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Private Management and Performance of Public Enterprises: a Case of KSWL, 1996 – 2005

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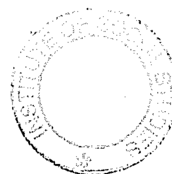

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DEDICATION

To

My Brother Kirinya Eric Semakula (Rip)

(1976 – 2004)

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ABBREVIATIONS & ACRONYMS

BAI	Booker Agriculture International
BOT	Build, Operate and Transfer
BT	Booker-Tate
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ERP	Economic Recovery Programme
GDP	Gross Domestic Product
GOU	Government of Uganda
ILO	International Labour Organization
IMF	international Monetary Fund
ISS	institute of Social Studies
KDCC	Kinyara District Coordinating Committee
KSGL	Kinyara Sugarcane Growers Limited
KSWL	Kinyara Sugar Works Limited
LC	Local Council
MC	Management contracts
n.d	No data
NRM	National Resistance Movement
NUPAW	National Union of Plantation and Agricultural Workers
OECD	Organization for Economic Co-operation and Development
OG	Outgrower
PE	Public Enterprises
PERD	Public Enterprises Reform and Divestiture
PU	Privatization Unit
RA	Research Assistant
SAPs	Structural Adjustment programmes
SEEG	Société d'exploitation des eaux de Guinée
SNE	Société Nationale des Eaux
SOE	State Owned Enterprises
SONEG	Société Nationale des Eaux de Guinée
TU	Trade Union
UK	United Kingdom
USA	United States of America
USD	United States dollar
Ush	Uganda shillings
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organisation

CHAPTER ONE

1.0 INTRODUCTION

Privatization of state-owned enterprises has become an important phenomenon in both developed and developing countries. Privatization of state-owned enterprises has been an integral part of structural adjustment programmes – the economic rehabilitation Uganda has undertaken since the early 1980s. Cook and Kirkpatrick (1988: 3) define privatization as "a range of different policy initiatives intended to change the balance between the public and private sector and the services they provide." They distinguish three main approaches to privatization: a change in the ownership of the enterprise, liberalization or deregulation, and a transfer of goods or services from the public to the private sector even if the government retains ultimate responsibility for supplying the service.

There is increasing interest in developing countries in contracting with 'for-profit private' sector to deliver services in the form of management contracts. A management contract (MC) is a contractual arrangement for the management of public enterprises (PE) by the private sector. MCs have been utilized in many spheres of economic activity across different countries. They are potentially an important instrument of PE reform, especially in countries in which divesture is lagging behind because of political or institutional reasons. MCs can also be viewed as an interim measure toward privatization. Much of the impetus for management contracting has also arisen from a perception that publicly provided services are not particularly effective or efficient (Shaikh and Minovi 1995: 8).

In Uganda, KSWL operations are based on MC between the state and the private sector. Since 1996, management and technology has been provided by Booker-Tate a UK private management company. Ownership is still 100% government[1] and operations are run by BT management with the possibility of termination is by six months rolling notice. The Parastatal Monitoring Unit under the Enterprise Development Project routinely checks and monitors progress of the company. From May 1997, the Privatization Unit has been

[1] Ministry of Finance 612,337 Shares and Ministry of Trade & Industry 1 Share (See Privatization unit)

preparing the company for full privatization, it was again put on the privatization list in early 2002, along with 38 state-owned companies (IUF and ILC, n.d: 29-30).

1.2 BACK GROUND

Sugar refining is one of the main industries in Uganda, where more than 80 per cent of the workforce is employed in agriculture (UNCTAD 2005: 61). Cane sugar production in Uganda started between the two world wars at two sites located in the central and eastern part of Uganda (Sugar Corporation of Uganda Ltd (1924), at Lugazi, and Kakira Sugar Works Ltd (1930) at Jinja respectively). The third mill was established at Sango Bay[2] in Rakai District that started production in 1965 but was vandalized and shut down in 1973 (National Sugar Conference 2004). In the 1970s, government established its own sugar factory in the North Western region (Kinyara Sugar Works Limited (KSWL)) then known as National Sugar of Uganda. Prior to the seventies, Uganda sugar industry prospered and reached peak production of 154,000 tons per year making Uganda a net exporter of sugar. However, between the years 1970 to 1986, sugar production declined due to economic recession and lack of investment caused by political turmoil prevailing in the country. This also led to the closure of the KSWL in 1987 (IUF and ILC, n.d: 29).

Many years of war and political upheaval left Uganda with limited services, particularly in rural areas. The government had to step up local sugar production to reduce spending already scarce resources on sugar imports in the country and to solve problems of unemployment and poverty in the region. Local employment opportunities promote quality and sustainable livelihood (Republic of Uganda, 2005).

In March 1996, with the use of donor funds[3], the company returned to production under BT to implement rehabilitation of Kinyara project and to manage production operations. The final phase of rehabilitation was completed in November 1998 and achieved record production during the year 2002 of 57,900 tonnes of sugar. This was above the rated factory capacity of about 52,500 tonnes (Republic of Uganda, 2005).

[2] Little is known about the operation of this plant

[3] A consortium including Kuwait Fund, OPEC Fund, IDB, PTA Bank, East African Development Bank, Uganda Development Bank, EXIM and BADEA to the tune of US $45.3M financed the phased rehabilitation and development of the factory capacity and cane production (Republic of Uganda n.d).

According to the Privatization Unit (Republic of Uganda, 2005), the company is now the biggest employer of labour in Masindi District. By 2000 it had an estimate of 3740 direct employees of which 12% were women. Trade union density stood at 78%. The proportion of cane purchased from out-grower farmers (sub-contract farmers) has greatly increased in the past five years.

1.3 INDICATION OF THE RESEARCH PROBLEM

After the end of the decade-long war in 1986, rehabilitation of sugar industry was given high priority by government as part of its economic recovery program. This was not only to supplement sugar imports that had reached high levels, but also as a means of job creation for the people. In order to jump-start local sugar production, government had to use already existing structures but under a new political and economic dispensation – i.e. the post-war government, with new economic policies that favored privatization (Republic of Uganda, 2005).

The Government secured funding from international financiers, which it wished to lend Kinyara for rehabilitation of the agricultural, social infrastructure, and the factory machinery and equipment. The Government of Uganda sought proper utilization of the funds in order meet the rehabilitation objectives. The country had experienced economic and skilled human resource flight over years. There was also an indifferent attitude of the parastatal managers, lack of up to date managerial and technical expertise, all which led the National Resistance Movement government to hire management (Booker-Tate) for KWSL[4].

Booker-Tate (2001:11) supposed that once the KWSL project was fully operational, it would benefit the economy. These include:

a) import savings in excess of US$ 10m per annum;
b) direct employment of over 3500 workers and provision of services to the dependants;

[4] Field interview with Privatization Unit, 2005

c) development of infrastructure in the community and the normal 'multiplier' impact on local employment through service suppliers;

d) High quality training to add significantly to the national stock of skilled manpower; and

e) Out-grower scheme to contribute to commercial farming providing income within Masindi District.

Given that the re-establishment of the company brought relief, under a new arrangement (100% under private management and 100% ownership by government), it presents a possibility for a discordant scenario.

First, there could be conflicts of interest where there are no shared visions. Moreover, where major investors are not directly involved in daily decision making, lukewarm attitude of managers under this setting may affect production capacity and marketing targets. The state also has to closely monitor the use of the facilities as the government might need to get back the industry, or pump more money in to keep it running[5].

Therefore, due to lack of shared vision, potential conflict of interests may arise between owners/major shareholders and contractual managers to affect the viability of the company (Gupta 2000: 7). The notion of principle-agent behavior does not necessarily lead to same objectives. According to Van der Hoeven and Sziracki (1997), the objectives of the public sector as owner may be different from those of a private person as manager, as the manager will have his or her own preference function. So in this context, the extent to which ownership influences management is important. Note that the freedom of contracted managers (agent) is not only influenced by the owner of the enterprise but also by the whole range of regulations which govern product and factor markets.

Secondly, the on-going liberalization process of labour markets in Uganda might have aspired rehabilitation of sugar sector under MC. It is part of the overall objective to

[5] Ghana Telecom faced this problem when it was found out that emoluments of Managers 'engaged' from Malaysia was eating too much into the profits of the Ghana national telephone company, meanwhile there was no visible improvement in telephone service provision under new management (Kwakye 2004).

enhance productivity and competitiveness by "freeing up" the ability of the market to set wages and to adjust labour supply, for example by lowering costs. This usually leads to restructuring of labour markets through strategies such as downsizing, outsourcing or subcontracting, for enterprises to increase the productivity of their remaining internal workforce. This model of organizational restructuring involves the division of workers into "core" and "periphery" segments, consisting of a small and stable "core" of upper-level skilled workers –permanent workers at the nucleus plantation and factory - and a much larger, more flexible and lower costs "periphery" of workers – casual sugarcane cut and upkeep workers in the sugar fields (IUF and ILC, n.d: 4- 34).

According to Awortwi (2003: 105-111), the basic fundamentals through which the promised reforms in the contract can be achieved is for the government to:

i. provide favorable incentives to share out responsibilities – unless compensated by sufficient potential reward, commercial private agents cannot be expected to assume public responsibility;
ii. create competition among agents rather than award contracts by influencing market competition through policies (e.g. competitive tendering and short term contracts);
iii. write and manage contractual agreement;
iv. monitor and enforce performance for contractual agreement;
v. build the capacity of public and private actors/agents vital prerequisite for successful contracting;
vi. And create dialogue and stakeholders' involvement an imperative role for people.

This study therefore intends to look at problems as well as prospects of this type of privatization arrangement. It also intends to understand working conditions in the sugar industry with regard to: permanent workers; and casual, temporary and/or seasonal workers including self-employed farmers/workers employed as wage laborers.

1.4 JUSTIFICATION OF THE STUDY

Privatization in general was a hot topic especially in the 1990s. But little emphasis was given to MCs. A breakdown of MCs by industry reveals that it has been used extensively in hotels worldwide; and hardly in any product or goods industry (Shaikh and Minovi 1995: 16). In Uganda there is limited experience of contracting out management. The experience is mainly limited to: hotels; refuse collection and removal; operation of public toilets; street parking and road construction (Mushengyezi 1997:3). Despite the potential benefits of contracting with the private sector for delivery of publicly-financed services, its effectiveness and efficiency has rarely been evaluated. More still, the sensitive issue of employment does not seem to have been handled. This paper describes the experience of MC at KSWL project in Uganda. It focuses on the commercial success of the company in terms of technical performance and profitability and evaluate if the profits are a result of poor employment conditions.

1.5 RESEARCH OBJECTIVE(S)

The general aim is to examine whether privatization of management in PE delivers to the government what the government wants.

Specifically,

a) To highlight the nature of current operational management and employment at KSWL.
b) To examine implications of the above on utilization of assets and labour conditions.

1.6 RESEARCH QUESTION(S)

Has private management attained efficiency and overall increase in performance at KSWL?

Specifically,

a) What impact has the management had on the utilization of capital assets of the estate, productivity and employment?

b) In the light of the above, what impact has it had on direct and indirect workers of KSWL in relation to labour relations, welfare and well-being?

1.7 RESEARCH METHODOLOGY

The study relies mainly on secondary data sources from available literature on public-private partnership. A substantial number of institutional documents such as World Bank, research reports, published articles including other documents were used i.e. relevant books, journals and articles from the ISS library and other accessible libraries. In addition, Uganda Government documents on privatization and relevant ministries; reports from Privatization Unit and News papers are used extensively in the study.

Primary data is also used; recent developments captured in phone and email interviews, and questionnaires were sent to institutions and other stakeholders. These include: privatization unit, Booker Tate staff, outgrowers, Masindi administration and KSWL employees. Company reports related to the subject were investigated. Non-formal consultations with a few people knowledgeable on the subject were also made.

The analysis and presentation of the findings is formed by descriptive, qualitative and quantitative tools of analysis basing on the validity of the sources used. The paper discusses the experiences of MC in developed and developing countries and draws lessons that KSWL and Uganda in general can learn.

The study aimed at finding out whether management contracting can achieve stated objectives in the agreed upon contract and how far the management can go beyond the contract. A descriptive analysis is used to study what has happened in KSWL under Booker-Tate. Indicators like management, production, costs, and profitability and working conditions are studied.

1.8 SCOPE AND LIMITATIONS OF THE PAPER

The nature of my study requires certain primary data. Data that can be obtained mainly through on-site visits, interviews, questionnaires, and mails in most cases. But this is not easy, getting primary data in Uganda seated behind a computer in the Netherlands is time

consuming and costly. Other than facilitating the research assistant, one needs to provide "kyai[6]" to interviewees in exchange for information.

Furthermore, in many instances, there is lack of co-operation due to the reluctance of the company officials to reveal operating and financial data. Some of the data acquired from secondary sources may have been gathered for different purposes incompatible and not comprehensive to my research. In addition, there is insufficient post privatization monitoring in Uganda especially in relation to MC information on how the method has and has not worked in Uganda is sparse. Where relevant data at the international level may be available, data at country level is missing in general.

This paper focuses on MC not dwelling on the topical issue of different types of privatization. It hopes to fill a gap in the literature and provide incentive to others to research in this area.

1.9 ORGANIZATION OF THE PAPER

The paper is divided into six chapters. First chapter introduces and identifies the problem, justifies the study, states the objective and research questions, the methodology used and organization of the paper. Second chapter provides the conceptual framework used. These form the basis that guides the discussion in chapters' three to five. The third chapter discusses management contracting and experience of developed and developing countries with management contracts. The fourth chapter traces the national policies that have been put in place to facilitate MC; and discusses MC at KSWL in relation to performance and labour conditions. Chapter five discusses MC at KSWL from the perspective of its stakeholders. Finally, the sixth chapter discuses the emerging conclusions, lessons learnt from the study and makes recommendations for further research.

[6] Money

CHAPTER TWO: CONCEPTUAL FRAMEWORK

2.0 INTRODUCTION

This chapter defines and outlines the concepts that apply to this work. They were chosen to determine the impact of MC on the profitability of the firm and nature of working conditions. One common solution advocated to the crisis in the Public Services is privatization. There is a widespread belief that private enterprises are necessarily more efficient than government-owned enterprises (Harper 2000: 17 - 18). MC is one of the ways of privatization that has been advocated for by many authors and scholars (like Shaikh, Minovi, and Kikeri) to address the problem of PEs in developed and developing countries alike. MC is expected to improve performance of the public enterprise (Shaikh and Minovi 1995: v). However, evidence from actual experience may not be clear, as success is defined differently by different actors.

The analytical strategy undertaken in this paper does not embrace theoretical conjectures but adopts an approach that pays consideration to focal areas of privatization. Many users of these beliefs appear to have reached a consensus on key components but conceptualization and emphasis may differ. The chapter draws heavily from the works of writers like Van der Hoeven and Sziraczki (1997: 1-19) in their book "Lessons from privatization: labour issues in developing and transitional countries".

2.1 THE DRIVE TO PRIVATIZE

The need for the state as an entrepreneur, which was felt strongly during the 1940s and the 1950s, disappeared during the 1980s and the 1990s as economic liberalization, deregulation and privatization became the topics of national and international discourse on political economy (Gupta 2000: 6). The global trend away from state ownership and control towards privatization is mainly due to two key reasons:

First, several of the SOE were inefficient, poorly managed, unable to sustain themselves, and therefore had to be subsidized by government (Jauch 2002: 1–4). Although governments all over the world generally imposed more restrictions and obligations on

the SOE than on private and commercial enterprises, the SOE were made the scapegoats for the huge financial losses incurred due to the adverse public policies. They had to depend unwillingly on budgetary support and state subsidies that resulted in huge financial losses and dismal economic performance. For instance, during 1989-91 the losses of SOE as a percentage of GDP reached 9 percent in Argentina, 8 percent in Yugoslavia, on average 5 percent in Sub-Saharan Africa and by 1991, China had over 30 percent losses (Gupta 2000: 6).

Secondly, there was the growing dominance of "neo-liberalism" as a model (and ideology) of economic development. "Neo-liberalism" has its roots in regimes of Margaret Thatcher (UK) and Ronald Reagan (USA) that dismantled their welfare states in response to a global economic crisis in the 1970s. The neo-liberal ideology is driven by the belief in the "free market" as the best regulator and engine of economic growth while the state's developmental role in the economy is to be reduced (Jauch 2002: 1 – 4).

Thus in OECD countries, the role and the relative importance of government have been and are undergoing several major changes (Helmsing 1997:8). During the 1980s, the 'Welfare State' which had been expanding during the rebuilding of the post war economies, came under the pressure due to financial limits to perform its duties.[7] The goods and services, whose services seem to be so inadequate, particularly for the poor, are generally known as the public services. They were often provided by the national or local government, or by the public enterprises. These government services gradually became accepted in society as an entitlement and basic human right, rather than being things which people can chose to buy or not, depending on their taste and their wealth (Harper 2000: 14).

The reforms in the tax systems in the fifties, sixties and the seventies led to the expansion of the national taxation beyond capacity to provide grant to local governments needed to implement their projects. Therefore, privatization gained political acceptance because of

[7] 'welfare state', refers to 'an institutionalization of the responsibility of the government to ensure high and stable employment, to provide income support for the poor, to provide health care, education, housing and to plan for provision' (Mushengyezi 1997: 8).

declining growth rates, rising unemployment, decline in investment and rises in inflation (Gupta 2000: 6-7). In turn local governments started looking for alternative sources of revenues through the application of user fees, contracting out services and tasks to private sector (Lemama 1999: 9). Thus activities which were once provided by the public service for example security and prisons have been contracted to the private sector. With the fall of the communal economy in the former USSR, Eastern Europe and China, the post-communist societies became the testing ground for privatization on the massive scale (Gupta 2000: 6-7).

On the other hand, after independence, states in many African countries were conceived as the provider, intervening through state-owned enterprises and/state controlled enterprises or other means, in virtually every area of economic and social life. Services such as health, education, transport, operation and maintenance of the public places were provided and produced by the state, because these countries lacked capital to set up vital infrastructure ((Mushengyezi 1997: 9, Khabusi 1997: 164). As a result of the growing imbalance between expenditure needs and financial resources, intergovernmental transfers became a fundamental characteristic of the 'welfare state'. The state was challenged because of poor performance of the public sector. The failure to release the much hoped for progress came to be associated with the over-extension of the state and what came to be termed as 'government failure' (Mushengyezi 1997: 9).

Consequently, in the 1980s and 1990s, African countries introduced privatization usually as part of SAPs. In return for loans from IMF and World Bank, they were forced to implement neo-liberal economic policies, which included privatization. Privatization was seen as the omnibus policy which could reduce the budget deficit by forgoing subsidies to public enterprises, reduce debt by writing down the proceeds received from the sale of public enterprises, stimulate private sector investment and thus lower public sector investment, signal a new political climate and increase the efficiency of former state-owned enterprises. Another factor which has contributed to privatization in developing countries is the imitation of privatization efforts in industrialized countries, which came into vogue in the early 1980s (Jauch 2002: 2, Van der Hoeven and Sziracki 1997: 7-8).

There are criticisms against this drive for privatisation. Jauch 2002: 1 – 4, identifies a few examples as a result of privatisation in several African countries: loss of over 60 000 jobs in Zambia; prices for Kerosene increased by 6000% between 1985 and 1995 in Nigeria; introduction of ERP were part of privatisation and resulted in increased fees for health and education services in Ghana. As a result, they became unaffordable for the poor; and in Zimbabwe, privatisation also led to retrenchments and increased prices for services. The Cotton Company of Zimbabwe, for example, reduced its workforce from 3000 to 500 after privatisation.

2.2 TYPES OF PRIVATISATION

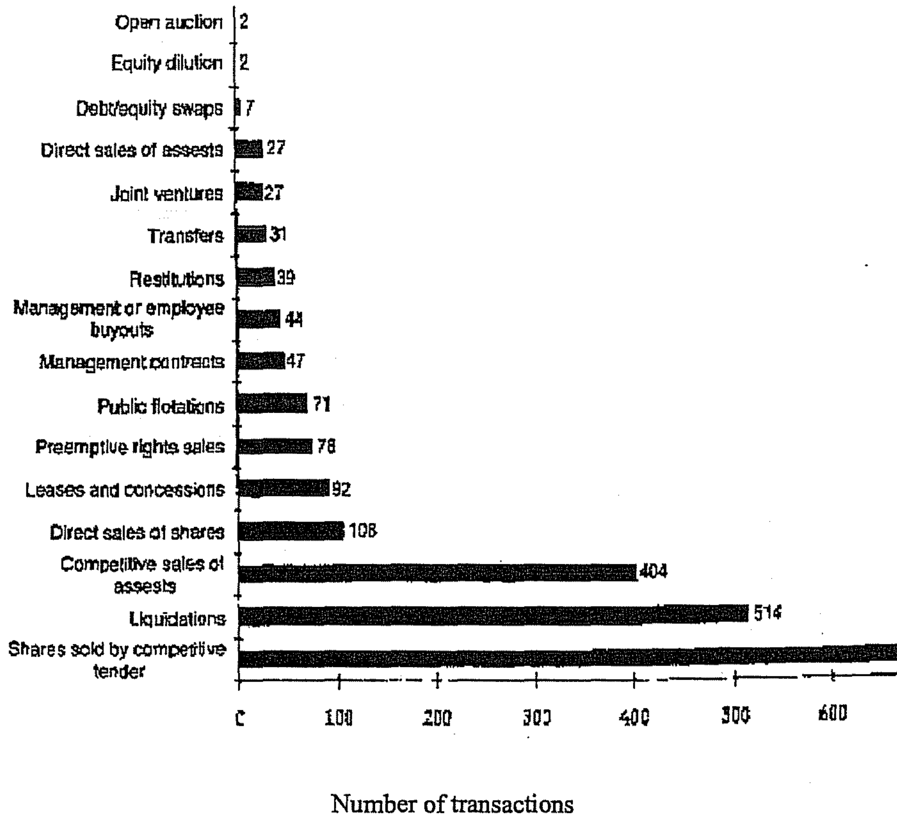
Different countries have adopted different privatization policy depending on the situation. The objectives may vary from country to country depending on the socioeconomic and political culture prevailing in the country. According to Gupta (2000: 8) overall objectives include:

1. The administrative objectives aimed at both making the government function better by reducing the burden and raising additional resources through user's charges, vouchers, asset sales and contracting out on the other.
2. The economic objective aimed at achieving economic efficiency, more competition, wider choice and people's capitalism on the one hand , and reducing the government's operating deficient, public sector borrowing requirement and external debt through swaps on the other.
3. Lastly, the political objectives aimed at reducing the state role, elimination of government interference in economic management, the diffusion of economic and political power among the supporters of the ruling elite, the appeasement of the Bretton Woods institution and curtailment of trade union powers.

Therefore, depending upon motivation, privatization may take different forms in different countries. Although assets sales have received tremendous media attention, they are by and large considered as only one type of privatization initiative. A whole host of other exercises for example in Africa (see figure 1) are undertaken to introduce private sector

competition and efficiency, which are considered equally important elements of a 'privatization strategy' by many of the government.

Figure 1: Privatization Methods Applied in Sub Sahara Africa, 1988 – 1996



Number of transactions

Source: Makalou 1999: 7

Privatization was implemented in different forms in Africa, which may be broken into four classes of activity. First, denationalization refers to both selling off of nationalized industries to the private sector and the gradual withdrawal from comprehensive public provision in areas like education, health, and the social services. A second form of privatization involves the substitution of customer fees for finance. A third form of privatization refers to the abolition or relaxation of the monopoly powers of nationalized industries[8]. The fourth and last form of privatization – the focus of this paper is 'contracting out' of public services to the private sector. In contrast to the other types of

[8] Monopolies can be subdivided into 'natural' monopolies (e.g. gas, electricity, water) and 'artificial' monopolies created by limiting the ability of other enterprises (e.g. cars).

privatization, there are no individual products or services sold to individuals; somewhat, the State enters into a lump-sum or piecemeal contracts to pay for the services (Van der Hoeven and Sziracki 1997: 1 – 2, Ascher 1987: 7).

At the beginning of 1990, about a dozen African countries had been involved in privatization transactions of some kind especially the French speaking countries. But by 1996, the number of privatization transactions in Africa was over 2,700 (Makalou 1999: 4) (table 1).

Table 1: Privatization Transactions by 1996 in Africa

Year	1970s - mid-1980s	By 1993	By 1996
Coutry	Benin, the Central African Republic, Guinea, Niger, Senegal and Togo	Côte d' Ivoire, The Gambia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Nigeria, Uganda	Burkina Faso, Tanzania, Zambia, and much later Cameroon, Ethiopia and Chad

Source: Makalou 1999: 4

These were mainly implementing simultaneously International Financial Institutions supported programs and public sector restructuring policies. Not only has privatization had both positive and negative effect on efficiency – productivity of the firm, but has also affected employment, labour relations, and labour flexibility.

2.3 EFFECTS OF PRIVATISATION

Privatization in developing countries in particular has often taken place in sectors which had a monopoly or were very labour-intensive, attributes that made them candidates for public sector ownership at an early stage. These are often as part of a public sector reform. It usually involves changes in management and enterprise behavior, all with far-reaching effects on employment and labour relations. Public service workers and their unions often distrust Privatization, fearing that it will have negative effects on employment numbers, pay, terms and conditions, and relationships with management (World Bank 2004: 1). To Van der Hoeven and Sziracki (1997: 7-8), privatization has effect on productivity and on the level and structure of employment, including changes in employment and job security, employment practices and forms of employment

contracting. The following sub-sections provide a general discussion on the evolving effects of privatized firms on productivity and employment.

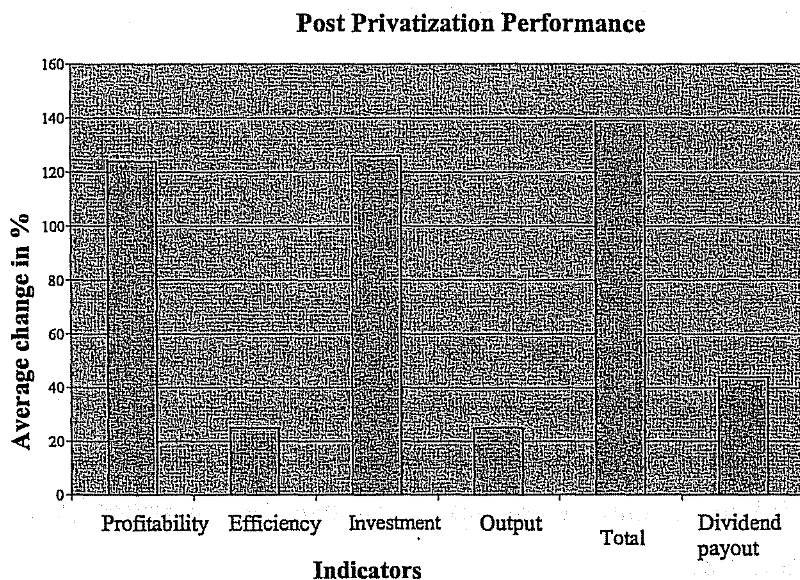
2.3.1 Efficiency - Profitability Effects

Management is expected to promote productivity and efficiency – profitability of the enterprise. Nonetheless, this mainly depends on whether the existing environment allows for efficient operations of privatized firms and how efficiently individual firms operate. The extent to which the improvements in the company are a direct result of privatization or the result of an economy-wide reorganization of production is difficult to say. Incomplete market structures, continued government regulation and interference in the enterprise-level decision making, and neglected human resources management are some of the reasons for the failure of some enterprises to improve their operation (Van der Hoeven and Sziracki 1997: 7-8).

It should also be noted that Privatized firms also have a tendency to concentrate their production on a very limited range of goods and services. Therefore, for privatization to be a success, it has to be accompanied by a restructuring and modernization of the enterprise. The most important sources of productivity gains are in innovations in products and production processes, productivity and firm-specific training programmes (Van der Hoeven and Sziracki 1997: 7-8).

Nevertheless, according to a study (figure 2) carried out of 79 privatized companies in 21 developing countries between 1980 – 1992, shows that after privatization, the sample firms became more profitable, increased their real sales and investment spending, and increased their operating efficiency.

Figure 2: **Privatization Performance**



Source: Makalou 1999: 24-25, Boubakri and Cosset 1998.

The study compared the performance indicators of the sample firms for three years before and three after privatization. The study results show great improvement in profitability. It points out that Privatization brings in private owners and/or managers who place greater emphasis on profit goals and carry out new investments that increase output and employment (Makalou 1999: 25). But in the graph, improvements in output are small.

2.3.2 Employment Effects

The fear of job losses is a stumbling block to privatization as it adversely impact on labor (Makalou 1999:16). Labor reduction in the enterprise is a reality, newly privatized firms are usually expected to cut employment following privatization. Because firms introduce more capital intensive techniques in a period of low growth at the enterprise level (Van der Hoeven and Sziracki 1997: 8-11). Nonetheless, privatization effect on labour depends on initial conditions.

State enterprises in many developing countries are often: protected from competition and subsidized; employ too many people, pay them wages and benefits that are higher than their private sector counterparts; and are governed by rigid labor contracts (Boubakri and

Cosset 1998: 3). In the early 1990s, India and Turkey for example, state enterprises were estimated to be overstaffed by nearly 35 percent. Out of approximately 120,000 people in Sri Lanka's state enterprises, 40-50 percent is estimated to be redundant. Overstaffing in Ghana and Uganda were estimate to run to 20-25 percent. Nevertheless, overstaffing usually occurs in administrative and clerical positions, not in high demand technical skilled jobs (Kikeri 1998: 3).

The more governments privatize overstaffed, poor performing firms and expose them to competition, the larger labour reductions are likely to occur. Large employment reductions have often accompanied the privatization of state enterprises that were, in the past, heavily subsidized and protected from competition (mainly steel, railways, and energy enterprises). Employment reductions are mainly before privatization, as governments prepare the companies for sale, and after as privatized companies continue to shed labor (Kikeri 1998: 4-6). Examples of employment reduction are illustrated in table 2:

Table 2: Privatization and labour force reductions in selected countries

Country	Year	Sector/enterprise	Employment Before privatization	Employment After privatization	Size of the labour-force reduction	% reductions
Argentina	Before 1996	Telecoms, electricity, gas, water and sanitation, energy	n.d	n.d	n.d	30
Bangladesh	1990 -1993	Jute corporation	n.d	n.d	22,000	n.d
Mexico	Before 1997	218 firms	n.d	n.d	Nearly half	n.d
	1985 - 1994	Steel plants	35,578	17,485	18,093	50.9
Brazil	By 1996	Railway	18,000	14,500	3,500	19.4
Turkey	By 1996	Cement	n.d	n.d	n.d	70

Source: Kikeri 1998: 6

Still, in many instances, workers can and do gain from privatization. Many enterprises have been privatized with their labor force intact, either because increasing competition led to labour-force adjustments under public ownership or because new private investors were willing to take on modest levels of overstaffing that could be absorbed by new investments and dynamic expansion. Workers in competitive enterprises in countries like

Ghana, Mexico, Morocco, and Tunisia are among many countries that have been able to sell such enterprises with their labor force more or less intact (Kikeri 1998: 5).

Employment growth is also expected over the long run, stemming from a supposed increase in productivity resulting in more investment and greater demand for labour. Using assets more productively and making new capital investments that might not have been made in the absence of privatization creates Jobs. Besides, greater effect can be expected from forward and backward linkages of the privatized industry (Van der Hoeven and Sziracki 1997: 8-11). Several studies (figure 2) support this view as reflected.

Country specific studies in Burkina Faso and Togo found that sampled privatized firms increased their workforce with 208 and 780 new jobs respectively. Employment rose because the companies were either closed before privatization or production subsequently increased. Data from other African countries show similar trends. In Ghana for example, although there was some loss of jobs in the restructuring prior to privatization, privatized firms in a wide range of sectors increased employment after privatization. The Golden Tulip Hotel increased employment from 116 employees to 306; Tema Steel increased from 130 employees to 500; Gafco (food complex) increased employment from 500 employees to 1,600. Note that in many of these cases the employees might not have had any jobs in the absence of privatization (Kikeri 1998: 8-9).

2.3.3 Labour Relations

The employees of state-owned enterprise often oppose privatization for fear of losing job security and social protection and deterioration in the industrial relations system. In many countries, though certainly not all, employees in State-owned enterprises have conditions of service equal to or resembling those of civil servants. This extends to terms of job security, social protection and regulating to union membership and collective bargaining. Moreover, in some sectors, publicly employed workers receive higher compensation than equivalent workers in the private sector (World Bank 2004: 11). Such examples include: workers in loss-making Turkish state-owned textile, iron, and steel firms earn three times more than people doing equivalent work in the private sector. Bangladesh and Egypt,

special allowances and bonuses are offered to state employees to compensate for wage declines. In the 1980s, Africa, Asia, and Latin America were equivalent to 20, 20-35 and 24-37 percent respectively of non-wage benefits[9] (Kikeri 1998: 4).

In addition to the high job security, state enterprise workers enjoy rigid labor contracts or collective bargaining agreements at the enterprise level. These contribute not only to increased costs of doing business, but also to high rates of absenteeism and moonlighting. As such, contracts often place restrictions on the right of employers to hire and fire, allocate work, and sub-contract activities to non-union parties (Kikeri 1998: 4). Competitive pressures thus encourage agencies implementing labor programs to reduce costs and bring compensation more into line with market conditions (World Bank 2004: 11).

However, privatization does not always mean a threat to working conditions (job security, collective bargaining and workers' involvement). There may be constraints on the public sector enterprises in the sense that the management of these enterprises, in its negotiations with the union, is bound by a limited bargaining margin or by bargaining guidelines dictated by budget limitations and imposed by government (Van der Hoeven and Sziracki 1997: 13-15). Besides, where public employees have been paid too little to enable recruitment and retention of some grades of skilled workers, market forces will push pay upwards. And strong labor unions are able to take advantage of tight market conditions to negotiate pay and benefit increases for the workers whose skills are in short supply. The labour unions might extend the same improvements to unskilled workers or others in less demand (World Bank 2004: 11).

Further more, the productivity gains from employment cuts have often resulted in wage enhancements for employees who remained with privatized firms. In Argentina for example, the real wages and salaries of employees of Entel and the Buenos Aires water concession increased by 45 percent in the three years after privatization. In Chile, electricity companies (Chilgener and Enersis) increased wages and introduced profit-

[9] housing, health care, education, and transportation

sharing schemes. Malaysia's Port Kelang workers who remained with the partly privatized company received compensation increases averaging 12 percent. In Ghana salary levels in privatized textiles and printing companies increased to 10-15 percent above industry standards (Kikeri 1998: 7). And in Mexico, wages in sampled privatized firms the mean annual wage rose from N$14,925 before privatization to N$26,348 in 1993 mainly for blue-collar workers (La Porta and Lopez-de-Silanes 1997: 3).

2.3.4 Labour Flexibility

The various forms of privatization tend to result in changes to working conditions and practices. Several enterprises have sought to establish greater flexibility (increased use of part-time work and fixed-term contracts, redeployment, and decentralization of labor relations) and other changes in working methods, employment, and industrial relations. There is a tendency to move away from regular employment towards increasing the temporary, casual and contract labour. The labor contracts tend to be simplified to allow flexible deployment of the workforce. The shift to use more flexible forms of labour relations, enable enterprises to adjust more quickly and without cost to fluctuating demand for the products, in part to reduce their fixed labour costs, and in part to respond to the increasing technological options (Van der Hoeven and Sziracki 1997: 13-15).

In Latin American countries, for example, inefficient work rules and conditions of service were renegotiated to provide managers greater flexibility with respect to decisions on content and pace of working conditions, labor allocation, and subcontracting of support and administrative services to non-unionized firms and subsidiaries. In Argentina's Entel and Segba (electricity company) the new collective bargaining agreement increased the work week from thirty-five to forty hours, linked wages to productivity, and eliminated certain types of overtime and leave (Kikeri 1998: 7).

More still, privatization also often means disposal of non-core assets or withdrawal from non-core operations and thus the elimination or outsourcing of some jobs. To workers, all this implies less employment security – elimination of certain types of over-time work, increase in pace of work, labour allocation, hiring and firing and subcontracting to none unionized firms. While such changes tend to reduce union influence within the

workplace, they sometime conform to labor laws and protected many of the other benefits enjoyed by state enterprise workers like training. The level of the wages is also at times higher than with regular jobs (Van der Hoeven and Sziracki 1997: 15-16, World Bank 2004: 14- 15).

Contracting arrangements of SEEG in Guinea for example, before privatization, the state-owned SNE had 530 workers on its payroll. It was liquidated in 1989 and replaced by two companies: SONEG (a state enterprise), which owned the physical facilities and was responsible for sectorial planning and investment, and SEEG, the water management company with 51% foreign private ownership. Following privatization of management, 273 (52%) SNE employees were retained and the rest were laid off. Released workers were encouraged to set up cooperatives and subcontract with SEEG for new connections, maintenance of canals, landscaping work, etc. SEEG not only provided training and logistical assistance but also initial working capital. As of August 1995, 20 small enterprises had been formed, most of them by shed labor from SNE. All of the enterprises subcontract with SEEG (Kikeri 1998: 19).

2.4 CONCLUSIONS

Overall, the above evidence shows a wide range of experiences with respect to privatization's effect on performance and workers of enterprises. Privatization can improve the productivity of the enterprise as well as bring significant benefits to workers (where new owners are willing to maintain excess staff and also new jobs created with firm expansion and new investments). Still, large employment losses can occur as inefficient state enterprises are privatized and face increasing competition. The above conceptual framework guides the discussion that follows in chapter three: (a) it expands and operationalizes MC; (b) discusses experiences with MC (c) and advantages and disadvantages of MC. Furthermore, the analysis in chapter four and five of MC at KSWL is based on the assessment of the effects of privatization on performance, employment, labour relations and labour flexibility.

CHAPTER THREE: MANAGEMENT CONTRACTING: A REVIEW OF THE INTERNATIONAL EXPERIENCE

3.0 INTRODUCTION

In recent years, private sector participation is increasingly seen as a key component of sector reform aimed at improved service for all consumer groups. There has been a trend of contracting out of services using service and management contracts in many parts of the world (Sansom et al. 2003: 1). This chapter discusses the concept of management contracting: the relationship that emerge from this relationship; and the experience in different countries. This wide experience provides a frame work for the analysis in chapter four.

3.1 MANAGEMENT CONTRACT: DEFINITIONAL ISSUES

Loevinsohn (2000: 1-7) identifies three approaches to contracting: contracting-out, in which contractors have complete authority for hiring, firing, and paying staff as well as procuring supplies; second, contracting-in, where contractors provide management services within the existing structure; and comparison/control where the existing management teams receive a budget supplement. This chapter mainly focuses on contracting out – management contracts.

Contracting out, describes a situation where one organization contracts with another for the provision of a particular good or service. The interdependence between the public and the private sectors has been recognized as an integral part of management reforms (Ascher 1987: 7-9). Contracting out through service and management contracts between service provider and a private contractor or operator, appear to be simpler to implement with the potential to deliver substantial benefits. However this paper pays closer attention only to management contracting.

3.1.1 Broadest Definition of Management Contracts

In the broadest sense of the term, two conditions must be met for a contractual arrangement to be characterized as MC. One, management of the enterprise must be transferred to a contractor who is different from the owner; and two, the expectations of the two parties are codified in an explicit contract. This broad definition of MCs

considers all explicit contracts that involve separation of management control from ownership (Shaikh and Minovi 1995: 15). Classification of such MCs is given in Table 3. These are further sub-divided into four categories

Table 3: Broadest Definition Of MC: By Ownership and Management

OWNERSHIP	MANAGEMENT: Government(G)	MANAGEMENT: Private (P)
Government(G)	Performance Contract (GG)	Management Contract Lease Concession (GP)
Private (P)	Not Applicable (PG)	Management Contract Lease Concession (PP)

Source: Shaikh and Minovi 1995: 15, World Bank 1995: 112-168

This definition therefore includes all cases of contracts between two parties that are explicit. But since the focus of the study is on private management of public enterprises, I exclude all contracts that involve two private sector parties (PP), and/or two public sector agents (GG) remaining with contracts (GP) that fall under this broad definition of MCs.

3.1.2 Narrow Definition of Management Contracts

It is hard to classify all public-private contracts that fall within the broad definition of MCs. There are various contractual forms referred to in the literature. In order to operationalize the definition of MC, Table 4 gives a brief summary of the allocation of responsibilities between the private and public sector for each of the main types of contracts, lumped as MCs in GP of Table 3.

Table 4: Typical allocation of responsibilities between the public and private sector for the main contract types

Contract Type	Asset Ownership	Operation and maintenance	Capital investment	Commercial risk	Typical duration
Service Contract	Public	Public and Private	Public	Public	1 to 3 years
Management contracts (MCS)	**Public**	**Private**	**Public**	**Public**	**3 to 5 years**
Lease contracts	Public	Private	Public	Shared	8 to 10 years
Concession	Public	Private	Private	Private	25 to 30 years
BOT	Public and Private	Private	Private	Private	15 to 25 years
Divesture	Private or private and Public	Private	Private	Private	Not applicable

Source: Shaikh and Minovi 1995: 16, Sansom et al. 2003: 20, UNDP 2004

Table 4 shows three principal types of contracts; MCs, leases, and concessions and other forms of contracts arrayed on the basis of three criteria: responsibility for investment between owner and contractor; distribution of risk between owner and contractor; and duration of the contract.

Service contracts are the simplest form of contracts. They are at best a cost-effective way to meet special technical needs for a utility that is already well managed and commercially viable. They take advantage of private sector expertise for technical tasks or open these tasks to competition. But the responsibility for coordinating these tasks is with the public utility managers. They also leave the responsibility for investment with the public sector. Payment is usually on a lump sum basis depending on completion of agreed targets and in recent years. However service contracts cannot substitute for reform in a utility plagued by inefficient management and poor cost recovery (UNDP 2004, Sansom et al. 2003: 21).

MCs are taken to be more comprehensive arrangements where the public authority transfers responsibility to a private contractor for the management of a range of activities (Sansom et al. 2003: 21, UNDP 2004). Remuneration is normally based on a tendered fee but there is a growing emphasis on an incentive-based component – success fees. Success fees vary depending on output/turnover, profits, or a combination of several performance indicators. Given the growing emphasis on success fees, the risks are being increasingly shared between the owner and the contractor and the owner remains responsible for fixed investments and sometimes for working capital (Shaikh and Minovi 1995: 16 - 18).

Besides, MCs are often seen as the first step towards leases or concessions. Sansom (et al. 2003: 21) identified two common forms of organizational arrangements for management contracts:

1. Joint public-private company for the purposes of the operation of the contract, a new company is established. Staff and resources are provided from both the government and the private operator. This type of contract encourages shared

ownership and hopefully benefits but this is mainly for large-scale management contracts.

2. Entrusted management to a private operator whereby the public authority hands over the responsibility for management of a full range of activities to a private operator.

Leases are most appropriate where there is scope for big gains in operating efficiency but only limited need or scope for new investments (Kerf et al. 1998: 17).

Concession pass full responsibility for operations and investment to the private sector and so brings to bear incentives for efficiency in all the utility's activities. As a result, concession is an attractive option for large investments needed to expand the coverage or improve the quality of services (World Bank 1997: 6, Sansom et al.2003: 22).

BOT contracts are a form of concession whereby a private firm agrees to finance, construct, operate and maintain a facility for a specific period before transferring the fully operational facility (at no cost) to a government or other public body (Sansom et al. 2003: 22). New plants that require large amounts of finance usually take on this kind of arrangement. The duration is normally greater 15 to 20 years, sufficient for the private contractor to pay off loans and achieve a return on investment (Kerf et al. 1998: 17).

The above analysis has pointed out the complexities in classifying the various contract forms. To an extent that a few of the contracts are called leases when signing, but are considered MCs when they neither do nor involve fixed payments to government (World Bank 1995: 134). In practice therefore, it does not matter what instrument is called.

3.2 FACTS ALBOUT MANAGEMENT CONTRACTS

3.2.1 MCs by Country

A countrywide breakdown (Table 5) reveals that no government in the world has systematically adopted MC as an important instrument of pubic enterprise reform (reasons reflected in section 3.5).

Table 5: Management contracts by country

Country [1]	Number[2]	Country[1]	Number
Zambia	16	Pakistan	2
Tanzania	10	Sri Lanka[4]	2
Kenya	8	Trinidad	2
Papua New Guinea	7	Angola	1
Guinea	6	Bangladesh	1
Poland[3]	5	Barbados	1
Burkina Faso	4	Congo	1
Cameroon	4	Czech Republic	1
Chad	4	Dominican Republic	1
India	4	Jamaica	1
Iran	4	Mali	1
Botswana	3	Niger	1
Gabon	3	Sierra Leone	1
Ghana	3	Senegal	1
Guyana	3	Solomon islands	1
Nigeria	3	Somalia	1
Philippines	3	St Kitts	1
Uganda	3	Sudan	1
Malawi	2	Swaziland	1
Benin	2	Togo	1
C. African Republic	2	Venezuela	1
Colombia	2	Zimbabwe	1
Cote d'Ivoire	2	**Total**	**136**
Gambia	2		
Indonesia	2	Sri Lanka (Plantations)	22
Madagascar	2		
Oman	2	**Grand Total**	**158**

[1]Note that in some countries additional contracts may have been awarded.

[2]Number excludes hotels.

[3]These enterprises were part of a list of 27 firms in the Privatization through Restructuring Program.

[4]Excluding the 22 plantations contracted out to domestic private companies.

Source: Shaikh and Minovi 1995: 3, World Bank 1995: 135

No country has significantly used MCs, although countries like Poland, Sri Lanka, and Romania as well as several African countries (Zambia, Tanzania and Kenya) have undertaken MC in fairly large numbers. Sri Lanka has the most, with 24 contracts, 22 of which involve tea and rubber plantations. Compared to other regions, MCs are most

concentrated in Africa[10]. According to the World Bank sample survey (1995: 134), aside from the hotel contracts, which exist in all regions, and the Sri Lankan plantations, Africa accounts for two-thirds (91 out of 136) of the remaining management contracts.

3.2.2 Management Contracts by Industry

Of more than 200 MCs found in developing countries (Table 6), reveals that they are used extensively in hotels worldwide; and hardly in other industry. Among the non-hotel industries, MCs are commonly used in sugar industries.

Table 6: MCs by Sector

Industry	Number[1]
Hotels	44
Sugar	24
Food processing and beverages	13
Electricity	12
Water	7
Mining	6
Oil & Gas	6
Cement	5
Telecommunications	4
Automotive	4
Airline & airport service	4
Other	48
Unknown	3
Subtotal	**136**
Sri Lanka (plantations)	22
GRAND TOTAL	202
[1]Note that in some sectors additional contracts may have been awarded.	

Source: Shaikh and Minovi 1995: 10, World Bank 1995: 136

MCs were first introduced in the hotel industry in the 1940s in the United States by Hilton Hotel. However, the real growth in the number of MCs in the hotel industry came in the 1970s as institutional investors turned toward the financing of hotels and as the private sector and governments tried to benefit from the expertise and brand name loyalty of the major hotel chains (Hegstad and Newport 1987). The key reasons for MCs in the hotel industry are: economies of scale; low transaction costs; difficulties in stripping costs; and MCs preserve PEs in a purely commercial market (Shaikh and Minovi 1995: 10-12).

[10] Most of the reasons in section 3.3 apply to Africa

The second largest number of MCs is found in the sugar industry. Africa has the highest number (13), followed by Asia (5) and the Caribbean (4). According to Shaikh and Minovi (1995: 12), the reasons for the high incidence of MCs in sugar industry include:

a. historical factor, sugar plantation in former colonial countries, where it is easier to give out the enterprise as an MC than to sell it to the former colonial owners;
b. besides a supply of management contractors exist in this industry because international sugar companies that had their factories nationalized turned into contractors to recoup some of the loses.

The Booker-Tate is the principal management contractor for most state-owned sugar enterprises. It is the contractor in 15 out of the 24 MCs (9 out of 13 in Africa) (Shaikh and Minovi 1995: 13).

The electricity and water sector also have a relatively large number of MCs. An important reason for the prevalence of MCs in the water sector is the development of the affirm-age system in France. Water utilities were contracted out to private management, overtime the idea and its expertise was imported to other countries especially in Francophone Africa (Shaikh and Minovi 1995: 13).

Moreover, electricity and water are more difficult to privatize through conventional sale of equity owing to the public interest – nature good and the difficulty in setting the price. It also affects a large number of directly and in the face of failed reforms under continued public ownership, governments are becoming receptive to the idea of private management. International agencies are more likely to sponsor the transaction costs in the search and recruitment of MCs in the water sector. Lastly, privatized utilities in industrialized countries also supply their services to developing countries.

3.3 THE ROLE AND PROMOTION OF CONTRACTING OUT

Loevinsohn (2000: 2), states that contracting out services is attractive because it has the potential to:

1. Ensure a greater focus on the achievement of measurable results, particularly if contracts define objectively verifiable outputs and outcomes;
2. Utilize the private sector's greater flexibility and generally better morale to improve services and responsiveness to consumers;
3. Increase managerial autonomy and decentralize decision making to managers on the ground;
4. Use competition to increase effectiveness and efficiency; and
5. Allow governments to focus less on service delivery and more on other roles which they are uniquely placed to carry out, such as planning, standard setting, financing, and regulation.

World Bank (1997: 5) specifies that MCs:

1. Can be a good first step toward more full-fledged private sector involvement where conditions make it difficult for the government to commit to a long-term arrangement or to induce the private sector to undertake capital investment or accept commercial or political risk.
2. Due to the above, MCs can provide a window of opportunity for developing trust between the public and private sectors and for the government to create an environment more conducive to private sector risk-taking.
3. Further more, contracting out SOE management to the private sector is not only recommended as a way of improving SOE performance. But also where outright privatization is desirable, and prepares an enterprise for sale (World Bank 1995: 134).

Experience with MC has not been systematically analyzed to determine whether and under what circumstances they might improve SOE performance. But a few examples have been analyzed in the literature to show that MCs work.

3.4 PERFORMANCE OF MCS

Improving services significantly in most cases require more efficient operation utilities and investments in rehabilitating. That's why many governments are turning to the

private sector to help address these needs. But private sector participation is no simple panacea. Its success depends on how well the chosen private sector arrangement fits local circumstances, on whether the regulatory environment is suitable, and on how well the reforms respond to the concerns of those affected.

However, analysis carried out by the World Bank (1995:136-139) to access how MCs affected management - hence the improvement of performance of the firm in twenty firms in eleven countries found that profitability and productivity improved in thirteen cases (illustrated in Appendix A).

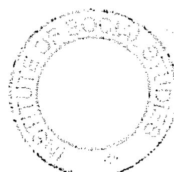
The successful contracts addressed the problems of information, rewards and penalties, and commitment. Governments used competition to reduce management's information advantage. Of the thirteen contracts, ten involved SOE in competitive markets; while the other three involved competitive bidding for monopoly enterprises[11]. These contracts also established meaningful rewards and penalties linking the contractor's fee to the firm's performance. Moreover, they were also set up in ways that elicited a strong commitment from both parties. For instance, they covered longer periods, included the possibility of renewal, and provided for arbitration of disputes (World bank 1995: 138-140).

The Sri Lankan experience with contracts in the 22 plantations showed improved financial performance and increase in workers' wages. Despite a large mandated wage increase by the government, losses for the entire group of plantations dropped by 35 percent in the first five months of the contract compared to the same period before (Shaikh and Minovi 1995: 28). While MCs are often successful, they are not widely used.

3.5 REASONS FOR LIMITED USE OF MANAGEMENT CONTRACTING

The factors below are inter-related, and combined they explain the limited use of MCs. But in some countries, one group of factors may be more important than others.

[11] two water companies and a container port



Privatization-related reasons, many of the factors that have stalled privatization programs are also responsible for the lack of enthusiasm for MCs on the part of the governments. These include: lack of political patronage for politicians and top bureaucrats; fears of increased unemployment of over staffed PEs; absence of local entrepreneurs combined with unwillingness to involve the foreigners; lack of an institutional capacity for implementation; and ideology (Shaikh and Minovi 1995: 4).

Limited support from donor agencies also hinders implementation of MCs. International donor agencies have pushed for privatization and other instruments of PE reform in many countries. They too provide technical assistance such as establishing privatization commissions and national monitoring agencies to undertake divesture or set up performance evaluation systems. MCs, on the other hand, have not received the same kind of support. Governments especially in developing countries own limited resources often devoted to other aspects of PE reform (Shaikh and Minovi 1995: 4).

Further more, MCs are costly in numerous ways, requiring the time of high-level government officials or highly paid consultants to develop the contract. Ghana State Gold Mining Corporation for example, preparatory studies and negotiations stretched for many months and cost over US$0.3 million. With many governments cash-trapped, it is difficult to find resources for initiating expensive MCs (Shaikh and Minovi 1995: 4).

According to World Bank (1997: 4), since MCs leave all responsibility for investment with the government; they are not a good option if a government is interested in private finance for new investments. And the fact that they do not necessarily transfer any of the commercial risk to the management contractor, they draw little on private sector incentives to reduce costs and improve the quality of services

Besides, the absence of suppliers of managerial services and the luck of aggressive marketing to governments or international agencies also hinder the use on management contracts. In the areas in which there have been suppliers in hotels or Booker Tate in the sugar industry has more MCs compared with others sectors (Shaikh and Minovi 1995: 4).

Additional institutional reason include: the monitoring systems of PEs in developing countries rarely distinguish between managerial and no-managerial factors in explaining poor performance. Thus, top management is seldom viewed as the source of the problem. In most cases non-managerial factors (e.g. price controls, location) are identified as the problem. MCs are usually pursued if there is a management problem (Shaikh and Minovi 1995: 4-5).

Linked to the above is that governments hardly have the capacity to carry out PE reform based on a systematic evaluation of alternative instruments available to them. The costs to the government of obtaining the information needed to negotiate, monitor, and enforce MCs are one reason that they are largely confined to hotels, agriculture, and water. Information is not only readily available but in most cases; technology is not changing rapidly; output is a single homogeneous product; the private contractor has an international reputation to protect; the market is competitive; and quality is easily compared (as with hotels) thus making contract transaction costs lower (World bank 1995: 148).

3.6 THE ROLE OF BOOKER-TATE, LTD[12]

Booker Tate was set up in 1988 as a joint venture between Tate & Lyle and Booker (food wholesaler, agribusiness), two multinational companies. In the 1960s, each of the parent companies established technical units concentrating on providing management and technical services to developing countries in sugar, tropical crops, engineering, hotel construction, etc. The joint venture shed almost all the non-sugar related technical activities of the companies.

Booker-Tate provides project development, engineering and agricultural project management, technical and corporate management and technical support for both new and established agro-industrial projects and business around the world. Although BT provides services in a broad range of agri-business, the focus is mainly on the management of sugar producing companies (now has 14 sugar operations). The main

[12] Check: http://www.booker-tate.co.uk/index.asp accessed 16.08.2005

clients in Africa, Asia/Pacific, Caribbean and in the Middle East having completed 1,500 assignments in more than 120 countries.

In the past, Booker-Tate did not consider outright purchase because the governments looked unfavorably upon majority ownership by foreign companies. Over the past few years a distinct trend toward privatization of sugar companies has emerged. About two-thirds of the companies they manage are moving toward full or partial sale. This trend has been strongest in the Caribbean. Booker Tate's parent companies, and two other investors, are in the final stage of purchasing 51 percent of the Jamaican sugar company and may be potential bidders on others.

3.7 CONCLUSION

Although MCs are not highly used, existing experiences shows that MCs with private sector improve company performance. This lies in the concept of "residual claimant"; that is the agent who has claims on whatever residual benefits remain after other claims are met has the greatest incentive to improve performance (World Bank 1995). Although, this modality of service delivery has shown several disadvantages, there are advantages. Chapter four therefore analyzes MC at Kinyara mainly to find out if it offers a better alternative to the government managing KSWL itself considering the already mentioned advantages.

CHAPTER FOUR: MANAGEMENT CONTRACTING AT KSWL

4.0 INTRODUCTION

In 1990, the government of Uganda contracted the management of a new company "Kinyara Sugar Works Limited" (KSWL) to a private company[13]. The purpose was to facilitate undertaking the rehabilitation and operation of Kinyara project. This chapter discusses MC in KSWL. It builds on the concepts discussed in chapter two and the experiences in chapter three guided by the research questions. Some of the things that come out in this chapter are: the purpose of KSWL management contract; the progress of the project – profitability; modernization of the company; employment; and effect on labour and staff training.

4.1 PRIVATIZATION POLICIES IN UGANDA

The privatization policy implemented since 1992 by the government seeks to divest government from service provision simultaneously encouraging private sector participation in all activities of the economy (Mushengyezi 1997: 31). In developing its Economic Reform Program (ERP) in 1987 supported by World Bank and IMF, the government recognized the need to undertake a comprehensive reform of the public enterprises (PEs). While overall coverage and emphasis might have changed with time, the goals of the programme remained more or less intact in the following decade: to stabilize the economy, bring about a resumption of growth and enable maintenance of a sustainable balance of payments position. This was to be pegged on public-sector reforms, market and price reforms and exchange rate reforms and trade liberalization (Bigsten and Kayizzi-Mugerwa 2001: 19).

Further more, the reform programme was aimed at reducing financial and administrative burden upon government on account of large numbers of PEs, their financial losses and poor performance in general. Of the 156 PEs, 133 were commercially oriented. 20 PEs were lying dormant and others seriously hampered due to widespread destruction of buildings, equipment and records. Moreover, many were characterized by large operating

[13] Commencing in 1993 when the funds became available (The Republic of Uganda 1990: 9)

losses, low capacity utilization, low productivity and increasing illiquidity (The Republic of Uganda, n.d: 10).

Therefore, the government recognized that many of the PEs had no longer any justification for being in the public sector but would, alternatively, be more appropriately made a part of the private sector. The economically unviable, would be discontinued no matter the sector. Privatization undertaken under the PERD Statute No.9, 1993 (and subsequent amendments) (The Republic of Uganda n.d: 10, Khabusi 1997: 162), adopted two policy objectives:

1. reduce the direct role of Government in the economy and equally develop a greater role for the private sector; and
2. To improve the efficiency and over-all performance of PEs that, for the shorter or longer term, still remain in Government possession and control

By December 1997, Uganda had privatized 78 public enterprises of the total of 102 companies targeted for privatization by the Statute (and its amendments). About 20 companies had been struck off the company register while 12 remained in State hands[14]. In terms of output and employment, privatization has had a strong impact in Uganda. Companies such as Hima cement privatized at the end of 1995, increased production from virtually nothing to 600 metric tonnes of cement per day and the number of employees doubled to 800. The soft drinks and beverages sector has seen the most dramatic turnaround. They now produce enough to meet the country's needs and are looking for export possibilities. On the contrary, firms still in the public sector have continued to perform badly. The Uganda Railways, for example, abandoned its western route and to curtail services on others in a bid to save money (Bigsten and Kayizzi-Mugerwa 2001: 90).

[14]By august 2005, a total of 120 companies have been sold to the private sector in Uganda since 1994 (the East African 2005).

Through ERP, the government was also promoting the rehabilitation of the agriculture sector including the sugar industry. This process has implied an investment effort to try to cope with this goal of expansion and adaptation of the sugar factory. Besides, Uganda's signing of WTO terms in 1995 and importation of cheaper sugar negatively affects the local sugar production (IUF and ILC n.d: 15-18).

At the company level on the other hand, contracting out of services is done to promote the rehabilitation of the agriculture sector including the sugar industry. Contract farming is playing a role in terms of the adjustment required to liberalize the sugar sector, supplying and producing at minimum costs (Mushengyezi 1997: 32). These are some of the reasons that have promoted management contracting at KSWL and KSWL contracting out sugarcane to farmers.

4.2 BACKGROUND OF KSWL PROJECT

Kinyara Estate is located in Masindi District north-west of Uganda, 220kms from Uganda's capital city Kampala and approximately 14kms Masindi Town on Butiaba Road. In 1964, the government of Uganda reached an agreement with the government of India to start a fourth sugar company in Uganda at a site called Kinyara. BT was employed to do feasibility study for a new project.

The Kinyara sugar project was established between 1971 and the 1976 when its sugar production commenced. At this stage, parts of the project were unfinished and some of the components were unable to meet target production of 1500 tonnes cane per day or approximately 37,000 tons sugar per year (Booker Tate 2001: 9). The factory never reached capacity. This was attributed to: shortages of plantation labour because of inadequate housing and food supply for the workers; incomplete planting; and sugar cane harvesting and transport problems to the factory (Ahluwalia 1995: 199-214). As a result, only 12,000 tonnes of sugar in total was made between 1976 and 1984 when the war curtailed production (National Sugar Conference 2004).

In 1984 updated in 1987/88, BAI carried out feasibility studies of the company. A Board of Directors was appointed by the Minister of Tourism Trade & Industry in charge of

overall supervision to direct the Company on behalf of the Government. An agreement was signed in August 1987 between BAI and the Government Under which BAI would provide technical advice and assistance in setting up a corporate entity to rehabilitate the project and also establish a seed cane nursery.

The new Company "Booker-Tate" (BT) came into being in July 1988. It assumed the responsibilities of the 1987 agreement (Booker Tate 2001:9). The project components included;

- Rehabilitation of the looted and neglected factory machinery and equipment;
- Correction of the factory capacity constraints;
- Modernization to improve efficiency where cost effective;
- Planting of over 7000 hectares of sugar cane;
- Rehabilitation and construction of housing, roads and infrastructure necessary for the efficient operation of a modern sugar Estate.

In December 1990 the government of Uganda and BT signed a second agreement in which BT was to undertake implementation and operational management of the project (Republic of Uganda 1990: 1-13). As managing agent BT was concerned at achieving the following objectives:

- Ensuring the commercial success of the project in terms of technical performance and profitability;
- Selecting, training and developing local technical and management staff with the potential to assume responsibility for the effective long-term management of the enterprise;
- Identifying with the social and political environment in which it is working.

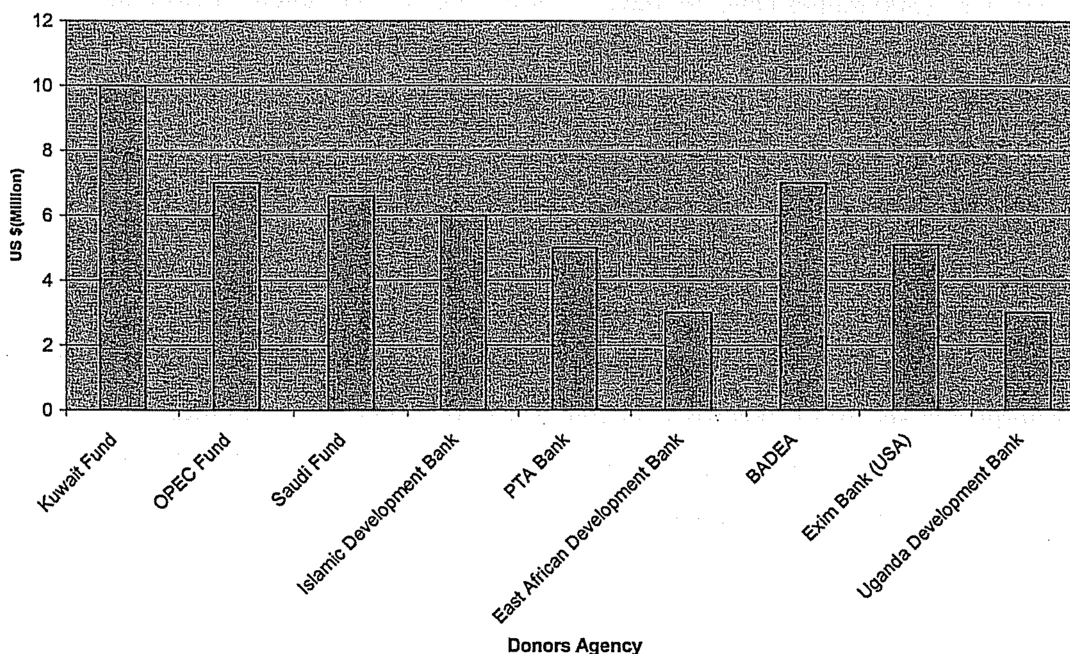
4.2.1 *Rehabilitation Funding*

The work started in 1993 after the agreement had been reached on the total financial package of US$ 53 million with the co-financiers under the supervision of Board of Directors on Behalf of the shareholders [15](New Vision 1996). According to BT (2001: 11) Local and international organisations pledged funds to undertake the project. These consisted of two primary elements:

a) a government equity contribution equivalent altogether of US$ 8.328 million over the first three years of the project to cover local costs and working capital;

b) Pledges of loan funds from agencies (figure 3).

Figure 3: Loan pledges



Source Booker Tate 2001: 11

With grand total exceeding US$ 60m in loan pledges and with the help of BT to find and co-ordinate finance, in 1995, loan equivalent to US$ 45.5 was secured for the project (KSWL 2005).

[15]Ten directors - two representing financiers' interests and KDCC that reviews the developments of Kinyara

4.2.2 Implementation Strategy for Rehabilitation Phase

After being idle for approximately 12 years, KWSL was established and returned to production in March 1996. In order to commence production as soon as possible the rehabilitation was implemented in three phases. Basically to reduce the initial workload, allowing for operating experience to be gained and allowing for longer lead time equipment to be procured and installed without delaying the start production.

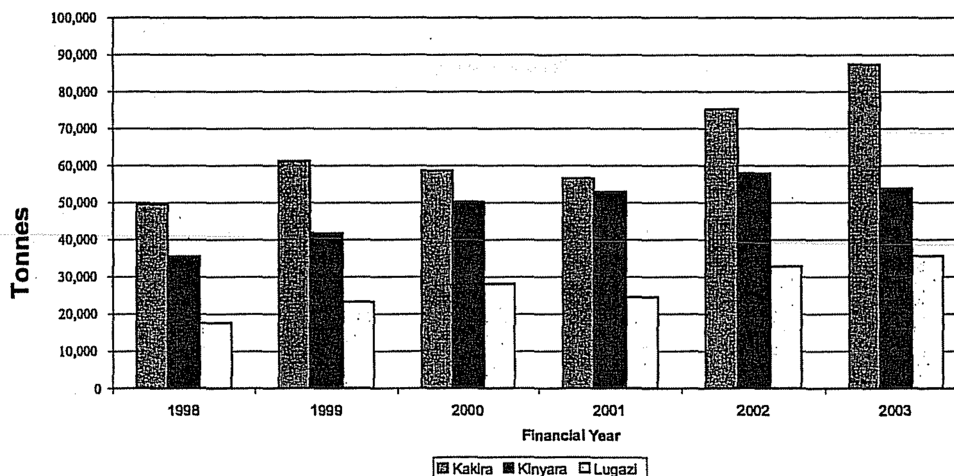
The first phase, completed before starting production restored the factory to its original capacity of 1500 tonnes cane per day. The second phase, completed before the start of the second crop improved product quality and plant reliability at above-mentioned level. The third phase, completed by the commencement of the third crop increased production capacity to 2,000tc/d (Booker Tate 2001: 11-12).

4.3 EFFICIENCY AND OVERALL PERFORMANCE OF KSWL

4.3.1 Operational Capacity of KSWL

KSWL was moving from zero production after the closure in 1987. However, based on performance and profit records available, it can be stated that the enterprise is operating efficiently, ranked second best (Figure 4) in the Uganda's sugar industrial sector.

Figure 4: Sugar Production in Uganda



Source: National Sugar Conference (2004)

Note: Kinyara production is calculated basing on the financial year from July to June the next year.

Since 2001, KSWL has been producing above the capacity of 52,500 tonnes of sugar from around 550,000 tonnes of sugar cane. In 2004/05, production was at 64,958 tonnes above the capacity 64,000 tonnes (KSWL 2005:4).

4.3.2 Contributions to the Economy

The annual turnover of KSWL is around Ush 60 billion with an annual operating budget of Ush 50 billion. Its total cash contribution to Masindi District (farmers and employees) equate to Ush 12 billion per year or US$ 6,800,000 per year. The company contributes to the national economy through remittance of tax to the treasury and the local administration. An example of the contribution is shown in Table 7 below.

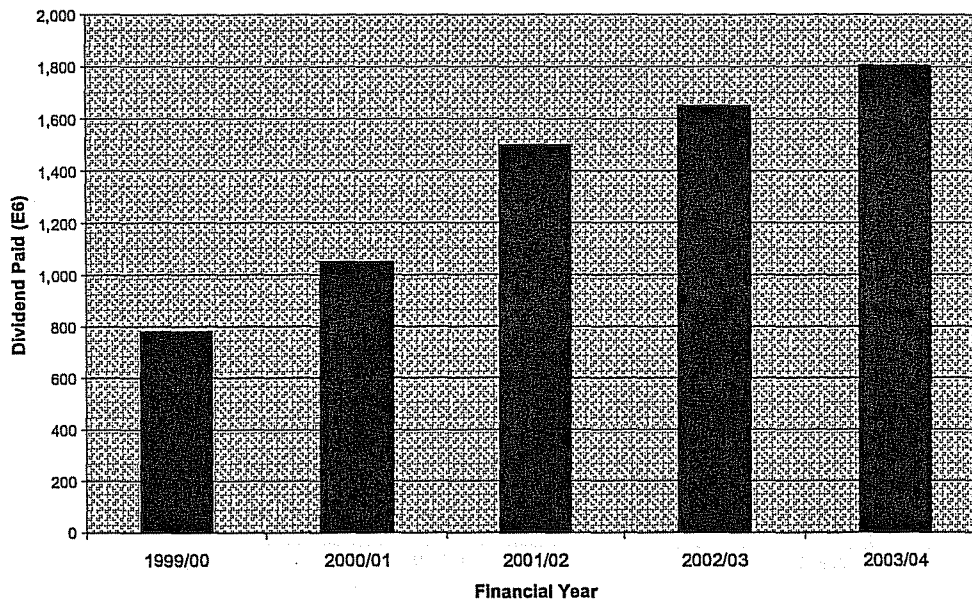
Table 7: KSWL Tax remittance to the Treasury, local administration and local council 2003/04

	Monthly Payments (million)	Annual Payments (million)
VAT	Over Ush 799	Over Ush 9,594
PAYE	Approx Ush 85	Approx Ush 1,020
Graduated Tax	Approx Ush 13	Approx Ush 156
NSSF	Approx Ush 100	Approx Ush 1200
Loading fee	Approx Ush 3.6	Approx Ush 44

Source: KSWL 2005: 2

The company also produces Sugar that saves the government foreign exchange expenditure of approximately US$ 34 million per year. Further still, since 2001, the Company presents a dividend cheque to the Ministry of Finance as summarized (figure 5) below.

Figure 5: Dividend summary



Source: KSWL 2005: 2, New Vision, April 2005

This is an additional contribution to the Ugandan economy of approximately US$ 3,500,000 over five years (KSWL 2005: 2).

4.4 EMPLOYMENT AT KSWL

Table 8: Labour force in KSWL

Year	Total	Permanent workers	%	Contracted workers*	%	Casual Workers	%	Women Workers
1999	3,687	1,503	41	500	-	1,684	-	-
2002/03	3,500	1,800	51	1,700	49	NIL	-	12%
2003/04	3,735	1,800	48	1,700	35	235	0.17	-
2004/05	**3443**	1,752	52	1,691	48	NIL	-	12.7%

Source: IUF and ILC n.d: 31, KSWL 2005

*Appendix C for details of contract employees in the Company by Department and Appendix B to see KSWL at a glance.

From 1999 to 2002 the total number of workers in KSWL remained stable (Table 8). Today KSWL employs close to 3,500 employees, 1502 permanent staff out of which 173 are Ugandan management staff (KSWL 2005).

In 1996, the KSWL board instituted a human resource development plan whose objective was to phase out the expatriates/foreigners who were manning both the managerial and technical positions and also to ensure that KSWL had a sustainable human resource to run the factory and agricultural development[16].

Recruitment at KSWL initially concentrated on mainly unskilled, semi-skilled and artisans required for factory rehabilitation and to progress agricultural work. The years of unrest left Uganda with a shortage of properly trained people (New Vision 1996). The Company thus constructed its own vocational training school 'Training Centre' at US$ 60,000 to train artisans for the company and Uganda in general at City and Guilds certificate level. The sugarcane out growers also benefit from knowledge transferred to them through the company's training workshops.

In 1996, there were 36 expatriates manning key managerial and technical positions. In 2005, this number has reduced to 13 as they have been replaced by Ugandans. It can therefore be said that private management has promoted local human resource development (KSWL, August 2005).

Although the company employees' majority from Masindi[17], there is a huge multiplier effect on Masindi district and the country at large. A substantial amount of money the company pays to employees is retained by the community. The success on Kinyara has enabled other kinds of business linked to KSWL to prosper and grow. As a result industries are attracted to this area increasing the number of job opportunities in the area[18]

4.5 LABOUR RELATIONS

KSWL workers have a trade union (NUPAW joint of Kinyara Branch) in Masindi. It started by 1999 with 3,500 members. ILO commended KSWL for its cordial relationship between the company and the employees through the trade union[19]. The terms and

[16] Field interview, October 2005
[17] Refer to Appendix D for manpower by District and by Department
[18] New Vision supplement, "Kinyara Sugar Works Limited: Going from strength to strength" (April 2005)
[19]Ibid.

conditions of employment laid down in the agreement between KSWL and NUPAW govern and regulate the working relationship and general conditions of employees in grades 7-13 who are unionisable (KSWL 1999).

However, there is an increased use of casual workers on outgrower farms. The introduction of the outgrower farms about 8 years ago and the increasing and casualisation of labour have called the attention of the unions. The expansion of the industry-mainly done through outgrowers farms have been done based on casual work. They are contracted verbally on daily basis at piece rate basis, without any social benefits, protection against pesticides use and compensation for accidents (IUF and ILC n.d: 13).

4.6 CONTRACT FARMING AT KSWL

4.6.1 Contracting Out at KSWL

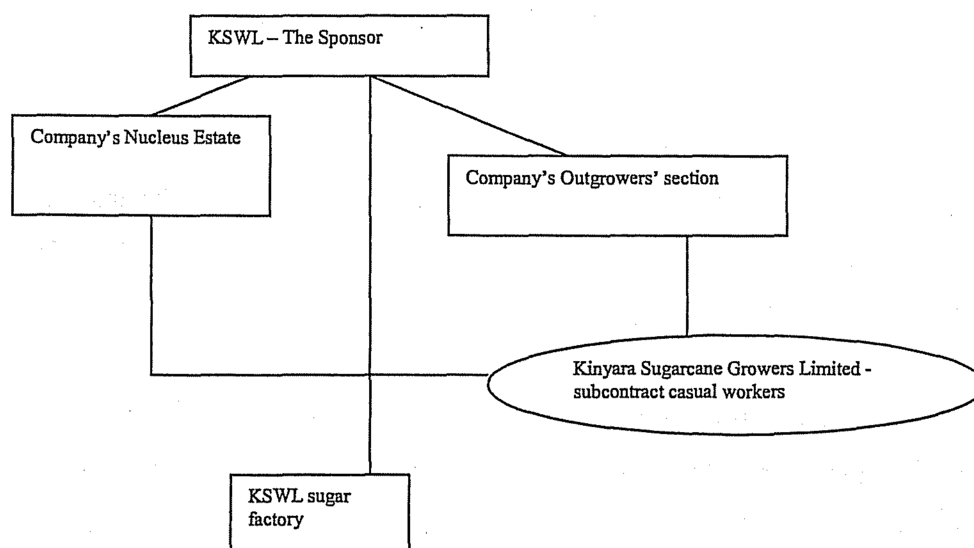
The traditional method to expand production by acquiring or leasing land was replaced by subcontracting sugarcane production. This was influenced by a number of factors: Uganda is facing threats of cheap sugar imports; and the uncertain future under EAC and COMESA regulations leading to speculations. Therefore, sub-contracting sugarcane growing minimizes cost of production in order to remain competitive with the international sugar prices. Contracting-out is one way of minimizing and transferring company costs of production (land and labour) and business risks (production and quality) to the subcontracted producers (IUF and ILC n.d:7).

Also, in view of the fact that KSWL has no intention of extending the Nucleus Estate[20], production steadily increasing (figure 4) at over 50,000 tonnes per annum, and has plans to increase production to 93,000 tonnes per year. Moreover, owners of the previously leased land have preferred to become out-growers rather than continue leasing the land to the company (Booker Tate 2001: 10). It seems that the strategy of outsourcing cane production through the outgrowers' scheme is variable for expansion (KSWL 2005: 1). This is clear evidence that B.T intends to expand production through casualization of

[20] New Vision supplement (April 2005)

labour (out-growers) in cane production. This is competing through violation and avoidance of social responsibility and international labour standards. Figure 6 illustrate Contract Farming Model at Kinyara.

Figure 6: Centralized and Contract farming at KSWL



The figure above shows a mixed component of a centralized "nucleus" plantation and the sugar factory operating contract farming ("outgrower scheme"). The company owns and manages the nucleus estate large enough to supply more than 50% of cane to the mill. Table 8 shows an estimation of cultivatable hectare of cane to the factory.

Table 9: Estimation of cultivable hectare of sugar cane supplying KSWL

Year	Total	Nucleus plantation	%	Outsourcing production Outgrowers fields	Large outsourced estates
1996	4,048 ha	3,981 ha	98	67 ha	2
1999	9,879 ha	7,885 ha	80	1,994 ha	20
2002/03	11,000 ha	6,400 ha	59	4,600 ha	41
2004/2005	12,300 ha	7,100 ha	58	5,200 ha	42

Source: IUF and ILC n.d: 30 and KSWL 2005

The land under out-grower management for cane is currently 5,200 ha having increasing from 20 percent in 1999 to 42 percent in 2004/05 (KSWL 2005: 1). This constitutes

about 35% of the total sugar cane required by the factory[21]. The company plans to expand outgrower participation up to 50% (IUF and ILC n.d: 31). But the fact that 42% of the land is under outgrower, and only 30% of cane is produced shows that outgrower are under producing. Both land and labour productivity is low among the outgrowers. This is an early indicator that the scheme is having negative impact on the environment. Marginal lands are increasingly coming under cultivation because of the forces of commercialization.

4.6.2 The Kinyara Outgrower Scheme

KSWL has over 800 small and large outgrowers on a total outsourcing hectare of over 5,000 ha of cane (KSWL 2005). In this case, an outgrower is an independent farmer producing cane out of the nucleus estate.

Before the fever to grow sugar started in 1997/98 the peasants used to grow maize, sorghum, beans, cassava and fruit crops. They decided to change into sugar cane crop because under commercial farm, KSWL secures the market and this way avoids storage problems of traditional crops (IUF and ILC n.d: 32). This shows that farmers attach a lot of importance to a relatively stable market, because of the social security it provides. The substitution of sugarcane for food crops has a potential of undermining the food security for the poor who have less than 2 hectares, which is the minimal land required to belong to the outgrowers' scheme. Unless such people get employed as workers directly by the industry, their welfare will become worse off.

According to IUF and ILC report (n.d: 31-32) and KSWL 2005, Outgrower section:

- Identify and register small farmers within 15 km radius of factory whose soils and location meet the minimum standards. All contracts between KSWL and the outgrower must be signed by the LC 1[22] to confirm the farmers' right to farm land.
- land of a minimum of 2 ha

[21] Farmers provided 171,459 tonnes (36%) and 233,618 tonnes (36%) of sugarcane in 2003/04 and 2004/05 crop/season respectively (KSWL 2005:4)

[22] The Local Committee 1 (LC) is the political elected committee who has access to correct information about the right to hold land in the area, if it is about customary or lease/rent land. It is an important issue for KSWL because the small farmers who needs aid to grow sugar cane might receive loans and to some extend land holding is the loan security.

- The initial cultivation and seed cane is provided by KSWL, under a credit scheme, the farmer is deducted these input costs from the cane payment after harvest
- The farmer carries out all the risks and costs of growing cane, it is husbandry operations from planting, weeding, cut cane, loading and transporting cane to the factory

Initiated by KSWL, outgrowers created a shareholding company Kinyara Sugarcane Growers Limited (KSGL) in 2002[23]. KSGL cuts all outgrower cane at harvest employing over 300 cane cutters everyday. To become a member of KSGL, each outgrower has to buy a minimum of one share (Ug sh 100,000 each). KSGL has two main objectives:

1. Act as middle man hiring casual workers on members' behalf especially during planting, weeding and harvesting period.
2. Provides extension services and small loans to members.

From the facts in this section, the land poor, who are also normally the income poor, are likely not to benefit from this scheme. They neither have 2 hectares to be members of the outgrowers' scheme nor 100,000 Uganda shillings to join KSGL

4.6.3 Advantages of Outgrower Production

According to KSWL (2005) and IUF and ILC (n.d: 17 – 18), there are benefits for outgrowers:

Farmers have better stable market conditions and incomes selling to a company; potentially higher prices for sugar than for staple food crops, receiving on average Ush 1,000,000 per ha (5 billion per annum); provision of seeds, inputs, transport, credits and extension services for production in growing the sugar crop; contract farming improved living conditions of the outgrower families; and has also contributed to minimized production costs of sugar production at KSWL. The harvesting and being paid at ago acts as a sort of forced saving, that might give some breakeven capital to invest in other areas.

[23] Replaced outgrowers association that lacked funds

4.6.4 Disadvantages of Outgrower Production

In the long term though, there is still a problem of sustainability of benefits to contracted farmers as there is a monopoly dependency to the company. According to IUF and ILC (n.d: 17 – 18), outgrowers are likely to face:

- Delays on payment after harvest between 3 and 8 weeks after closing the outgrower file based on the announced interim price;
- Unilateral estimation of tariff, prices and interests of the inputs and support services granted in advance as loans in kind. The unequal power relations is likely to result in super exploitation of the outgrowers;
- Risk of loosing land by indebtedness. The small outgrower farmers have to accept the company sugar production methods and inputs which are given as loans in kind;
- KSWL actively supports KSGL which seems that the industry's interest is to control the later and their representatives. It also seems that the aim of the industry in promoting those associations is to have a "middle man" to facilitate the relationships and problems resolution between the industry and each of the registered outgrower - reducing costs and conflicts. In short, the outgrowers pay for all would be social-economic costs, the company only rips profits.
- There are no rules of bargaining power with the industry

4.7 CONCLUSION

In conclusion, ever since the company was earmarked for privatization, dividends have more than doubled indicating that it has yet to reach its full potential. Production has risen from 35,478 tonnes of sugar in 1998 to 64,958 tonnes in 2004/5. The company has an operating budget of 50 billions and makes about 10 billions in net profit. However, that there are intervening variables which are responsible for the success of Kinyara. For instance company workers, outgrower farmers, and residents have contributed its success. Outgrowing contracts by the company is a major way in which the company uses farmers to subsidize its profitability and competitiveness. Hence chapter five seeks to find out how these stakeholders benefit from the company.

CHAPTER FIVE: GENERAL OVERVIEW FROM THE STAKEHOLDERS

5.0 INTRODUCTION

Chapter four looked at the company's performance under private management. Records show that the company is performing very well. But it does not take into the interests of the stakeholders. Therefore this chapter looks at issues arising from the interview findings carried (between August 2005 and October 2005) of stakeholders who both contribute and are supposed to benefit from the company[24].

5.1 WORKERS

The company workers (grades 7-13) are entitled to certain privileges like housing[25], medical, training, saving scheme, loans, Health and safety, and 23 days of paid leave and 22 days of sick leave. They are paid on time and salaries are increased at least twice a year. Many of the workers interviewed said that they've had chances of upgrading.

Additionally, since the sugar cane season runs from December to September of the following year. The months of October and November are for general overhauling and maintaince. For the Cane cutters (task workers), in addition to transport allowance are paid 10% gratuity of their gross pay for the period of the contract. But one must have recorded an acceptable tonnage of harvest to be recalled back to work.

Although the terms and conditions of services have been improved which has resulted in the improved standard of living of the workers, the workers feel that the wages and salaries paid by KSWL are still below the market level in Uganda.

5.2 NUPAW

Before the workers trade union started in Kinyara, workers were organized and managed through workers' council. The council was operated by what is known as Personnel manual drafted by the management. This personnel manual was drafted without the input of workers and the people who drafted had no previous experience of the working life in

[24]Field interview by Edward Rubanga research assistant
[25] For those that are not housed get housing allowance

Uganda. It was drafted by expatriates basing on some research mainly on the working life in the rural Uganda.

The work of the workers council was to disseminate information from the management to workers. There was no TU branch and therefore workers had no say to decisions taken as they had no negotiating power.

Because of the above issues, there was a demand for a workers trade union. So in 1998, workers signed a recognition agreement and thereafter a recognized TU (NUPAW) branch was set up. Once established it started negotiating for salary and other terms and conditions of service of workers (Grades 7 – 13). Salaries/wages are negotiated every year.

According to Area secretary Kinyara, NUPAW's mission is to achieve the best possible terms and conditions of employment for the plantation and agriculture workers in Uganda now and in the future. The Kinyara Nupaw Branch commands a 2,370 membership. Besides it operates an open shop allowing freedom of association; whereby workers have a choice to be or not be union members.

The General Secretary[26] of NUPAW commends the cordial relationship that exists between the company and the employees through the trade union. He appreciates the provision of employee's good terms and conditions of employment. The general secretary said that Kinyara employees enjoy the fruits of a well established company in addition to receiving competitive wages and benefits accruing from a large organization[27] (see Appendix B).

5.3 OUTGROWERS

Many of the outgrowers' interviewed had this to say: many of them started growing cane as early as 1999 and their fields are within the 15 kilometer radius to have qualified as outgrowers. Other than cane, most of these farmers grow cassava, maize, and beans mainly for food. 70% have benefited from sugarcane growing as they have educated

[26] Represents workers in Parliament
[27] New Vision supplement (April 2005)

their children, built residential/commercial houses and/or bought land. Also what came out of the interview is that although there is some improvement in the standard of living, there is not enough money for saving.

First, farmers felt that the conditions attached to the loans are harsh. Initially the company develops the land and off sets the loan from the gross proceedings of cane (illustrated in Table 9).

Table 10: **Cost structure for a Kinyara Outgrower family**

	Plant-Harvest	**Ratoon 1**	**Ratoon 2**
Land developments	57%	26%	30%
Transport	18%	31%	28%
Labour	23%	42%	42%
The company gives a loan in kind of 100% of land development required at 24% interest rate a year in local currency.			
The loan has to be reimbursed by deduction at the first harvest. The benefit before tax and trash deduction about:			
Marge before taxes ($)	1139	1.497	1.115
Average per month	98 USD		

Source: IUF and ILC n.d: 33

The loan covers: land development; cane seeds; harvest and transports. All of which are recovered at the first harvest[28]. One farmer had this to say:

> *"Imagine within a period of two years one comes out with a zero profit which is common now days. Many outgrowers are given zero statements".*

Another farmer stated:

> *"Farmers feel that they are not getting enough (29,500= per tonne). If for example one has 3.9ha,with an an average of 100 tons per hectare, after 18 months one gets (3.9x 100x 29,500) giving a farmer 11.5m minus labour loan which cost 11.5mUg shs at the end of the day, on remains with almost nothing. Besides, farmers' cane is weighed in their absence, thus causing some doubt to whether they are given the correct weight. The majority of farmers are illiterate; they do not witness the weighing of the cane."*

[28] After one year and eight months.

The interest rate of 24% per year as an agricultural development loan is too high by all standards to allow farmers after sale to retain enough money to improve their technological basis of production and their standard of living. It is also potentially exploitative to measure the cane of the illiterate farmers in their absence. They are likely to be cheated. That might explain why, while they own 42% of the cane land they are said to contribute only 30% of production. The 12% might be swindled from them using unfair measuring mechanisms.

The president was informed of the ongoing negotiation between KSWL and KSGL for a better cane price which negotiations were fruitless. But the President in his speech in Masindi (June 2005) simply cautioned outgrowers to be careful with the price demand, as too high a price of the cane would result in the collapse of the factory and there would be nowhere to sell the cane[29].

Secondly, although this business pays in lump-sum unlike other available business, farmers believe that the mode of payment (60 days) after harvest is too long. They wish that only if it comes down to 30 days. So farmers in the long-run accumulate debts maintaining families. They may lose even more money on the high interest rate on credit of rural money lenders they acquire against their expected payment from KSWL. Yet the major arguments normally advanced by those who advocate private sector, is that farmers would be paid prompt.

Besides, outgrowers feel that they do not have negotiating power as all powers depend on the company. As far as representation is concerned one farmer stated:

> *"We (outgrowers) have a company called* KSGL – *no longer an association to represent our problems. Instead it is now a profit-making body with shares. They are contracted by KSWL to harvest OG cane charging 2000= per tonne harvested and have also acquired two tractors for ploughing."*

KSGL declined to give information because they are profit making body whose information can easily used by its competitors. However in many ways this is the same

[29] Field interview with one outgrower by Edward Rubanga research assistant, August, 2005

body which was initiated by KSWL with the aim of dealing with outgrowers rather than the company dealing with individuals. Individual outgrowers are not happy with such a move. They look at it as double exploitation. It is easy to observe that KSGL is the handwork of KSWL to internalize the economic, social and political costs of dealing with potential diseconomies of scale, price and other welfare conflicts that arise in dealing with scattered small scale outgrowers.

However, the company has opened up and is registering more farmers. So far they have managed to register more than 1000 farmers and 600 hectares of cane have been planted this year. There is not shortage of land at the moment.

In sum, the risks are not shared between the government and management as earlier noted (chapter three). They are merely transferred to the farmers. The fact that KSWL provides monopoly market of sugar cane means that, farmers don't get the right market price. Moreover, KGWL can't speak on their behalf even when an OG has a complaint. In such a situation KSWL remains dealing with an individual OG. For example, the loans in-kind, permission to grow cane etc. have to be dealt with Outgrower Section. Even when the research assistant wanted to know about outgrowing he was referred to KSWL – OG Section.

5.4 RESIDENTS

With increasing environmental issues, the company tries to make maximum effort to preserve and enhance the environment. This required developing environmental awareness and achieving specific targets in all areas of operation. Specific issues that have received consideration for example include: discharges from the factory are treated in effluent ponds to be use as fertilizer; plant trees; refuse is collected regularly and buried in a carefully controlled hygienic manner[30].

Kabango trading centre has developed because of the presence of Kinyara. Many permanent building have been elected and transport has improved, the purchasing power of the population in Kabango has gone up and lodges and restaurants are always full of

[30] New Vision supplement, "Kinyara resumes production of sugar" (April 1996)

people who have come to buy molasses and sugar. Many residents have market for their produce.

Kinyara in conjunction with the Masindi Local Government has constructed a modern Secondary school where residents can send their children for quality secondary school education.

However, company liquid waste which results from accidental spillage also pour all its waste in the rivers residents of Kabango gets their drinking water. A visit by the research assistant to one of the three wells built by KSWL on 5th December 2001 – is a shallow one within the sugar cane. The borehole is no longer operating so the residents have to fetch water from a protected well with two outlets. On top of contaminating the water, the residents complain of bad smell of such liquids from the company. In short, in terms of environmental quality impact, KSWL has caused water and air pollution.

Although the company has an established programme for planting trees, this has not been extended to outgrower farmers. The LC 3 chairman observed that the environment is being affected as outgrowers especially have cut down trees to plant sugar cane. Moreover, wild life (for example chimpanzees, monkeys, baboons) that eats cane is killed. Unless farmers are being cheated as they suspect of their 12% of the cane, because of the measuring their produce in their absence, the productivity of 42% of the cultivated land producing only 30% of the cane is an indicator of environmental damage. Use of marginal lands is taking place.

5.5 PRIVATIZATION

Management Contracting at KSWL is viewed as an interim measure toward privatization (Republic of Uganda n.d: 32). The company has been prepared for full privatization since 1997. The Kinyara assets are valued at $60m and turnover at $19m and turnover[31] rose from Ushs1.5bn in 1996 to Ushs35.4bn in 2000 (Republic of Uganda 2004: 31).

[31] In Uganda shillings

The resumed privatization of Kinyara attracted eight companies. Bids for the sale of the company, were on November 11, 2005 opened at the PU headquarters in Kampala. The companies include Kagera Sugar and Energy Company (Tanzania), Libyan Arab Foreign Investment Company (LAFICO) (Libya), Deep River Reau Champs Ltd (Mauritius), Rai Group (Kenya) and Madhvani Group (Uganda). Others include: Olam International Ltd (a consortium from Singapore and Thailand), Illovu Sugar Ltd (South Africa) and Industrial Promotion Services (IPS) in conjunction with Transvaal Sugar Company Ltd and Booker Tate Ltd[32].

In 2002, the bidding process of Kinyara was stopped after the PU had spent Shs2b to prepare it for sale[33]. The sale was stopped to allow the government to consult all the stakeholders on the procedure of disposing it. The stakeholders were dissatisfied with the divesture process. Some which include:

At first, Masindi district Local government was opposed to the planned sale of KSWL to a core investor[34]. But now it feels that as much as Kinyara is making profit and paying dividends, it would be better under private ownership. A private company would earn the district more in terms of taxes. In addition, the District supports privatization of Kinyara because it believes farmers, workers and other stakeholders like the Kingdom to buy shares[35]. At one time, a Public School was reported put up for sale by the Masindi District Council also wanting to buy shares in the sugar company[36].

Outgrowers in contrast suppose that the process of privatization means maximizing profits but not serving their (OG) interests (the loan facilities enjoyed will be no more). Some of them (OG) believe that private owners don't deal with outgrowers well. One of the interviewed farmers said that private owners treat outgrowers badly[37].

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[32] The Monitor (November, 2004), "8 Compete for Kinyara Sugar Works"
[33] The Monitor (January, 2005), "Dairy Corp sale not transparent"
[34] The New Vision, (May2003), "Masindi boss opposes Kinyara sale"
[35] Field Interview
[36] The New Vision (October, 2003), "IGG blocks Masindi school sale"
[37] Look at Kakira and Lugazi; it is the outgrowers to transport their cane to the factory

But as one of the farmers put it "a policy is a policy", they can not oppose it. Kinyara farmers petitioned to President Museveni asking him to meet them over the privatization of KSWL. The letter[38] read:

"Your Excellency, we the 'employees' of Kinyara humbly request to meet you in regard to the sale of KSWL. We want 30% shares instead of the 10% allocated to us by the privatization body. We are praying that it is leased and not sold".

Workers on the other hand would prefer the government not to sell Kinyara but because privatization is a policy, they would prefer Booker Tate to buy it. This is an indication of people's desire for security and economic protection. Peasants being low risk takers, they prefer to deal with B.T, even if an evil, it is an evil they know. A number of them are optimistic about share procurement. One worker commented that:

"We workers are not happy about the selling of KSWL because the jobs are not secure. But as it is a policy and we are allowed to buy shares, I think we can experiment."

Bunyoro Kingdom also has concerns about the divestiture of KSWL which need to be addressed. The kingdom "the landlords" demand for 30% of KSWL shares. The kingdom's letter [39] to the Minister of State for Privatization stated that:

"Bunyoro-Kitara Kingdom would like to remind the Uganda Government that the Kingdom has a major stake in KSWL. Let the shares be offered to stakeholders that must include Bunyoro Kitara Kingdom, managers of KSWL, out growers, workers and other interested investors. The divestiture of the company should not go a core investor, adding that in such an event; the investor should be an indigenous Ugandan. The interest of Bunyoro Kitara Kingdom in KSWL, as owners of the land, must be properly acknowledged and its monetary value

[38]The New Vision (May 2004), "Kinyara farmers petition Museveni"
[39] New Vision (April, 2004), "MPs Halt Kinyara Divestiture"

calculated. The monetary value accruing should be transformed into shares in the process of selling KSWL."

Overall, Kinyara is yet to be privatized. Ministry of finance officials declared in June 2004 that the government still intends to sell the plant (New Vision 2004[40]). The proposal is to sell 51 percent stake of the company to a core investor, while the company's employees, outgrowers and the Bunyoro kingdom shared equally 30 per cent, as 19 per cent would be sold through the Uganda Securities Exchange. Prof Peter Kasenene, Minister of State for Privatization[41] said:

"There was resistance at first from sections of the public on how the shares were to be sold, but now we have brought everybody on board".

5.6 CONCLUSION

Although private management has done well at improving the performance of the company, not all stakeholders are getting what they are due especially the OG farmers. They get little from cane compared to what they put in (land, money, time etc.). Subcontracting sugarcane production is one way of minimizing and transferring company costs of production and business risks to farmers. This seems clear that Kinyara's performance in one way or another is due to the poor recognition of OG in terms of payment and other benefits.

[40] Minister of Finance, '*Budget Speech*' (June 2004).
[41] The Monitor (November, 2004)

CHAPTER SIX: SUMMARY AND CONCLUSION

6.0 INTRODUCTION

The study looked at the role of privatize management in PE focusing on management contracting. The study sought to establish if MC can deliver to the government what the government wants. Thus, experiences of privatization - MC in particular were reviewed. Discussions looked at MC effects on profitability, productivity and employment. The study mainly looked at the nature of current operational management and employment and utilization of assets and labour conditions at KSWL and its implications on utilization of assets and labour conditions. From the findings, it can be concluded that there has been improvement in the performance of KSWL. However, the benefits from improved performance have not been shared proportional to contributions by stakeholders. .In this last chapter therefore, I will conclude on these findings, and make recommendations for areas that need further research.

6.1 CONCLUSIONS

Privatization of state-owned enterprises has become an important phenomenon in both developed and developing countries. One of the main methods of privatization is the transfer of goods or services from the public to the private sector, though government preserves ultimate responsibility for supplying the service.

In Uganda, various attempts by the government have been done to improve service delivery of PEs. As part of its ERP in 1986, rehabilitation of sugar industry using MC was given high priority by government. KSWL a state-owned company was contracted out to be managed by BT (a private management consultancy company). The study noted that MCs are vital mechanisms of PE reform, where divesture is lagging behind for political or institutional reasons. They are also viewed as a short-term measure toward privatization. Besides, MCs are used due to the perception that publicly provided services are not particularly effective or efficient.

But this kind of MC arrangement is associated with certain problems[42]. Therefore, it is proper that I reflect back to find out if the private management happened to overcome them and achieved efficiency and overall performance at KSWL. The study was guided by two sub-questions:

a) What impact has the management had on the utilization of capital assets of the estate, productivity and employment?
b) In the light of the above, what impact has it had on direct and indirect workers of KSWL in relation to labour relations, welfare and well-being?

Kinyara has entrusted management to a private operator. The government handed over the responsibility for management of a full range of activities of the company to BT. The government awarded the contract to BT rather than create competition among agents (e.g. competitive tendering and short term contracts) because of BT's long history in Kinyara. A written contractual agreement was done. The Parastatal Monitoring Unit monitors and enforces performance for contractual agreement.

Basing on the objectives set up between the government and BT, management has made the company fully operational. Kinyara has attained "sweet" success namely:

1. Its production was 64,958 tonnes in 2004/5 above factory capacity of 64,000 tonnes. Production is to increase to 93,000 tonnes per annum. This saves the government foreign exchange that would be spent on importing sugar;
2. its operating budget is Ush 50 billions and makes about Ush 10 billions in net profit;
3. the company directly employs approximately 3500 workers and provides services to the dependants;
4. normal 'multiplier' impact on local population through employment (service suppliers), education, and health facilities;
5. provides high quality training to the workers and outgrower farmers;
6. And promotes commercial farming through the outgrower scheme.

[42] for example conflict of interest and problems that arise due to outsourcing

Based on the above evidence of this study, I have no doubt that private management has achieved what the government wants. Therefore KSWL is ready for full privatization. But is privatization necessary?! That is (1) would a continuation of the existing arrangement be more beneficial? (2) Will privatization solve the outgrowers' problems? OG problems include:

i. delays in payment up to 60 days;

ii. one-sided estimation of prices and interests of the inputs and support services granted in advance as loans in kind by the company, which is exploitative;

iii. Lack of a neutral representative body as KSWL actively supports KSGL which is the industry's control as its agency to control their membership and reduce costs; and

iv. Lack bargaining power with the KSWL since KSGL is serving the interests of the former not that of the farmers.

In this case therefore, outgrower cane minimizes cost of production in order to for KSWL to remain competitive with the international sugar prices. As the company is able to minimize and transfer company costs of production and related business risks to the OG farmers.

6.2 FURTHER RESEARCH

While there is a substantive body of knowledge about KSWL, as well as some tentative results on the performance of MC, several more questions need to be answered to enable governments determine and design effective policies aimed at improving the performance of PEs. Further research is needed:

To find out how government and BT share out responsibilities as commercial private agents cannot be expected to assume public responsibility. The nature of incentives compensated by sufficient potential reward, incentives to share out responsibilities

Much of the available research looked at company workers (grades 7-13); further research is also needed on management level (grades 1-6). Although this category of workers receive better benefits than the former, through further reading it was observed

that there is a high rate of labour turnover (see appendix E). There is need to find out why these workers are resigning at a high rate. There is need to review the nature of their working conditions.

Lastly, further research could establish how OG farmers can benefit from growing cane and selling it to a successful factory. Such a research would also have to investigate how best KSGL can represent the interests of the outgrowers leading to a fair sharing of risks and opportunities.

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Appendix

Appendix A: Performance of MCs

Enterprise	Methodology used*	Profitability Improved?	Productivity Improved?
Successful	1	Yes	Yes
Manila Terminal	2	Yes	Yes
Mumias Sugar	1,2	Yes	Yes
Hino-Pak	1	Yes	Yes
Domestic Appliances	1	Yes	Yes
Guyana Sugar Corporation	1	Yes	Yes
SONEG (water)	1	Yes	Yes
SNE (water)	1	Yes	Yes
Shepheard Hotel	1,2	Yes	Yes
Cairo Sheraton	2	Yes	Yes
Nile Hilton	2	Yes	Yes
Sofia Sheraton	1,2	Yes	Yes
Hotel Stadt	1	Yes	Yes
Sri Lanka plantations	1	Yes	Yes
Borderline			
Linmine Guyana	1	Mixed	Yes
Mount Kenya Textiles	1,2	Yes	Mixed
Naga Power Plant	1	Mixed	Yes
State Gold Mining Company	1	No	No
Light Rail (LRTA)	1	No	Mixed
Failures			
Nzoia Sugar	1,2	No	No
Sanata Textile Limited	1	No	

* Before and after comparison =1; cross-sectional comparison =2

Source: World Bank 1995:138

Appendix B: KSWL at a glance and the industry supplies welfare to employees

Minimum salary scale:	73,144 Ush (equivalent to xx USD)
Permanent worker	1502
Contract Workers	1869

Manpower Analysis

Grade 5 and above (Management)	= 88
Grade 6 (Supervisors)	= 98
Grade 7 - 9 (Skilled)	= 388
Grade 10 - 11 (Semi-skilled)	= 624
Grade 12 - 13 (un-skilled permanent)	= 482
Grade 13 (unskilled seasonal)	= 1691
Grand Total	= 3371

Area under cane	11,000 ha
Factory capacity	64,000 tonnes/year aiming for 93,000 tonnes
Number of Outgrowers	800
Cane of Outgrowers	200,000 tonnes/year
Sugar production	57,785 Kg/year
By-products	Spirits, molasses,
Workers' camps	6,000 people living in the estate, 551 housing units
Primary school	the company provides the building, the government pays to 30 teachers. Pupil population of 1773 from within and outside the estate on an annual budget of Ush 40,000,000 (KSWL 2005). In addition the company supports seven other neighboring schools for teachers' supplement and development of school infrastructure
Secondary School	Contributed Ush 240m in the construction of a secondary school near the estate. Clinic & Maternity primary health care only, 2 doctors &midwives, nurses, ambulance but Good results e.g. Malaria fatalities 0.05 per 100,000 cases compared to National average of 8 per 100,000 cases. HIV/AIDS counseling
Safety, Health and Environment policies	
Pleasant working environment Security	
Social amenities	
Sports facilities	that includes Football team in the national super league
Water distiller unit	

Source: KSWL 2005 and National Sugar Conference (October 2004

APPENDIX C: DETAILS OF CONTRACT EMPLOYEES BY DEPARTMENT AS AT JUNE, 2005

GRADE	AGRIC	CO. SEC.	FACTORY	FINANCE	HUMAN RESOURCE	GM'S OFFICE	TOTAL
1	-	-	-	-	-	-	**0**
2	-	-	-	-	-	1	**1**
3	-	-	-	-	-	1	**1**
4	-	-	1	-	1	-	**2**
5	1	-	3	-	1	-	**5**
6	2	-	2	0	4	-	**8**
7	1	-	4	-	-	-	**5**
8	2	-	5	1	1	-	**9**
9	3	-	1	-	1	-	**5**
10	2	-	1	-	44	-	**47**
11	39	-	1	-	18	-	**58**
12	27	-	-	1	9	0	**37**
13	1590	-	39	12	50	-	**1691**
TOTAL	**1667**	**0**	**57**	**14**	**129**	**2**	**1869**

Source: Company records

APPENDIX D: MANPOWER ANALYSIS - DISTRICT BY DEPARTMENT AS AT JUNE, 2005

DISTRICT	AGRIC	FACTORY	CO. SEC.	FINANCE	GM'S OFFICE	HUMAN RESOURCE	TOTAL
ADJUMAN	3	1	0	1	0	0	**5**
APAC	49	22	0	2	0	7	**80**
ARUA	302	76	0	10	1	40	**429**
BUGIRI	1	1	0	0	0	1	**3**
BUNDIBUGYO	1	1	0	0	0	2	**4**
BUSHENYI	7	0	0	1	0	0	**8**
BUSIA	3	3	0	1	0	1	**8**
GULU	74	31	1	2	1	13	**122**
HOIMA	107	24	0	6	0	29	**166**
IGANGA	2	0	0	2	0	4	**8**
JINJA	6	7	0	0	1	0	**14**
KABALE	12	0	0	0	0	5	**17**
KABAROLE	26	5	0	5	0	6	**42**
KABERAMAIDO	2	0	0	2	0	0	**4**
KALANGALA	0	0	0	0	0	1	**1**
KAMPALA	2	2	1	2	2	14	**23**
KAMULI	3	4	0	1	0	1	**9**
KAMWENGE	0	0	0	0	0	0	**0**
KANUNGU	7	0	0	0	0	0	**7**
KAPCHORWA	0	0	0	0	0	0	**0**
KASESE	4	0	0	0	0	5	**9**
KATAKWI	13	3	0	2	0	1	**19**
KAYUNGA	0	0	0	0	0	1	**1**
KIBAALE	16	10	0	1	0	4	**31**
KIBOGA	1	0	0	0	0	2	**3**
KISORO	3	1	0	1	0	3	**8**
KITGUM	319	24	0	5	0	16	**364**
KOTIDO	20	7	0	0	1	3	**31**
KUMI	6	10	0	2	1	0	**19**
KYENJOJO	2	0	0	0	0	0	**2**
LIRA	117	13	0	1	1	5	**137**

LUWERO	3	4	0	1	0	3	**11**
MASAKA	10	4	0	2	2	8	**26**
MASINDI	**857**	**175**	**1**	**27**	**1**	**121**	**1182**
MBALE	27	6	0	1	0	9	**43**
MBARARA	13	4	0	2	0	7	**26**
MOROTO	8	2	0	0	0	0	**10**
MOYO	17	15	0	0	0	3	**35**
MPIGI	10	4	0	3	1	5	**23**
MUBENDE	6	2	0	2	0	3	**13**
MUKONO	9	4	0	0	0	3	**16**
NAKASONGOLA	0	1	0	0	0	0	**1**
NEBBI	96	29	0	4	0	6	**135**
NTUNGAMO	1	0	0	0	0	6	**7**
PADER	118	1	0	0	0	3	**122**
PALLISA	2	4	0	0	0	1	**7**
RAKAI	1	2	0	2	1	2	**8**
RUKUNGIRI	11	0	0	1	0	2	**14**
SEMBABULE	0	1	0	1	0	1	**3**
SIRONKO	0	1	0	1	0	1	**3**
SOROTI	19	9	0	2	0	5	**35**
TORORO	10	3	0	8	1	5	**27**
WAKISO	1	0	0	2	1	4	**8**
YUMBE	6	1	0	0	0	1	**8**
SUB TOTAL	**2333**	**517**	**3**	**106**	**15**	**363**	**3337**
OTHER NATIONALITIES	AGRIC	FACTORY	CO. SEC.	FINANCE	GM'S OFFICE	HUMAN RESOURCE	
BURUNDI	0	1	0	0	0	0	**1**
D.R. CONGO	5	1	0	0	0	3	**9**
EXPATRIATE	2	5	0	3	2	1	**13**
KENYA	0	5	0	0	0	2	**7**
SUDAN	3	1	0	0	0	0	**4**
TANZANIA	0	0	0	0	0	0	**0**
SUB TOTAL	**10**	**13**	**0**	**3**	**2**	**6**	**34**
GRAND TOTAL	**2343**	**530**	**3**	**109**	**17**	**369**	**3371**

Source: Company Records

APPENDIX E: RESIGNATIONS SINCE 1ST JANUARY 2003

S/No	Start Date	End Date	Salary	Grade
1	19/5/1993	10/11/2005	5,724,000	2
2	1/6/1993	27-02-04	2,109,980	3
3	22/11/1995	27/9/2004	967,550	5
4	25/11/1996	22/1/2004	496,900	6
5	26/11/1996	31/3/2004	840,600	5
6	18/8/1997	15/1/2003	2,180,000	3
7	16/3/1998	31/3/2005	1,047,600	5
8	1/4/1998	29-02-04	511,090	6
9	7/9/1998	18/11/2005	2,219,470	3
10	21/6/2000	10/5/2004	900,000	5
11	1/11/2000	17/1/2005	1,274,270	4
12	8/2/2000	31/12/2004	551,980	6
13	23/3/2001	6/2/2005	788,830	5
14	20/8/2001	24/8/2004	556,660	6
15	16/10/2001	31/5/2005	490,600	6
16	15/4/2002	30/9/2004	495,180	7
17	3/9/2002	3/3/2003	434,800	6
18	23/9/2002	14/3/2003	1,426,530	2
19	4/10/2002	21/7/2003	550,000	6
20	5/11/2002	6/9/2005	651,560	6
21	12/6/2002	29/3/2004	469,580	6
22	13/8/2002	24/11/2003	1,202,040	4
23	8/10/2003	19/11/2004	458,500	6
24	11/1/2003	2/6/2005	1,355,400	3
25	15/10/2003	22/10/2004	458,500	6
26	12/12/2003	30/10/2005	641,700	6
27	30/12/2003	3/1/2005	495,180	6
28	24/1/2005	17/2/2005	500,000	6
29	24/1/2005	19/5/2005	500,000	6

Source: Company Records

Note: No names or work numbers for confidentiality reasons.