The men in black suits and red ties!

This article was prompted by a statement made in the local media recently attributed to a government minister suggesting that the focus now is primarily on local investors to partner with government in order to diversify and grow the economy – in contrast with the policy to attract Foreign Direct Investment. It seems that Government has since discovered that there is more than enough liquidity in this country that is running idle. True, some of the financial institutions that have hitherto shunned risky lending options and opted for government bonds have now been caught unawares. It is obvious that government has borrowed more than it can afford to repay without difficulty.

And true, the financial institutions are looking for investment opportunities locally. But the difficulty is that there are very few such opportunities. The means of production in this country are owned by the state. With the current economic conditions only government can provide opportunities for investment. Almost all of Foreign Direct Investment that this country has ever attracted has gone directly into state owned enterprises. The mining sector has long been dominated by a partnership between government and Anglo American and De Beers. Some financial institutions, including insurance companies had to ride on the back of government before they established a foothold in the market.

The gripe I have with this government position is two-fold: - it has got only itself to blame for its stunted growth and this doesn't seem to concern anyone. Second, the capacity to undertake long term development planning has since been relegated to the back yard. We no longer have government policies, but the policies of the president – and these include poverty eradication, etc. The viability and sustainability of such projects have not been tested. But their obvious effect is that more and more people have become dependent on government. Even the private sector is also dependant on government projects for its survival.

Now, I dare say that reliance on portfolio investment will not achieve the desired objective of economic diversification and growth. Unlike Foreign Direct Investment, portfolio investment does not create new business opportunities as it relies heavily on investing in existing enterprises. Such investment opportunities would probably be created if only government could implement the privatization policy by selling all the commercial state owned enterprises to the private sector. The local portfolio investors could possibly partner with foreign direct investment to enhance local participation in the privatized entity.

And, that clearly underlies the importance of FDI in economic development. FDI plays an extraordinarily important role in the development and growth of a country's economy. The direct investment in buildings, machinery and equipment differentiates FDI from portfolio equity investment. The latter is concerned more with buying shares in existing corporations. FDI does not only provide foreign capital but it provides domestic economies with sustainable employment, transfer of skills sets and improved productivity levels. Even developed countries are clamouring for more FDI in their local economies. There is no substitute for FDI in the modern globalised world as a source of external financing. The only alternative, if at all it should be so regarded, is international aid, by which developed countries will give handouts to developing and under developed countries to run their economies. And, that is not what we wish for our beloved country.

It is therefore disappointing to notice that instead of creating an enabling business environment, our government is busy manufacturing a dependency syndrome. Local investors have indeed made a lot of money out of government, and perhaps it is time to give back to the community. But I doubt very much that local investors on their own can have any profound effect on the economy.

I support privatisation in its many varied forms and permutations; provided it is informed by proper analysis of the material conditions and it is implemented fairly, openly and as quickly as possible. . The principal driver of privatisation programmes worldwide is the desire to improve efficiency in the delivery of goods and services. When the load becomes too heavy for your back it's better you offload it onto those who can better manage it. Economic efficiency as a primary goal has a distinct feature about it. Goods and services must be delivered in the most economically feasible of means. Consumers of goods and services must also get value for their money; and investors must have a reasonable return on their investment. All other goals and objectives are subservient.

Still, that is not to say am oblivious to the short term effects of privatisation on employment opportunities, especially where state owned enterprises are primarily used as instruments of employment creation. As I have said, the side effects are only short term. But if you wait longer after announcing your intention to privatize SOEs you are effectively encouraging asset stripping. While the nation is busy looking to one man to give them handouts, through a conspectus of social safety programmes a few individuals with proper connections to the powers that be may be seriously enriching themselves out of the national assets especially those that are known to be earmarked for privatisation.

Take the case of BMC where a few firmly connected members of the white farming community have been handpicked to feed cattle for BMC under circumstances that do not bring any return to the commission. The intention can only be to squeeze the commission until its squeaks squeaked no more. Perhaps the proposed BMC amendment act is designed to be a final nail on the coffin.

Personally I am not surprised by government's round about turn. I have long read this thing into the privatisation strategy for BTC. In the name of citizen economic empowerment, sale of shares in the privatized entity will only be made to citizen investors or citizen owned companies. This weird policy and other similar guff have been repeated time and again here and elsewhere to hoodwink us into believing that our government really cares for us. Tell that to the South Africans- and you invite a blue eye.

And, who are these citizens who supposedly are awash with cash? Pension funds, banking and other non banking financial institutions that hardly have any local ownership! What we are doing is effectively to protect them from international competition – and we end up not getting value for money. That probably explains why the road to privatisation has been so long and winded. Have we now found the right men and women in black suits and red ties to do the dirty bidding for us?

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