or so state enterprises? In its 1991 budget, the government announced plans to privatise an additional 11 state entities. This however was linked to the settlement of public sector pay arrears. It also involved the establishment of new financial entity, initially called a State Unit Trust, but now known as the National Investment Corporation. The characteristics and likely impact of this new financial intermediary are dealt with in a separate paper.

SECTION IV - AN AGENDA FOR FUTURE RESEARCH

In this paper we have explored the reasons for the growth and development of the state enterprise sector in Trinidad and Tobago. More recently the state has begun to dismantle this sector following the recommendations of the Rampersad Committee, which were consistent with the conditionalities of the SAL Agreement. The financial performance of the state firms, and their continuing dependence on government subsidies, created in large part some of the conditions which set in train the initiatives for privatisation.

So far the privatisation experience in Trinidad and Tobago has been relatively short and with only a small number of firms. Thus any comments made in the previous section are preliminary at best and much more research needs to be done. We identify at least three (3) issues for which there is need for further research.

The first issue relates to the public vs private sector debate. The general perception has been that on average the private sector performs better than the public sector. We know of no study for Trinidad and Tobago which supports this statement. Some empirical work needs to be done in this area, especially since very many private sector firms failed in Trinidad and Tobago in the mid 1980's. A related issue is why did some state firms perform better than others, given their mandate and the reasons for their acquisition. In a companion piece to this paper we have explored some of these issues and presented some preliminary findings. The evidence suggests that performance may be related to the firms' economic sector and the type of market in which they operated.

A second issue relates to the energy sector and the restructuring/rationalization of the energy sector. Given the dependence of the economy on hydrocarbons and the size of government's holdings in the sector, any efforts to privatise the sector must create major reverberations in the economy. The picture is further complicated by the conditionalities attached to a recent loan from a multilateral agency to the energy sector. The fortunes of the local economy are closely tied to that of the energy sector so that all the implications of its privatisation must be thoroughly analysed.

Finally, the government has linked the public sector pay arrears to privatisation, but our concerns here are not with the pay arrears, but the NIC. As the proposals for the NIC become fully fleshed out and legislation is in place, the full impact of this new financial intermediary must be analysed. All the current evidence suggests that the issue of privatisation is not likely to take a back seat in the very near future.

"debt financing implications"

FOOTNOTES

"It can no longer be claimed that adverse government fiscal and financial policies are standing in the way of the private sector. Any failure on the part of the sector to perform should be attributed to an inability to seize the numerous investment opportunities in agriculture, industry, fishing, tourism and housing. There is at the same time scope for the expansion of the public sector. In future all public utilities will be owned or substantially controlled by the public sector. The public sector will not hesitate to enter either alone or in partnership with foreign or local private capital into the productive fields of industry, tourism and agriculture. Finally, quite apart from mobilising resources and spending funds on development of infrastructure, the public sector has an important role to play in building institutions to strengthen the economy, to protect the national interest, and to ensure the development of a truly national economy". Third Five Year Plan, 1969-1973.

This $60 million did not include investments in all firms in which the state held some shares, however minimal, nor was account taken of investments in public utilities such as the Water and Sewerage Authority, Electricity Commission, Omnibus Public Transport, the Port Authority and the Airports Authority.

Some of these characteristics are:-

(1) The (sometimes) legal obligation to serve all buyers within their market area;

(2) The provision of their services at "reasonable" rates;

(3) The essentiality of the services provided;

(4) Monopoly market conditions;

(5) The need to regulate prices as a direct consequence of their essential services and monoploy market conditions;

(6) They are used as agents of development and socio-economic transformation.

4 These issues are analysed in greater detail in a companion piece to this paper.

5 "Government has already announced that it considers its shareholding as a trust held on behalf of nationals and that it will release these holdings to the wider national public as circumstances permit. The policy of divestment is one of the means of achieving the wider policy objectives of developing the savings potential of the population through the holding of financial assets and of giving the ordinary citizen the opportunity of participating in a meaningful way in the ownership of the country's producing assets...".

6 For example, in the 1970 Budget Speech, the Minister of Finance stated - "We shall also encourage the many private companies operating locally to become public as early as possible and to allow workers opportunities for ownership of shares. The Government itself will seek to make available some of its equity in hotel and industrial concerns to small local investors " and in the 1972 Budget Speech, it was stated again that - "Government is conscious of the fact that its shareholding in these private undertakings are a trust held on behalf of the people of this country and its declared commitment to release its holdings to the public as circumstances permit".

7 These enterprises were Holiday Inn, Neal and Massy Holdings and Hilton Hotel. The Committee also recommended that further shares of NCB should be offered for sale.

APPENDIX TABLE I

CASH INJECTIONS IN SELECTED COMPANIES[1]
DETAILS OF PARTICIPATION - 1973-1983
/$M/

SECTOR/FIRM	EQUITY	LOANS	ADVANCES	SUBVENTIONS	TOTAL
Agriculture	138.8	914.9	93.7	129.5	1,276.9
Caroni Limited	118.6	858.4	79.9	118.7	1,175.8
Orange Grove National Company Ltd	17.6	55.9	52.0	10.8	89.6
Non Pareil Estates	25.6	0.4	1.7	-	4.7
Forres Park Ltd	-	-	6.8	-	6.8
Oil and Energy*	1,080.4	245.3	1,268.9	-	2,594.6
Trinidad & Tobago Oil Co. Ltd	105.7	48.4	-	-	154.2
National Gas CO. Ltd.	0.8	3.2	412.9	-	416.2
ISCOTT	739.9	-	443.2	-	1,183.2
National Energy Corporation	998.0	101.9	230.8	-	432.6
Tringen	-	-	119.4	-	119.4
Fertrin	82.1	67.3	50.2	-	199.6
Lake Asphalt Co. Ltd	12.5	6.1	4.1	-	22.7
T & T National Petroleum Co.	40.2	18.4	8.3	-	66.9
Manufacturing/Processing	99.2	123.8	227.8	169.9	588.1
T & T Lime Products	1.6	0.2	3.3	0.2	5.3
Food and Agricultural Corporation	1.5	-	1.3	2.1	4.9
National Fisheries	10.8	23.3	63.6	-	97.6
National Flour Mills Ltd	-	-	-	68.1	68.1
Caribbean Food Corporation	2.8	-	-	-	2.8
CARICOM Corn & Soyabeen Ltd	0.6	0.5	-	-	1.1
National Agro-chemicals Ltd	1.1	1.2	-	-	2.3
National Feed Mill Ltd	-	-	-	11.3	11.3
T & T Meat Processors Ltd	3.5	2.3	17.9	-	23.8
Trinidad Cement Ltd	7.2	74.5	86.2	85.4	253.3
T & T Printing & Packaging Ltd	9.6	7.3	3.0	-	19.9
Trinidad Begasse Products Ltd	4.5	1.0	16.3	-	21.8
Neal & Massy Ltd	1.4	-	-	-	1.4

1 This List excludes most of the companies in which the I.D.C. held equity.
* This List does not include Trintopec (formerly - Trinidad Tesoro).

APPENDIX TABLE I - (Cont'd)

CASH INJECTIONS IN SELECTED COMPANIES[1]
DETAILS OF PARTICIPATION - 1973-1983
/$M/

SECTOR/FIRM	EQUITY	LOANS	ADVANCES	SUBVENTIONS	TOTAL
National Brewing Co. Ltd	0.05	-	-	-	0.05
National Quarries Co. Ltd	9.9	13.4	3.6	-	26.9
T & T Electronics Ltd	1.7	-	-	-	1.7
Trinidad Garment Manufacturers	-	-	-	2.9	2.9
Arawak Cement Co. Ltd	42.7	-	-	-	42.7
Banking & Finance	39.3	434.9	132.5	-	606.6
National Commercial Bank	21.2	14.0	-	-	35.2
T & T Development Finance	6.2	130.9	-	-	137.1
Agricultural Development Bank	2.0	85.5	132.5	-	220.0
T & T Export Credit In. Co.	0.2	0.5	-	-	0.7
Workers' Bank	1.5	-	-	-	1.5
Maritime Life Caribbean Ltd	2.1	-	-	-	2.1
T & T Mortgage Finance Co. Ltd	-	204.0	-	-	204.0
Caribbean Investment Corporation	1.0	-	-	-	1.0
Reinsurance Co. of T & T Ltd	5.0	-	-	-	5.0
Trnasport, Communications & Other Services	251.1	488.3	907.8	558.5	2,205.7
T & T Telephone Co. Ltd	112.1	104.3	326.7	-	543.0
International Marketing Co. Of Trinidad & Tobago Ltd	0.7	-	.014	6.3	7.1
Secondary Schools Maintenance Training & Security Co. Ltd	2.8	-	-	110.9	113.7
Caribbean Air Cargo Co. Ltd	7.2	-	-	-	7.2
West Indies Shipping Corporation	5.1	-	-	13.1	18.1
T & T Air Services Ltd	1.7	-	68.0	24.0	93.9
Leeward Island Air Transport Co. Ltd	0.7	-	-	1.8	2.5
National Broadcasting Services	1.8	-	-	-	1.8
T & T Television Co. Ltd	3.8	-	-	-	3.8
National (Secondary Roads) Development Co. Ltd	23.7	-	58.3	-	81.9

APPENDIX TABLE I – (Cont'd)

CASH INJECTIONS IN SELECTED COMPANIES[1]
DETAILS OF PARTICIPATION – 1973-1983
/$M/

SECTOR/FIRM	EQUITY	LOANS	ADVANCES	SUBVENTIONS	TOTAL
National Hospital Management	0.2	–	0.9	17.4	18.3
T & T BWIA	60.9	383.9	410.3	307.9	1,163.1
School Nutrition Co. Ltd	5.3	–	3.0	–	8.3
T & T Solid Waste Management Co. Ltd	1.9	–	–	77.1	78.9
Shipping Corporation of T & T	19.2	–	8.	–	27.2
Plipdeco	–	–	32.6		-32.6
Namucar	3.7	–	–	–	3.7
Hotels	15.8	–	3.4	–	19.2
Farrel House (1975) Ltd	6.1	–	3.4	–	9.5
Caribbean Hotel Development Co. Ltd	6.4	–	–	–	6.4
National Hotel Co. of T & T	–	–	.007	–	.007
Allied Inn Keepers of T & T (Holiday Inn Hotel)	3.3	–	–	–	3.3
GRAND TOTAL	1,624.6	2,207.1	2,634.1	858.0	7,291.2

SOURCE: Accounting for the Petrodollar, 1973 – 1983.

APPENDIX TABLE II - WHOLLY-OWNED COMPANIES ECONOMIC SECTOR/REASONS FOR ACQUISITION/ PER CENT SHARE/VALUE

Date*	Wholly-Owned Companies	Economic Sector	Reasons for Acquisition	Per cent Shareholding	Shares at Nominal Value
1975	Caroni (1975) Ltd.	Agriculture	Localisation	100	128,888
1979	Farrell House (1975) Ltd.	Hotels	Other	100	5,776
1979	Food and Agriculture Corporation of T&T Ltd.	Agriculture	Development	100	1,471
1976	Forres Park Ltd.	Agriculture	Localisation	100	(2)
1975	Iron and Steel Co. of T&T	Manufacturing	Development	100	606,912
1978	Lake Asphalt (1978)	Petroleum	To Save Jobs	100	12,501
1976	National Agro Chemicals Limited	Manufacturing	Development	100	1,132
1972	National Broadcasting Service of T & T Ltd.	Communications	Localisation	100	1,834
1979	National Energy Corp. of T & T Ltd.	Petroleum	Development	100	12,999
1972	National Flour Mills Limited	Manufacturing	Localisation	100	4,000
1976	National Feed Mills Limited	Manufacturing	Development	100	1,529
1975	National Gas Company of T & T Limited	Petroleum	Development	100	77
1981	National Hospital Management Co. Ltd.	Services	To Circumvent Bureaucracy	100	202,000
1979	National Quarries Company Limited	Agriculture	Development	100	2,480
1980	National (Secondary Roads) Limited Development Co. Ltd.	Service	To Circumvent Bureaucracy	100	23,699
1983	National Poultry Company Limited	Agriculture	Development	100	1,897

Date of Establishment or Acquisition

APPENDIX TABLE II (Cont'd) - WHOLLY-OWNED COMPANIES
ECONOMIC SECTOR/REASONS FOR ACQUISITION/
PER CENT SHARE/VALUE

Date	Wholly-Owned Companies	Economic Sector	Reasons for Acquisition	Per cent Shareholding %	Shares at Nominal Value
1980	School Nutrition Company Limited	Service	Other	100	5,343
1979	Secondary School Maintenance, Training and Security Co. Ltd.	Service	To Circumvent Bureaucracy	100	2,800
1976	Shipping Corporation of T&T Limited	Transport	Development	100	1,000
1971	Trinidad Cement Ltd.	Manufacturing	Localisation	100	9,701
1973	Trinidad and Tobago Electronics Limited	Manufacturing	Development	100	2,880
1975	Trinidad and Tobago Export Credit Insurance Co. Ltd.	Finance	Development	100	234
1978	Trinidad and Tobago Forest Products Ltd.	Manufacturing	Development	100	68
1975	Trinidad and Tobago (BWIA International) Airways Corporation	Transport	Localisation	100	41,233
1978	Trinidad and Tobago Meat Processors Ltd.	Manufacturing	To Save Jobs	100	1,760
1973	Trinidad and Tobago Television Company	Communication	Localisation	100	1,635
1972	Trinidad and Tobago National Petroleum Marketing Co. Ltd.	Petroleum	Localisation	100	47,100
1974	Trinidad and Tobago Oil Company Limited	Petroleum	Localisation	100	105,788
1971	Trinidad and Tobago Printing and Packaging Limited	Manufacturing	To Save Jobs	100	18,268
1968	Trinidad and Tobago Telephone Co. Ltd.	Communication	Localisation	100	191,100

APPENDIX TABLE III - MAJORITY-OWNED COMPANIES

ECONOMIC SECTOR/REASONS FOR ACQUISITION/ PER CENT SHARE/VALUE

Date	Majority-Owned Companies	Economic Sector	Reasons for Acquisition	Per cent Shareholding %	Shares at Nominal Value (000)
1984	Trinidad and Tobago Solid Waste Management Company Ltd.	Services	To Circumvent Bureaucracy	100	1,936
1973	Trinidad & Tobago Lime Products	Agriculture	Development	100	145
1969	Trinidad-Tesoro Petroleum Co. Ltd.	Petroleum	To Save Jobs	50.1	130,877
1974	Trinidad Nitrogen Co. Ltd.	Petroleum	Development	51.0	30,600
1976	Point Lisas Port Development Co. Ltd	Transport, Storage & Communication	Development	98.0	10,194
1972	National Fisheries Company Limited	Manufacturing	Development	96.3	10,814
1970	National Commercial Bank of T&T Ltd.	Finance	Localisation	51.0	15,810
1970	Trinidad & Tobago Development Finance Company	Finance	Development	94.2	8,648
1968	Agriculture Development Bank	Finance	Development	53.0	11,861
1969	Trinidad & Tobago. External Communications Company Ltd.	Transport, Storage & Communication	Localisation	51.0	12,750
1971	Trinidad Bagasse Products Ltd.	Manufacturing	Development		975
1975	Reinsurance Company of T & T Ltd.	Finance	Development	60.0	5,000
1977	Fertilizers of T&T Limited	Petroleum	Development	51.0	85,119

APPENDIX TABLE IV - MINORITY-OWNED COMPANIES
ECONOMIC SECTOR/REASONS FOR ACQUISITION/
PER CENT SHARE/VALUE

Date	Minority-Owned Companies	Economic Sector	Reasons for Acquisition	Per cent Shareholding %	Shares at Nominal Value ($000)
1965	Trinidad and Tobago Mortgage Finance Company Limited	Finance	Development	60.0	6,408
1979	Caribbean Hotel Development Co. Ltd. (Crown Reef)	Hotel	Development	91.0	415
1976	Non-Pareil Estate Limited	Agriculture	Other	100	2,738
1969	Orange Grove National Co. Ltd.	Agriculture	Localisation	100	4,619
1973	Workers' Bank T & T Limited	Finance	Development	26.5	1,875
1973	Maritime Life (Caribbean) Co. Ltd.	Finance	Localisation	18.00	878
1972	Neal and Massy Holdings Limited	Finance	Strategic	3.12	1,740
1958	Angostura Bitters Limited	Manufacturing	Strategic	6.9	367
1971	National Brewing Co.	Manufacturing	Development	1.16	154,387
1971	Allied Innkeepers (Holiday Inns)	Hotel	Development	35.00	3,272
1969	NAMUCAR	Transport	Development	n.a.	
1979	Metal Industries Co. Limited	Manufacturing	Development	6.81	78
1980	Polymer (Caribbean) Limited (IDC)	Manufacturing	Development	11.9	222
1980	Sea Island Development Company Limited	Transport	Development	32.9	226
1971	Trinity Garment Manufacturers (IDC)	Manufacturing	Development	n.a.	

APPENDIX TABLE IV - MINORITY-OWNED COMPANIES
ECONOMIC SECTOR/REASONS FOR ACQUISITION/
PER CENT SHARE/VALUE

Date	Minority-Owned Companies	Economic Sector	Reasons for Acquisition	Per cent Shareholding %	Shares at Nominal Value ($000)
1979	Universal Metal (IDC)	Manufacturing	Development	22.00	1,170
1968	Arts and Crafts Export Limited	Services	Development	n.a.	37
1974	Caribbean Investment Corporation	Finance	CARICOM	n.a.	225
1976	West Indies Shipping Corporation	Transport	CARICOM	40.0	3,670
1974	LIAT (1971) Ltd.	Transport	CARICOM	18.2	750
1979	Caribbean Food Corp.	Manfacturing	CARICOM	n.a.	1,250
1981	Arawak Cement	Manufacturing	CARICOM	49.00	45,000
1979	CARICARGO	Transport	CARICOM	50.00	8,426
1974	CARICOM Corn and Soya Bean Company	Manufacturing	CARICOM	49.18	500

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