Asset Management Company (AMC) as a Tools for Positive Contribution Towards Government Finance - Case Study of Botswana Parastatals

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Abstract: Out of P6537.7 million capital employed by ten major parastatals (Public Sector Undertakings) in the total assets for the year 2000, The Government of Botswana participated in equity of P4392.7 million and outstanding loans from Public Debt Service Fund (PDSF), Revenue Stabilization Fund (RSF) and Development Fund (DF) were P2094.1 million (Bank of Botswana, 2001). The return on equity is only 3.5% (Table 1). The funds, which should have been used for other developmental purposes, are locked up and generating a meager return. As the servicing funds are given on a less rate of interest for a longer period, it is not possible for government to get the money back from the parastatals at an early date. Hence, the only alternative available to government is to get the present values of the future money by either selling these loans to private parties by means of issuing Asset Based Securities (ABS) or transferring these assets to a specially created company known as Asset Management Company (AMC) whose main objective is to float the shares both nationally and internationally backed by the assets so transferred to AMC. In this context, AMC is discussed covering the organizational set up, procedure of administration, functions, benefits to & funds contributed by AMC to government finance.

(Key words: Asset Management Company, Privatisation, Securitisation, Government Finance)

INTRODUCTION

Asset management is "an approach that uses manipulation of a group's or organization's strengths, both tangible and intangible, in order to achieve stated objectives" (Jerry, 1983). The main aims of creating AMC in Botswana are to have an effective supervising government equity in all parastatals, to take over PDSF and other loans and to contribute finance to government. This research paper is the outcome of three major objectives contained in the Draft White Paper on the Privatisation Policy for Botswana, "positive contribution towards government finances; increasing popular participation in the ownership of national assets and contributing to the development of the stock market" (Republic of Botswana, 1998).

The Government of Botswana owns a majority of all equity shares of parastatals. In fact, the government is at present the sole owner of almost all the parastatals in Botswana. Out of P10717.0 million GDP (at constant 1993/94 prices) excluding mining and P16866.0 million GDP including mining in 2000/01 (Bank of Botswana, 2001), the Government of Botswana invested P.7618.24 million in parastatals and other commercial undertakings. This accounted for 45.17% and 71.09% of GDP (inclusive and exclusive of mining respectively). The resources of the country are locked up in these undertakings. The government would like to off-load its interest in these undertakings to ignite the growth and development of the private sector, to achieve an optimum efficiency level in service delivery, to increase popular participation in the ownership of national assets by citizen empowerment.

Incidentally, this will also enable the government to secure funds locked up in these assets and utilize them for development purposes without increasing the tax burden of the common man. One of the ways of divesting government's equity and other loans to the public is through creation of an AMC, with the objective of "managing the assets of the public sector undertakings(PSUP) and creating higher value of their stocks in the market" (Bonu, 2001).

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OBJECTIVES

The paper aims at researching the following issues with a view to finding suitable answers:

a) Manner and method of supervision of government equity in parastatals.
b) Resource mobilization within and outside Botswana by creating AMC.
c) Percentage of off-loading parastatals' equity to AMC.
d) Effective valuation of parastatals' equity in the market.
e) Type of professionals needed to manage AMC.
f) The suitability of AMC to Botswana's situation.
g) Possible pitfalls in the system.

METHODOLOGY

The existing literature on AMC and related topics are extensively reviewed. The required data was collected from the annual reports of the parastatals for the last 10 years i.e. from 1991 to 2000. Necessary tables were prepared and analyzed to locate the influence of AMC in the generation of finance to government.

CONCEPTUAL CLARIFICATION

The following key words are extensively used in the paper and hence, it is necessary to define them in the context they are used.

Defined narrowly, "privatisation means transferring the ownership of public enterprises to private buyers. Defined broadly, privatisation encompasses all the measures and policies aimed at strengthening the role of the private sector" (Government White Paper on Privatisation Policy for Botswana, 1999).

Asset securitisation is a technology that is used for pooling certain classes of contractually homogenous corporate assets, typically loans, leases, and receivables, which are then legally transferred (Kane, 1995). A portfolio of loans may be transferred to a Special Purpose Entity (SPE), usually a trust that issues various ownership interests (Perry, 1993). In other words, a transfer or seller-originator has financial assets that it wishes to transfer to a transferee-buyer-investor, usually with the structuring assistance of a facilitator or Special Purpose Vehicle (SPV), to raise new capital by issuing securities varying from bonds to commercial papers (Imhoff *et al*, 1992).

Asset Management Company (AMC) is a company created for managing the public sector assets intended to be transferred to it. Asset Management Company mainly aims at (1) helping privatisation of public sector undertakings, (2) developing asset securitisation and (3) helping government to secure funds for its developmental activities. In this paper, the emphasis is given to the third aim.

LITERATURE REVIEW

Literature on the three major purposes of creation of AMC are namely: (1) a tool for privatisation; (2) a tool for asset securitisation; and (3) a tool for contribution to government funds is extensively reviewed and presented in the same categories.

Asset Management Company as Tool for Privatisation

Glass *et al* (1998) developed a structured methodology in asset management in the area of software and suggested that the control of software assets could be handled in three stages, namely: end-user education process, software administration process and software audit process. Mayer *et al* (2002) examined the privatisation experience of central and eastern Europe and the former Soviet Union. They discussed privatisation acquisition, information on buying from a privatisation agency. McInnes (2002) and Resende *et al* (2002) analyzed the insights of post-developments of privatisation. Watson *et al* (2002) presented a case of public ownership of a public sector undertaking through privatisation. At the same time Baird *et al* (2002) were of different opinion that the influence of private sector actors in ports was growing, the role of public sector agencies also remained significant.

Richet *et al* (2002) investigated corporate governance in China and observed that developed financial markets, bank independence, free press etc., are the required ingredients for the success of privatisation.

In their empirical study, Al-Obaidan *et al* (2002) underpinned that developing countries can increase the utility of their national resources by approximately 45% simply by converting to market-based economies. In the African continent, Mangwengwende (2002) examined the importance of legal and regulatory reform program as a prerequisite for privatisation.

Peev *et al* (2002) were of the opinion that the process of privatisation hampered the transformation of the Bulgarian economy and they identified the reason as the lack of appropriate capital market institutions.

AMC for Asset Securitisation

Asset securitization leads to stock price movements, which develop their own monitoring technologies and cost reduction (Faure, 2002). Morris *et al*, (2002) were of the opinion that corporatization' and 'marketization' are the shorthands for asset securitization and further suggested that the state should retain majority ownership, while acquiring domestic and foreign capital via share listings in foreign and domestic joint ventures since Non-State Market-Driven (NSMD) governance is the new private governance system that might ultimately challenge existing state-centred authority (Cashore *et al*, 2002).

Bel *et al* (2002) analyzed the political and economic objectives underlying privatisation on stock market through AMC. Katz *et al* (2002) explored the development of Voucher Privatisation Funds (VPF) and concluded that lack of coordination prevented the implementation of an efficient outcome of the VPF. Redway *et al* (2002) are of the opinion that it is difficult to find suitable national and international buyers for purchasing the assets taken by the new bank-restructuring agency. They discussed at length the reasons for the failure to achieve several principal objectives of the reforms and suggsted alternative approaches that might be more successful.

As published in the *Business Times* (Sep 10, 2002) securitisation is possible through Asset Management Company. Prime Utilities Bhd placed its RM116.8 million cash hoard with a foreign Asset Management Company, which principally handles property-based investments.

AMC for Positive Contribution to Government Funds

About 10 years ago Hare *et al* (1993) identified the need for the creation of Assets Management Company to run state-owned properties in a more economic and dynamic manner so as to achieve market oriented economy in Hungary.

Chi-Lin Wea (2001) advocated the establishment of Asset Management Company/ Resolution Trust Corporation to help financial institutions to clear off their bad loans. He further advocated for increasing market transparency, creation of Financial Supervision Commission and promotion of mergers. At the same time, an efficient market should exist to absorb the shares of newly created AMCs (Veres *et al*, 2001).

Wills *et al* (1995) suggested that AMCs have to sell the bonds to individual investors by setting up a website on the Internet. Moskowitz *et al* (1994) reported on Maxus Asset Management's plan to introduce a closed-end investment fund. Pavlinek *et al* (2002) were of the opinion that foreign direct investment was the crucial factor for the success of AMC. Reforming the financial services sector and urban consumer are prerequisites for the success of any economic reform (Wei Li *et al*, 2002).

Djankov *et al* (2002) examined the effects of privatisation restructuring in relation to the emerging new owners, competition, hardened budget constraints and policies on managers. Scully *et al* (2002) recommended an in-depth case study before venturing into any type of economic reforms in any country.

Song *et. al.* (2002) suggested that the transfer of state ownership to private ownership is a partial cure of economic pitfalls. The best way is to corpotarize the public enterprise in order to enable government to play the role of planner and regulator (Baaj *et. al.*, 2002).

Too much of government ownership adversely affects the firms' performance and too little may not be good either (Sun *et al* 2002). Wettenhall *et. al.*, (2002) are of the opinion that the need for public enterprise is a new public management and that the only way to achieve this is by the widely accepted means of divestment. The new century requires a corporate model of administering the public sector undertakings (McKinlay, Lane 2002). Williams (2002) examined market reforms through the assessment of government agencies, institutional arrangements and policy-making procedure.

Suliman (2001) investigated the efficiency gains of privatisation in Africa and recommended for collaboration between government and privatized firm.

To save Chinese banks from serious financial fragility due to non-performing loans, the Chinese Government established four Asset Management Companies for dealing with bad loans. Bonin *et al* (2001) recommended transferring the deposits of problem enterprises along with their non-performing loans from parent banks to AMCs.

Many debates are going on around the world to create AMCs. In China, government officials, experts and scholars deliberated and suggested the improvement of state-owned assets of 1.32 trillion US dollars could be possible through regrouping of existing companies.

Djelic *et al* (2000) conducted a survey on the existing AMCs in Europe and found that there still is a market to offer opportunities for profitable growth despite increasing competitive pressures.

The Government of Botswana Participation in Parastatals and Other Institutions of National Importance

Prior to independence (1966), the population and industrial base were very small and it was imperativefor the Government of Botswana to enter in the field of public enterprises to provide social amenities. Almost all public enterprises were established after independence. The Government established public enterprises by Acts of Parliament as legal entities, managed by independent boards where persons chairing the boards were permanent secretaries in government. The government is the sole contributor to the funds of these establishments through PDSF, RSF & DF loans. It established PDSF in 1973. The full details of Government's participation in these institutions are listed in Appendix A, B, C, D & E.

The Need for Off-Loading Parastatals' Equity and PDSF Loans

The need for off-loading government involvement arises from two reasons, namely: the performance indicators of the non-financial parastatals and government policy.

The performance indicators shown in Table 1 clearly give signals for the need to off-load government holding in the parastatals' equity, PDSF and other loans. The average percentage of return on capital employed, return on equity, net profit to sales and debt to equity for the years 1997-2000 are 7.20, 6.20, 15.83 and 35.35 respectively. The returns gradually decreased from 1998 and reached 3.3%, 3.5%, 17.6% and 35.4% respectively for ROCE, ROE, NPTS & DTE in the year 2000.

The National Development Plan 8 (Ministry of Finance & Develop Planning) clearly states the policy of the Government of Botswana regarding commercialization of parastatals. The Plan emphasizes two major areas in commercialization such as the reduction in the reliance on PDSF loans either by repayment or increasing the interest rates at par with market rates. In other words, the plan indicates that parastatals should be self-financing and reduce their dependence on government concessionary aids. It also encourages that the soundest parastatals should secure their funds by floating their own bonds.

The Minister of Finance and Development Planning reiterated the same policy by stating:

> In the past, government has been quite liberal in extending PDSF loans to parastatals at subsided rates since private sources of finance

Table 1: *Summary Operations of Non-Financial Parastatals (P million)*

	1997	1998	1999	2000	Average
Operating Revenue	1214.6	1481.4	1557.2	1611.2	
Net Profit/Loss	196.2	316.0	379.3	433.1	
Long term debt outstanding	1808.2	1813.1	2208.3	2094.1	
Equity	2745.5	52552.3	3096.7	4392.7	
Capital Employed	4091.5	4824.6	5914.6	6104.6	
Fixed assets	3511.8	3554.1	5269.0	5531.0	
Average (Percentage)					
Return on capital employed (ROCE)	6.4	12.0	7.1	3.3	7.20
Return on equity (ROE)	3.2	9.2	8.9	3.5	6.20
Net profit to sales (NPTS)	8.0	17.0	20.7	17.6	15.83
Debt to equity (DTE)	38.7	29.1	38.2	35.4	35.35

The data includes Botswana Agricultural Marketing Board (BAMB), Botswana Housing Corporation (BHC), Botswana Meat Commission (BMC), Botswana Power Corporation (BPC), Botswana Telecommunications Corporation (BTC), Water Utilities Corporation (WUC), Air Botswana Corporation (ABC), Botswana Railways (BR) and Botswana Postal Services (BPS).

Source: Bank of Botswana, Annual Report 2001, Table 7.7, pS75

were not readily available and there was an urgent need to develop the country's infrastructure. However, situation has since changed given the growth in the country's infrastructure and private financial institutions. It is now felt that in the interest of efficiency and further healthy development of the country's financial sector, parastatals and Local Authorities should be weaned away from PDSF loans (Gaolathe, 2002).

To this effect government has already increased the interest rates of PDSF and other loans to 16.25% and hither to was around 6 to 7.5%.

The enactment of Public Procurement and Asset Disposal Act (2001) to conduct all public procurement and asset disposal business of government is to pursue its policy of off-loading its financial participation in these institutions. Meanwhile, the existing PDSF loans will be sold to private financial institutions at a market-determined price through an open international tender. The decision taken by the government is in the right direction so that it may meet its deficit finance of P1620 million (Gaolathe, 2002).

To meet the policy directions stated in NDP 8 and the budget speech of the Minister for Finance & Development Planning, the best alternative is to create an Asset Management Company with the sole aim of making the shares available to the public and the securities of the parastatals through AMC. This process will enable the government to get the loans paid by the Asset Management Company.

Neither in Africa nor in other countries have extensive research been done in relation to the contribution of government funds through creation of AMC.

Historical Background of AMC

The concept of AMC could be traced back to the mortgage-based securitisation (MBS) originally issued in 1970 as Ginnie Mae Securities (USA), and then spread over to UK, and other parts of Europe, Japan, South East Asia, Singapore, India, Latin American countries etc (Ghosh 2000).

AMC as a tool for the successful divesture of government assets is of recent origin. Singapore government has successfully divested its assets through AMC.

There are successful AMCs throughout the world such as in Europe where Mckinsey conducted a survey of 33 European AMCs, which hold a total of $1.2 trillion worth of assets under management - about 30 percent of European third-party assets and confirmed the average operating profit of 21% of the value of assets under management (Djelic 2000). Indian government has proposed to form AMC for divesting its public sector undertaking assets (Finance Minister of India, Press Statement July 2002).

In Botswanathe debates are ongoing about how to divest government assets in parastatals through issuing cash bonds within and out side countries. In this context, it is suggested to form a specific Company titled as an Asset Management Company, mainly to supervise government assets along with other functions.

Functions of AMC

Functions of an AMC are as follows:

- Acquire share capital from within Botswana and outside.
- Invite institutions such as insurance companies, banks etc. both domestic and international to purchase PDSF loans, etc.
- Foreign direct investment is crucial (Pavlinck *et al* 2002) and hence its investment should be broad based.
- Invite global tenders for purchasing its bonds (both asset backed & government guaranteed bonds).
- Function as a Special Purpose Vehicle (SPV) to secure finance by issuing/selling Special Purpose Bonds (SPB) in US dollars so that the Bond rate will be far below the local Pula rate of interest. Clear off the PDSF loans and equity of the parastatals and other institutions.
- To manage its own affairs independently.

Administration of AMC

AMCs should initially be administered by a specialized board of directors, consisting of various professional senior executives with proven merit drawn from the private sector, public sector, members from professional accounting bodies, engineers, banks, insurance companies and trust companies. Once an AMC crosses the gestation period, the shareholders of AMC then should elect the Board.

Benefits to Government Through AMC

Briefly the benefits that are to be derived through AMC are:

- Government gets money from the long outstanding loans and equity of parastatals and other institutions. It is Special Purpose Vehicle to help government to get finance.
- The financial interests are placed in the hands of experts who are independent, experienced and well qualified in the required field.
- Government can succeed in implementing its privatisation programme.
- AMCs work as a vehicle for asset securitisation.

The proposed structure of the AMC is shown in figure 1. The main source of activities of the AMC is drawn from the transfer of assets and long-term loans of a sole proprietor, partnerships, private limited companies, public limited companies and/or public sector undertakings, insurance companies, Trusts etc.

Organizational set up of an Asset Management Company

Figure 1 focuses the organization and operation of AMC. In order to achieve operational efficiency, it is advisable to de-link asset management with other core functions of any organization. One needs expert knowledge in dealing with the securitisation and mobilization of funds from within and outside. Hence a sole proprietorship, partnerships, Private Limited Company, Public Limited Company, Public Enterprises etc., may transfer their assets to the AMC, a specialized institution in dealing these issues. As quoted in the literature review, (Chi-Lin Wea 2001) AMC will clear up bad loans, reduce non-performing loan ratio, and increase the market transparency, effective financial supervision, achieving the economies of scale by merger, shareholding and alliance with other financial institutions.

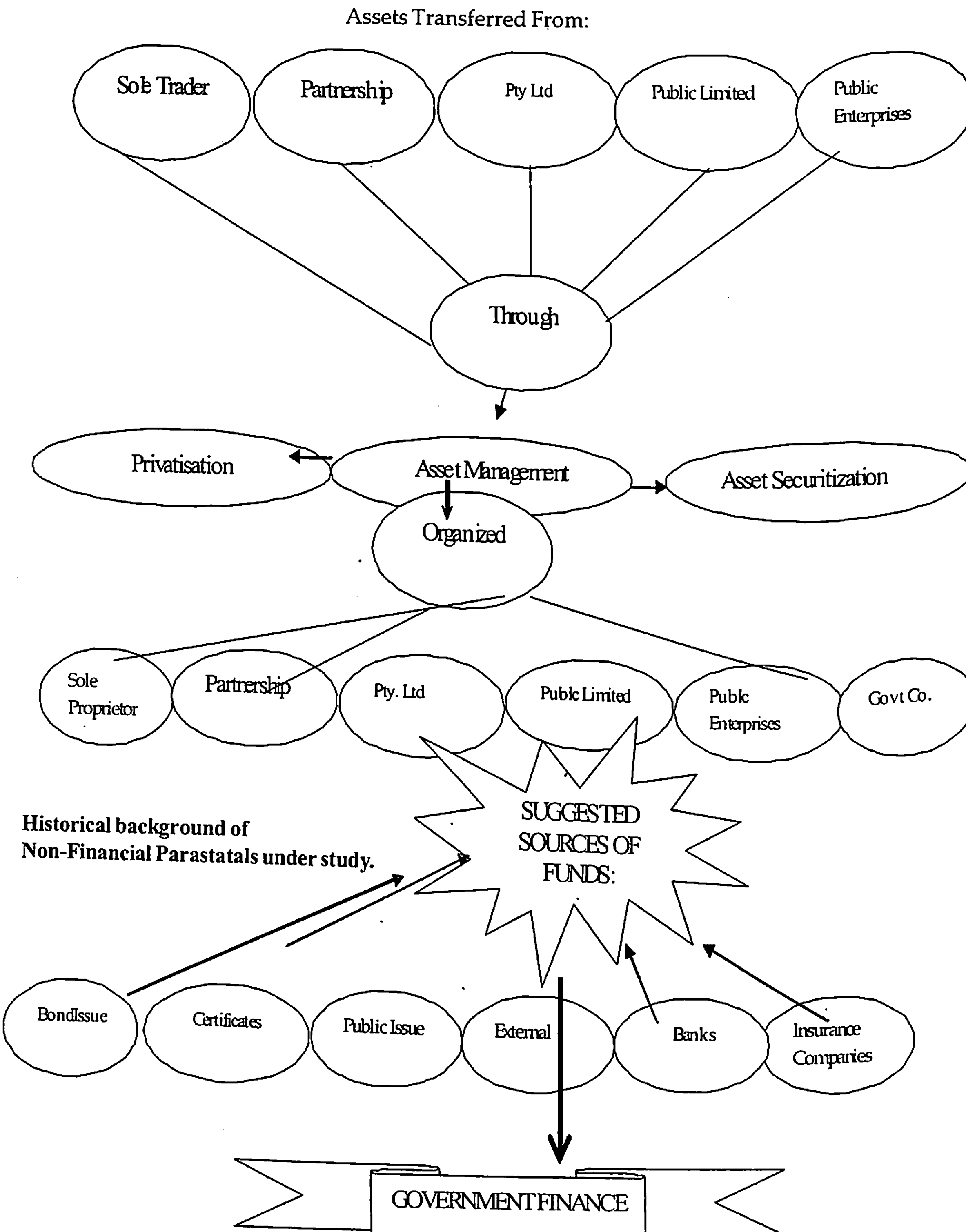

Figure 1: *Organization Chart of Asset Management Company*

AMCs can be established in any form. A sole business tycoon from his family financial background, a partnership by tycoons pooling their wealth and professional skills, private limited company and public limited company, a Government company, a trust company, foreign company. etc, may take up the issue of AMC.

Chi-Lin Wea (2001) suggested the formation of an AMC as a trust company, formed under trust laws, the capital funds can be self-owned or raised from the public, trust company, foreign company, etc. It may be a general subsidiary to a foreign investment company established as a sole proprietorship or partnership. It may be a foreign company's subsidiary established as a limited company. The organization structure should be designed in such a manner that it should not be another state owned enterprise (Bonin *et al*, 2001). The Government of Botswana is planning to off load its PDSF loan book by selling them to private financial institutions at a market-determined price through an open international tender (Gaolathe 2002). Though the system suggested is worth trying, the implications of the system would be; the requirement of specialized skills for assessment of the market value of the book loans, finalization of transfers and attending to the legal requirements to that effect, tracking of the recovery from the bidders, cost involved in this type of operation by Government, etc. Government may be contemplating of disposing off the outstanding PDSF and other loans thorough the Public Procurement and Asset Disposal Board, another government body that is established with the main aim of evaluation and adjudication of tenders. If the disposal of PDSF loans is given to this board, then there will be no flexibility and freedom to it. To enhance market transparency, effective financial supervision and economies of scale, it is suggested to create AMCs, incorporated as public limited companies under the existing Companies Act of Botswana with the major objectives of acquisition of the right over the book loans and connected assets of interested parties - either a sole proprietors, partnerships, Pty companies, other public limited companies, public enterprises, banks, insurance companies, trusts and any other organizations worth consideration. An AMC will have a wider base for capital acquisition and utilize the money in acquisition of book loans with connected assets at a discount based on the present value of future money.

The share capital for this company can be acquired from local and international community, individual and institutional share holdings. Initially, the government should give guarantees to the assets transferred to an AMC, to back the assets transferred by the government. In addition, it is advisable to allow preferential measures to AMCs, such as applying the tax rate of the institutions of Non-Performing Loans (NPLs) or other assets, amortize the loss on sale of the NPLs over five-year tax holidays, auctioning the assets through an authorized auction agency, consultation of the court with AMCs before accepting the bankruptcy or liquidation filing of the debtors (Chin-Lin Wea, 2001). Once an AMC has crossed the gestation period and teething trouble, the government can distance itself from its operations and the preferential rights can then be withdrawn.

The next question is whether government should transfer PDSF in total to AMCs so created or part of the loans. It is suggested to transfer a portion only from the parastatals to AMCs, which take their responsibility for their work and recovery (Bonin *et al*, 2001) due to strategic reasons.

Contribution to Government Finance

There are 27 parastatal bodies in Botswana of which 10 are non-financial, operating on commercial lines, 7 belong to financial parastatals and 10 operating as parastatal institutions. For this study, the ten non-financial parastatals such as Botswana Agricultural Marketing Board (BAMB), Botswana Housing Corporation (BHC), Botswana Power Corporation (BPC), Botswana Telecommunications (BTC), Water Utilities Corporation (WUC), Botswana Live Stock Development Corporation (BLDC); Botswana

Railways (BR), Air Botswana Corporation (ABC), Botswana Meat Commission (BMC), Botswana Postal Services (BPS) are taken into account. The complete list of parastatals is shown in Appendix A.

Historical Background of Ten Parastatals Under Study

A brief history of each Parastatal with particulars of year of establishment by specific Act of Parliament, objectives, the value of assets, government equity and PDSF loans for the 1999 for the historical purpose is shown in Table 2.

The Table 2 revels that almost all parastatals have been incorporated under specific Act enacted after independence. In the introductory discussion we noticed that there is no need for continuation of the financial assistance from government funds.

The analysis of the ten parastatals (Table 2) indicates that 31.18% and 24.35% of the value of assets is out of government equity and PDSF and other funds from government respectively indicating more than half of the assets are out of government funds. The government locked up its capital in these institutions nearly P4 billion in equity and P2.1 billion in PDSF and other funds; i.e. a total of P6.1billion is invested. If the government can transfer one third of such holdings to an AMC and get back financé from AMC in return, the country could avoid the deficit financing in it's budgeting.

Investments and Loans From Special Funds

Column (a) in Table 3 shows the abbreviated names of the parastatals and other organisations to which the Government of Botswana lent PDSF/RSF loans. Column (b) indicates the original value of the loan at the beginning of the

Table 2: History of the Ten Parastatals

Parastatal	Established	Objectives	1999 (Pm) Assets	Equity	PDSF
BAMB	1974	To get market for producers and consumers at reasonable prices.	22.80	22.00	28.20
BHC	1970	To meet the national housing needs in the country.	1141.70	250.00	601.00
BPC	1970	To generate, transmit, supply,& distribution of electricity.	1684.70	145.60	141.50
BTC	1980	To develop, operate & manage telecommunication services.	856.70	23.30	167.90
WUC	1970	To supply portable water supply.	1791.40	557.40	135.30
BLDC	1973	To provide livestock to BMC. To work as subsidiary to BMC.	(a)	(b)	0.40
BR	1987	To provide services to passenger & goods.	882.00	703.00	131.10
AB	1988	To provide domestic and internationals air services to passengers & goods	145.30	35.00	39.50
BMC	1965	To slaughter cattle and market meat in the national and outside.	216.70	(c)	10.70
BPS	1989	To provide national and international postal services.	92.30	38.40	7.70
Total of ten parastatals under study			5692.00	1774.70	1385.20
Govt. funding for other parastatals & institutions			N.A	2144.00	745.80
Grand total			N.A	3918.70	2131.00

Note: (a) & (b) BLDC is no longer operational (c) No contribution to equity
Source: Compiled from Bonu (2000, 2001) and Bank of Botswana 2001.

Table 3: *Present Values as on 31st March 2001 PDSF & Other Loans & Interest*

*Name	Original loan (Pm)	Outstanding loans (Pm)	Lowest loan (Pm)	Highest loan (Pm)	Ave. loan (Pm)	No. of Loans	Interest rate %			Final payment due: Earliest (year)		No. of years	Total interest (Pm)	Int & amount due (Pm)	Discount factor	Present value (Pm)
							Low	High	Ave.	Early	Latest					
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
ABC	42.85	30.57	12.14	18.43	15.28	2	7.5	7.5	7.5	2005	2028	15	34.39	64.96	0.239	15.6
BAMB													0.00	0.00		0.0
BBS	117.00	113.26	0.85	58.48	29.67	7	7.5	9.5	8.5	2012	2018	13	229.46	342.72	0.290	99.3
BHC	516.65	459.34	0.35	29.18	14.77	19	7.5	10	8.75	2004	2023	11.5	282.30	741.64	0.319	236.3
BLDC	1.00				0.00	0	8	8	8	2000	2000	0	0.00	0.00		0.0
BMC	1.50	0.72	0.72	0.72	0.72	1	6	6	6	2007	2007	5	0.22	0.94	0.621	0.6
BPC	81.10	64.95	0.30	16.86	8.58	8	6	10	8	2004	2014	7	38.44	103.39	0.513	53.1
BPS	Nil	Nil			0.00	Nil	Nil	Nil	Nil	Nil	Nil					0.0
BR	20.00	15.93	15.94	15.94	15.94	1	7.5	7.5	7.5	2015	2015	13	15.54	31.47	0.290	9.1
BTC	150.75	164.94	0.26	39.26	19.76	9	6	14.6	10.3	2005	2020	10.5	192.35	357.29	0.351	125.2
WUC	205.31	199.39	0.22	126.00	63.11	12	6	16.25	11.13	2004	2025	12.5	1053.17	1252.56	0.290	362.9
BCB	15.00	5.33	5.33	5.33	5.33	1	8	8	8	2016	2016	14	5.97	11.29	0.263	3.0
BDC	233.84	149.51	1.42	42.00	21.71	17	7.5	14.6	11.05	1996	2022	7	285.50	435.02	0.513	223.3
BNSC	4.20	4.97	1.99	2.98	2.49	2	8.5	10	9.25	2011	2011	9	4.14	9.11	0.424	3.9
BSB	Nil	Nil			0.00	-	-	-	Nil	-	-					0.0
BtecC	4.17	4.24	0.63	1.54	1.09	4	7.5	12	9.75	2014	2017	13.5	5.72	9.97	0.263	2.6
BVI	4.71	4.01	0.16	1.38	0.77	5	9.5	14.6	12.05	2009	2021	13	6.02	10.02	0.290	2.9
FTC	31.05	30.67	0.19	5.41	2.80	19	7.5	14.6	11.05	2006	2022	12	70.46	101.13	0.319	32.2
GCC	31.09	28.10	0.04	5.78	2.91	18	7.5	12	9.75	2002	2017	7.5	38.32	66.42	0.513	34.1
LTC	41.82	43.09	0.50	7.73	4.11	23	7.5	14.6	11.05	2004	2025	12.5	130.66	173.75	0.290	50.3
JTC	8.75	9.33	0.32	2.05	1.18	11	7.5	14.6	11.05	2011	2022	14.5	20.85	30.18	0.239	7.2
NDB	48.82	33.31	0.64	8.78	4.71	3	6	12.1	9.05	2005	2020	10.5	13.42	46.73	0.351	16.4
FNB	124.00	120.56	0.84	38.49	19.67	11	7.5	9.5	8.5	2012	2018	13	239.05	359.61	0.290	104.2
SPTC	27.69	21.81	0.01	6.50	3.26	21	6	14.6	10.3	2002	2021	9.5	66.92	88.73	0.424	37.6
STA	5.54	6.75	0.19	3.12	1.66	6	14.6	14.6	14.6	2018	2023	18.5	26.83	33.58	0.164	5.5
UB	11.26	5.54	1.20	4.34	2.77	2	7.5	8	7.75	2014	2015	12.5	5.36	10.90	0.290	3.2
TOTAL	1728.7	1522.34	44.22	440.30	242.2	207	7.58	11.57	9.575	2002	2023	12	2765.0	4281.4	0.319	1428.3

Source: Compiled from Accountant General, Ministry of Finance and Development Planning, Republic of Botswana, Annual Statements of Accounts for the Financial Year ended 31st March 2001, Statement 8, p. 380-385.

financial year, i.e. 1 April 2000. Column (c) shows the outstanding loans as on 31st March 2001 after taking into account the addition of any interest due, new loans and deduction of repayment during the year. ,

Columns (d) & (e) highlight the lowest and highest loans from the number of loans taken by a specific institution. Average loan is shown in column (f), taking into acount the principle of lowest loan plus highest loan divided by two. Column (g) represents the number of loans taken by the specific institution.

From the different interest rates of different loans taken by the institution, the lowest rate (h), highest rate (i) and the average of these two (j) are shown.

Columns (k) and (l) represent earliest and latest year of payment respectively. Column (m) represents the number of years due. The principle for calculation of the weighted number of years due is: (Earliest year of payment - 2002) + (Number of years due for the latest loan from the earliest year of payment/2). To illustrate the principle for ABC (2005-2002) + (24/2) = 15 years.

Column (n) represents the probable interest that the Government of Botswana will be getting if the loans continue as per the schedule of agreement. The interest is derived from the following principle:

Average loan X No. of loans X Average interest X Number of years
N = f x g x j x m
P15.28million X 2 X 7.5% X 15
= P34.39m

Column (o) represents the total amount due to government inclusive of interest calculated as per column (n) and outstanding loan as shown in column (b) = P34.39m + P30.57m = P64.96m

Column (p) represents the discount factor at average inflation of 10% (Central Statistics Office 2000) for the 15 years (m).

Column (q) indicates the present value of the future inflow of cash to government from these loans. The total present value of future payments is P1428.3m. where as outstanding amount is P1522.34m. If the government could get a sum of P1428.3m out of the total amount due, there will be no loss or gain to it. It is worth to highlight form the Accountant General, Annual Statements of Accounts for the period ending 31 March 2001, the following points before taking up the issue of AMC as a tool for the positive contribution towards government finances.

- There are 26 borrowers and each loan varied from P0.72 m (BMC) to P459.34m.highest (BHC).
- The number of loans is 207.
- Lowest interest rate: 6% and highest 16.25% (both are traced from WUC).
- The earliest clearance of a loan due is 2002 (GCC) and latest is 2025 (WUC).
- Maximum period (average) 18.5 years loaned to STA, followed by ABC for 15 years and the lowest period is 5 years for BMC.
- WUC has to pay a maximum interest of P1053.1m and the lowest, P.0.22m, is by BMC.
- The total interest and principal amount that will be paid in due course will be P4281.4m.
- The average inflation rate is 10% for the last 10 years.
- Inflation factor as a benchmark, the discount factors for PV are calculated in accordance with the average period of payment.
- The total PV for the sum of principal and interest is P.1428.3m.
- The principal amount due is P1522.34.
- Government can offer a discount of 6% i.e. (1-1429.3/1522.34).
- If Government gives guarantee of recovery of loans, the loans can be sold at par.
- The current policy of government is to give loans at Bank rate (14.25% since Oct. 2000) plus 2.5% to non-financial parastatals and at Bank rate to financial parastatals. If this policy is taken into account, then the probable higher interest rate is 16.75% (14.25 + 2.5). In place of the average interest rate of 9.575 (Column (j)), if 16.75% is applied then we get an interest of P.4840.04m. Inclusive of the principal amount, the total amount due will be P6359.08m. The

average discount factor (p) 0.319 is to be applied. Then we get PV of P2028.53m. Then government should sell at 133.25% of the book loan (P.2028.53/1522.34m).

- Government participation in equity in the year 2000 was P.6095.9 million (BOB AR 2001, S74)

The above analysis is presented in Table 4 to highlight the flow of finance to government for various options.

The first option deals with the decision of selling at 6% discount. Government may decide to dispose off the whole holding or partial holdings based on the merits and strategic issues of each institution. This option holds good to attract the buyers (AMC) to allow the company an immediate benefit. In this option the finance to government will be P7161.1m, P5370.9m, P 3580.5m, 1790.3 m if government desires to off load its holding 100%, 75%, 50% and 25% respectively.

Option 2 deals with sale at par as government gives guarantee of recovery of the loans from the institutions. Then the flow of finance will be P7618.2m, P5713.4m, and P3809.1m, P1904.5 m if government desires to off load its holdings 100%, 75%, 50% and 25% respectively.

Option 3 deals with the sale of holding at 133.25%, based on the new policy of higher interest rates, then flow of funds will be P10151.3, 7611.5, 5075.7, and 2537.8m respectively for off loading 100%, 75%, 50% and 25%.

There is another way of measuring the market value of PDSF loans and equity, taking into account the average rate of interest that is quoted in issuing Bank of Botswana Certificates varied from 12.5 to 13.55% (as decided at auction), Botswana Building Society 5 year bonds at 14.75%, BDC bonds at 14.25%, Investec Floating Rate Note 14.50%. It is suggested to take the average market interest rates of all Bonds and Certificates issued to date around 14.00%. Then, in place of the average interest rate of 9.575 (Column (j)), if 14.00% is applied then we get an interest of P4042.82m. Inclusive of the principal amount, the total amount due will be P5562.16m. The average discount factor (p) 0.319 is to be applied. Then we get PV of P1775.29m. Then government should sell at 117% of the book loan and equity (P1775.29/1522.34m).

The book loans and the equity are to be sold by government to AMC at 94%, 100%, 133.25% and 117% respectively if government decides to off load its interest at the various options discussed above.

Taking into account of recent Moody's credit rating of Botswana for foreign currency debt as A2/P-1 and foreign currency bank deposits as A2/P-1, issuing rating for foreign currency as A2, A2/P-1, issuing rating for domestic currency as A1 and their reflection for domestic currency as A1 and their reflection as superior to that of comparably rated sovereigns (Kristin et al 2002), The Government of Botswana has a better bargaining capacity to secure a price at higher rates than what the above analysis arrived at. Subsequent to the publication of these ratings, a strong positive sentiment has been generated in financial markets in the region and abroad about Botswana (Gaolathe 2002). One can take up further research on the probable effect of these ratings in the pricing of the transfers to AMC. At this stage of research one could conclude that as the credit rating is excellent, government can get the shareholders for AMC internationally.

Table 4 : *AMC Contribution to Government Finance From the Transfer of Loans & Equity (P. million)*

Holdings	Option 1, sell at 94%			Option 2, sell at 100%			Option 3, sell at 133.25%		
	Loan	Equity	Total	Loan	Equity	Total	Loan	Equity	Total
Whole	1431.0	5730.1	7161.1	1522.3	6095.9	7618.2	2028.5	8122.8	10151.3
75%	1073.3	4297.6	5370.9	1141.5	4571.9	5713.4	1519.4	6092.1	7611.5
50%	715.5	2865.0	3580.5	761.2	3047.9	3809.1	1014.2	4061.5	5075.7
25%	357.8	1432.5	1790.3	380.6	1523.9	1904.5	507.1	2030.7	2537.8

CONCLUSION

It is seen around the world that AMC acts as a SPV, equipped with modern technology to deal the recovery of both good and bad loans. It creates an international image by its transparency, commitment, and group expert knowledge.

AMC- type of organisations, elsewhere in the world, have proved beyond doubt that they can in assist governments to get reasonable amounts for their holdings. AMCs have worked as tools for developing a capital market in Botswana and are a vehicle for privatisation (Peev *et al*, 2002).

The suggestion that government should retain majority ownership while acquiring domestic and foreign capital (Cashore *et al*, 2002) can be attended to through AMCs.

It is suggested that government has to transfer a partial share of its interest to AMC due to strategic reasons. Government should float its bonds, simultaneously backing on the left over interest. This system will create a healthy competition than keeping all eggs in one basket. AMC cannot become a dictator and speed breakers can be applied with this type of competition. As partial burden of government is transferred to AMCs, it can act as a planner rather than as a player (Baaj, *et al*, 2002).

As seen in Table 1, there is a case for transfer of government interests in the parastatals due to the average poor performance of non-financial parastatals. The ROCE is 7.2%, which is far less than the market interest rate, which is 14.25%.

The vehicle available for such transfer is AMCs, which can be in any form, but the best form will be an incorporated company under Botswana Companies Act. The majority of the shareholders will be individuals, financial institutions, trusts etc both from Botswana and elsewhere. AMCs are in the central position of attracting funds from sole proprietors, partnerships, private and public limited companies, public enterprises, trusts, insurance companies and other funds from Botswana and out side the country and attracts funds from similar sources and pay to government (Figure 1).

As of today, government had locked up nearly P4 billion in equity and P2.1 billion in PDSFs and other funds. If government can transfer one-third of such holdings to AMCs, it can get enough finance to meet its budget requirements.

The analysis of Table 3 revealed that government could get immediate money by applying the principle of present values of future money. The average inflation rate from the last 10 years is 10%, which can be taken as one of the factors in calculating the discount factor. Multiplying the factors (for any institution) such as the average outstanding loan (f), number of loans outstanding (g), average interest rate (j) expected number of years of the loan outstanding (m); we get the interest due from that specific institution (n). This sum will be added to the loan outstanding (c) so that we get the sum of loan and probable interest due over the period of loan (o). This figure will be the basis for application of discount factor at 10% taking into account of the probable period of the average loan outstanding. The sum total of all these figures is taken, as the basis for the decision making at what rate the assets will have to be sold.

The analysis of Table 3 and Table 4 revealed that government could sell at 94%, 100%. 130% and 117% respectively, taking into account the PV of the future in flow, government guarantee, at the current lending rate to parastatals and the average current market rates of interest. If the strategic factor is taken into account, the amounts received will be in proportion to its off loading. Depending upon the decision of Government, the amounts that are to be received from AMC varies from P1790.3 million to P9903.7 million.

The recent excellent rating will be a further feather in the hat of government and stands at better bargaining capacity globally. In order to develop and retain the public confidence in AMCs, it should disclose the full information of their operations in a website showing financial information such as the balance sheet, income statement, profitability returns, liquidity ratios, market risk sensitivity ratios and other management information. By getting favourable credit rating from international credit agencies such as Standard & Poor (S&P), Moody's and Thomson Bank Watch, AMCs will improve its image in the global context.

AMCs should attract/encourage local financial institutions such as banks, insurance companies, funds (159 Funds, covering 52502 registered members), etc to become their shareholders. This will enhance the credibility of AMCs to attract higher quotes from national and international bonds.

Limitations

In this paper equity and PDSF loans are taken at par for the transfer to AMC. If an AMC buys only part of equity, such equity generally should be valued separately based on the principle of capitalization of expected future maintainable earnings, presuming that the transfer is as going concern. Then, government will get different amounts according to the potential earning capacity of each public enterprise.

If an AMC buys total assets of an undertaking, the fair method of valuation is cost of the revalued fixed assets minus depreciation. For this study, the two limitations stated above will be outweighed when compared to the advantages that are received specially the transfer price so calculated based on my theory will act as a benchmark equity price for further divestment to the citizens. In the case of Botswana, privatisation has a number of important socio-economic objectives like, citizen empowerment and capital market development.

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