



State participation and privatization in the minerals sector

Raw Materials Report – Journal of Mineral Business, Policy and Environment is proud to have the opportunity to publish in cooperation with UNCTAD, a selection of the papers presented at UNCTAD's Expert Group meeting on State Participation and Privatization in the minerals sector, which was held in Geneva, from 26 – 27 October 1995. The meeting was attended by experts from all over the world together with representatives of governmental and non-governmental organisations.

The participants represented both industrialised countries, developing market economy countries and countries in transition from a centrally planned economy to a market economy.

Report of the chairman of the ad hoc expert group on state to the UNCTAD Standing Committee on Commodities.

1. The Chairman of the Ad Hoc Expert Group said that the meeting of the Group, on 22 and 27 October 1995, had attracted a group of very senior, very experienced, articulate, and well-prepared participants who were truly experts and who had brought to the meeting diverse and interesting experiences from a wide range of countries: Bolivia, Kazakhstan, Zambia, Brazil, Poland, Chile, India, Morocco, Papua New Guinea, Peru, South Africa and the Russian Federation. Some had reported on privatization exercises already completed, others on why State participation remained a preferred option, and still others on privatization challenges that they were currently facing. They had discussed their experiences with each other and with other experts drawn from the fields of law, management, environment, finance and, perhaps most important, with real practitioners in the mineral industry. It was evident that the subject and the timing of the meeting were directly relevant to the problems facing many countries with a significant mineral sector – which would seem to include an increasing number of developing countries.

2. When all Governments were looking to reduce their levels of expenditure – his own Ministry in Canada had had its budget reduced by 57 per cent over three years – and when well-known institutions were being abolished – one only needed to recall the fate of the respected United States Bureau of Mines – it was absolutely essential that UNCTAD's activities respond to real needs in real ways. A number of questions must therefore be answered in trying to develop an overall assessment of the Experts Group meeting: Were the experts expert? Yes. Were different stakeholder views represented in the room? Yes. Was the expertise relevant to the

subject? Yes. Was the subject relevant to actual public policy and economic decisions being faced by member States? Yes. Was the audience appropriate to the subject and experts present? Yes. Nineteen member States were in the room. For the ongoing debate on state participation and privatization, their presence was entirely appropriate. On the other hand, others were not present when they could have benefited. Would the advice, information and experience represented at the meeting be shared with, understood by and acted upon by the different authorities responsible for privatization? Some of those authorities were in the room and showed every sign of having profited from their experience. On the other hand, it was the responsibility of those present in Geneva to ensure that the results, documentation and contacts made available at the meeting were passed on to capitals. On balance, it could not be said yet whether this criterium had been satisfied. If active steps were not taken to disseminate the results, the benefits of the meeting would be partly or even largely lost. And finally, did this activity take place in isolation, or was it part of a process that would take the process beyond the walls of UNCTAD? This was not discussed at the meeting, but the secretariat had indicated that indeed this activity was not seen in isolation and other activities were envisaged.

3. In conclusion, the secretariat had reason to be pleased with the initiative. Objectively, however, the meeting could not be called an outstanding success. It could more properly be called an outstanding beginning. Whether a future assessment would confirm this initial positive judgement would depend on whether the policy insights discussed and personal contacts developed over the two days were used and built upon where it counted: in those States and capitals where the role of the state or the path to privatization were key public policy issues.

The full set of articles can be ordered from UNCTAD, Commodities Division, Mr Brian Chambers. Fax: +41-22-907 0047.

4. It had been difficult to reduce all the ideas and experiences presented at the meeting into just a few paragraphs; some important nuances were being lost, and some important ideas were perhaps being overlooked altogether. One important caveat: not all of the points reported on would be acceptable to all of the participants. Not all of the statements were necessarily applicable to every State or society. None of the experts had suggested that there was a single formula for privatization, only different approaches that worked best, or had the best potential for success, in different situations. That being said, the following points had emerged from the discussions and presentations of the Expert Group:

(a) State participation in the minerals sector has both a long history and, for some countries, a secure future. Where privatization is envisaged, the major challenge is to resolve the process in an economically efficient and socially equitable manner. In this regard, there is no one path to privatization.

(b) The Group of Experts, drawing on actual experiences, showed that there were compelling but differing reasons for the decisions taken or contemplated. In one case, minority equity participation was most appropriate even though it reduced the immediate financial benefits to the State. In another case, full State ownership is preferred in order not to divert from the private sector the immense amounts of capital required for the purchase of existing state assets; in this case, the decision was to allow the limited capital available to go towards the development of new deposits and the creation of new assets. In a third case, existing State assets are being "capitalized" in such a way as to capture more successfully for the State and society the full market value of State assets as opposed to the book value of the assets.

(c) Regardless of the ownership structure, the transparency of the objectives of the enterprise are of central importance, as are the competence and integrity of the manager or owner. Moreover, whatever the path to privatization or continued State participation, the successful exploitation of the mineral assets will depend very much on the existence of a good legislative, administrative and regulatory framework and clear and enforced labour, legal, and environmental regimes.

(d) Privatization should not be undertaken simply to make up a short-term deficit or to pay off external debt. The rationale for privatization must be based on long-term considerations, to benefit present and future generations; this is particularly important for non-renewable assets such as mineral deposits.

(e) Privatization is a complex and lengthy process. It must be seen in the context of the whole economy and include both macro- and micro-level considerations. It requires a dedicated, sustained commitment on the part of the State, supported and supplemented by professional advisors from different disciplines and sectors of the economy. The process is best done openly and with public involvement. But the final decision and the responsibility for the process still rests with the Government.

(f) Local communities largely or entirely dependent on the mineral activity are stakeholders in the privatization process and they should be involved. A mechanism or process needs to be in place to ensure that local communities benefit from the mineral resource and this mechanism should include planning for the future of the communities after the resource has been exhausted. This is particularly important when the resource may make only a minor contribution to the State treasury but lies at the heart of the regional economy.

(g) Environmental liabilities will inevitably be viewed differently from country to country, depending on national priorities. In any privatization process, the emphasis should be placed on expectations for present and future environmental management and standards. Assessing environmental damage caused by past practices can consume time and resources to little or no productive end.

(h) When privatization is undertaken on an economy-wide basis and involves thousands of enterprises of every imaginable size, such as is the case with the economies in transition, the process will inevitably differ from the case where a single entity is being privatized. However, the role of professional advice to support the political decision-making process and administrative implementation remains.

(i) Decisions regarding the role of the State, and the choices made concerning the degree and form of ownership, are ultimately political in nature. Because of this, and because there are economic and social consequences flowing from those decisions, there is almost always criticism and public debate surrounding every privatization or State participation decision. This is particularly true when the mineral asset in question is a central pillar of the national economy, or when it is the leading economic activity of a particular area. The political objective is nevertheless clear: it is to achieve the most economically efficient and most socially responsible exploitation and use of the natural resource base of the nation. ■