

PRIVATISATION AND PRODUCTIVITY

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ABSTRACT

Since the government of Lao P.D.R has introduced a policy of a market oriented economy in all aspects of the economic sector, especially in the transport industry there have been significant changes in terms of the number of operators entering markets (service providers) and the quality of the services. To make the transport industry of the country become more competitive, the government has implemented privatisation of state transport enterprises. This paper focuses on privatisation and aims to investigate the success or failure of the state automobile transport enterprises with regard to management, as well as the issue of improving productivity . The paper describes in brief the historical background of the transport industry in its various stages of development, starting with the previous regime (regulation) before 1988 and then looking at the current transport situation in the country (deregulation), with a particular focus on the advantages and disadvantages of the privatisation of the state automobile enterprises. The issue of ownership and productivity is discussed in detail in the context of Laos. The paper concludes that privatisation in this area has been partially successful but there is a need for government intervention, especially in the early stages of privatisation when there should be a requirement to set a target in terms of repayment for the government assets.

1. INTRODUCTION

Privatisation and increased competitiveness still remain an attractive option for the governments around the world who strive for greater of efficiency. They are a learning process for the government and analysts, as is the relationship between the utility regulators and the more general pro-competitive institutions and legislation. In the case of Lao P.D.R, privatisation of the government transport enterprises (GTEs) is one of the main strategies of the government to ensure its programme moves towards to deregulation in the transport industry. Due to lack of experience in privatisation, it is inevitable that some mistakes have been made even though there has been valuable assistance from technical experts. Besides this, the application of the experience of other countries cannot be directly put into practice

without taking into consideration the situation of the country. As regards privatisation, it means that the GTEs can operate purely on a commercial basis and the government authority intervenes through rules and regulations.

The privatisation of GTEs has been a new challenge for the government to bring the transport industry into a new era and make these state enterprises self accounting. That is the transfer of ownership of the assets of the enterprises to a private sector. The question is whether the government should accept selling its 'property' ? However, the government has placed a great emphasis on retaining ultimate ownership in Lao hands. The important issue is ownership versus productivity, and is whether higher productivity can also be obtained handing over these assets to private ownership.

It appears that the need for privatisation of GTEs not only comes from the government itself but also comes from the transport industry if it is going to survive in the fast-changing demand and structure of the market.

2. HISTORICAL BACKGROUND OF TRANSPORTATION

Basically transportation in Lao P.D.R can be divided into two main periods, namely the regulated period which continued until the early 90s, and the deregulated period which has been implemented from the early 90s until now. The dominant mode of transport in the country is road transportation, which shares 91 percent of total freight ton-km and 95 percent of total passenger-km.

Up to 1989 there were 4 major state transport enterprises dealing with general cargo and fuel products between provinces and between Laos and its neighbouring countries. The major clients for companies dealing with the transportation of goods were the state organisations, which gave priority to state-owned companies rather than those private owned companies. The haulage of timber and timber products are the main types of goods dealt with by the trucking companies. This is also the main cause of low utilisation of the fleet because of the extended loading and unloading times for timber. A central planning economy is an integral part of socialist policy, so the government invested in the trucking industry with the aim of facilitating the movement of the commodities which were monitored and supervised by the central transport authority. Although during this period there were some private trucking companies, they were heavily regulated by the state in terms of fares, operating plans and market entry. Table 1 below shows the number of vehicles in the five government trucking enterprises.

Table 1. Statistic of Vehicle Fleet of 5 State Transport Enterprises in 1988

Series No.	Name of the companies	Number of fleets
1	Auto transport No.1	388
2	Auto transport No.2	177
3	Auto transport No.3	14
4	Auto transport No.4	50
5	Auto transport No.5	n.a

Source: Department of Transport

Most of the vehicle fleets utilised for transportation during this period were from the former Soviet Union and Japan as follows:

- Kamaz 3 Axle, Capacity 10 Tons
- Maz 2 Axle, Capacity 8 Tons
- Zil 2 Axle, Capacity 6 Tons
- Izusu 2 Axle, Capacity 6 Tons
- Izusu & Hino articulated 18 tons

The new phase of transport development in Lao P.D.R which was introduced in the late 80s is characterised by the introduction of deregulation policy in the transport sector that removes the barrier for entering markets with the aim of promoting competition in this sector. Privatisation is an integrated part of economic reform of the government policy, which aims to liberalise and promote competition in all type of industries. As a result of this policy, most government transport companies were subjected to privatisation, especially the companies which were not economically efficient except some transport companies considered as core strategic companies depending of the nature of their operation. At the same time, the implications of this policy are that it positively affects the number of private transport operators entering the markets. In addition, the role of the government also changed, in that it no longer fixes or controls prices, and is mainly concerned with data collection, monitoring of vehicle operations, safety and prevention of illegal activities. There are a number of private operators providing services in cargo transport competing with each other by adopting different strategies such as price and logistic services. For example, in Vientiane municipality alone there were more than ten transport associations who specialise in providing services in cargo movement in domestic as well as international operations.

3. OVERALL PERFORMANCE

Privatisation has taken place in the transport industry, aiming to promote competition and high productivity among the privatised transport enterprises. The question is whether this is the best means to achieve the set objectives. In other words, should the government accept to sell its 'property' ? The main argument for privatisation is accountability. When someone manages public money it is more likely that the accountability is lower than his/her own money.

It is common for privatisation of individual enterprises to be justified for some of these reasons:

- Achieve higher flexibility of management which leads to greater efficiency
- Provide higher incentives for improved financial management
- Provide opportunity to introduce private management methods
- Attract new capital resources
- Access to new technology and techniques

One of the main factors in favour of privatisation is that it has been found difficult to maintain standards of management in public enterprises, as the public sector performance efficiency is often lower than that in the private sector. The table below shows a record of operating costs of state owned enterprises and a private company. The figures indicate that a private company has a higher net profit the those state owned companies.

Table 2. Monthly Cost Comparison, Freight Transport

Series No.	Items	Auto Lao Transport No1	Fuel Distribution Co.	Private Truck Fleet
1.	Number of Vehicles	35	43	12
2.	Revenue (Net of Tax) in Kip	9,386,800	14,728,256	16,075,000
3.	Number of Km operated	52,266	84,714	43,200
4.	Salaries and Wages in Kip	2,213,494	2,998,785	1,192,500
5.	Fuel costs in Kip	3,349,812	7,968,385	4,644,000
6.	Lubrication in Kip	214,250	439,900	288,000
7.	Tyres and Batteries in Kip	541,000	1,380,000	2,710,000
8.	Maintenance in Kip	1,491,436	2,316,272	994,000
9.	Licenses	78,000		
10.	Other	759,465	263,325	25,000
11.	Depot/Buildings in Kip	91,250	70,810	
12.	Depreciation in Kip	413,200	87,667	3,600,000
13.	Total costs	9,151,907	15,525,144	13,453,500
14.	Operating cost/Km in Kip	167,20	181,39	228.09
15.	Total Cost per Km in Kip	175.10	183.27	311.42
16.	Profit before tax	234,893	(796,888)	2,621,500

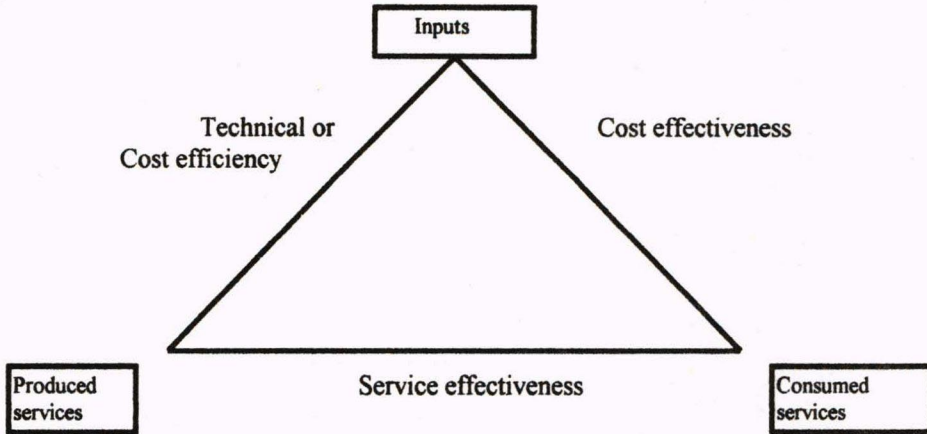
Source: ADTA 1994

One of the main problems related to cost accounting of providing transport services is that owner drivers do not keep any records of costs, and appear to base their charges on what the market offers. This has led to unfair competition between the competing state and private companies, that apply a proper costing structure including administrative costs. In other words, owner drivers ignore the provision for renewal or replacement of vehicles.

Although the managers of these transport companies have made an attempt to make their companies more competitive, they are still trying to identify which measures would be accurate to help them to understand whether their companies need to improve performance or not.

4. PERFORMANCE MEASUREMENT

A general concept that a lot of literature supports in evaluation of the performance of a company can be illustrated as follows:



When considering a quantitative measure of the overall relative productivity of a transport firm, it is also worthwhile to identify the influences which help us to understand the differences in overall productivity. These influences include ownership, subsidy arrangements and service delivery conditions. Contextual differences, such as the size of the fleet utilisation, incentive policy and work practices, can explain some of the differences. Being able to identify the extent to which sources of difference are under the control of the operator or are the consequence of uncontrollable external factors is important in identifying strategies by the operator and government/regulators which are commensurate with improving productivity.

The cost efficiency category which relates service inputs to service outputs for the three former transport enterprises in Laos can be analysed in terms of three indicators: (1) total cost per vehicle kilometre, (2) average generated revenue per vehicle and (3) total cost per vehicle, as shown in the table below.

Table 3. Statistical Performance of Four Transport Companies before Privatisation

No	Items	Auto transport No.1	Auto transport No.2	Lao freight forwarder	Mixed society transport
1.	Number of vehicles owned	53	n.a	5	2
2.	Number of vehicles operated	28		5	-
3.	Number of vehicles out of use	25			-
4.	Number of staff in the company	83		39	55
	* administrative	20		34	8
	* drivers	37		5	10
	* mechanics	19		-	0
	* other	7		-	37
5.	Total volume of cargo in ton	8.825		34.110	-
6.	Total freight movement in ton/km	2.502.526		-	-
7.	Total length of trucks running in km	709.333		-	-
8.	Total length of trucks running with cargo in km	390.133		-	-
9.	Total generated revenue	105.799.276		1.493.107.362	464.314.950
10.	Total expenditure costs	102.799.276		1.412.909.403	455.007.374
11.	Profits	2.545.534		80.187.959	9.307.576
11.	freight rate in t.km/Kip	42.28			

Source: Dept. of Transport

The method of acquiring information was through sending out interview forms to five transport companies who used to operate under government supervision. During the time these forms were collected the interview was also conducted with the aim to get a deeper understanding about the opinion of the management of the company. Only three companies responded to the questionnaire. The Lao Freight Forwarder company (LFF) and the Mixed Society Transport company (MST) had greater turn over than the Auto transport No.1 company because of the fact that the two companies involve in logistic services and shipping business. The figures in Table 3 serve the function of base line data for comparing the effectiveness of privatisation.

Table 4. Statistical Performance of Four Transport Companies in 1998

No	Items	Auto transport No.1	Auto transport No.2	Lao freight forwarder	Mixed society transport
1.	Number of vehicles owned	23		5	14
2.	Number of vehicles operated	15		5	12
3.	Number of vehicles out of use	33		0	0
4.	Number of staff in the company	49		50	69
	* administrative	10		45	10
	* drivers	18		5	26
	* mechanics	15		-	0
	* other	6		-	33
5.	Total volume of cargo in ton	9.297		59.750	23.000
6.	Total freight movement in ton/km	1.910.318		-	1.987.200.000
7.	Total length of trucks running in km	349.791		-	146.880
8.	Total length of trucks running with cargo in km	192.385		-	86.400
9.	Total generated revenue	91.408.685		6.800.913.254	2.596.508.209
10.	Total expenditure costs	90.102.844		6.612.458.014	2.561.401.384
11.	Profits	1.305.841		188.455.240	35.106.815
11.	freight rate in t.km/Kip	47.85			

Source : Dept. of Transport

5. THE FINDINGS

In analysing the data that has been collected, converting these figures from Kip to US dollars is made with the aim of making it easier to compare the financial performance of the company at various points of time. As we are all aware, the Asian economic crisis has affected the nations in this region severely, and Laos is also a victim of this crisis. Consequently, high rate of inflation of the Kip still remains. As mentioned earlier that because of LFF and MST companies specialise in providing logistic and shipping services therefore it is will not suitable to compare a financial performance of these companies with the Auto transport No.1 company since the scope and nature of operating services are quite different.

To get a clear picture of the effects of privatisation of the state enterprises we can look at the Auto Transport No.1's financial performance in 1994 when the company was the state owned and in 1998 where the company has been operated as a private company.

5.1. Total cost per vehicle kilometre (TotCost/Km).

The figure shows that in 1994 the company had operating costs for US\$0.20 per vehicle kilometre, whereas in 1998 it had operating costs of US\$0.06 per vehicle kilometre, which is less than 3 times that of 1994. This means that the company manages to keep the operating costs three times lower than in 1994. In other words, after being privatised the company has efficiently utilised the resources. At the same time, the total distance vehicle ran in 1998 was

half that of 1994. This may be due to the fact that the company used 8 vehicles less in operations than in 1994. One of main reasons the company achieved lower operating costs may be derived from the fact that it cut down a problem of over staffs, especially administrative staffs which tends to heritage in state owned company.

5.2. Average generated revenue per vehicle (AR/VC)

The figures indicate that the AR/VC in 1998 is slightly more than three times lower than that in 1994. This may be because there are quite a lot of transport companies competing in a small market. This problem may be over come by focusing on marketing and improving quality of services.

5.3. Total cost per vehicle (TOTCOST/VC)

As regards the TOTCOST/VC in 1998 the company has TOTCOST/VC three times less than that in 1994. However, the issues of attracting new capital investment to transport fleets and technology to enable the company to gain advantages over its competitors are still the main concern if it is going to survive in new environment. As the company using old age vehicles it leads high consumption of fuel, low rate of vehicle amiability for operations and high maintenance costs.

After a discussion and study of the questionnaire from these companies, the related problems can be identified as follows:

- There is a lack of an effective monitoring system to enable the related authorities, especially the transport authority, to understand the current situation so that it can provide a possible option. In the past, these transport enterprises routinely reported to the transport authority on a monthly basis.
- Prior to privatisation taking place there is a need for the government to specify certain conditions that these enterprises are obligated to follow. This does not mean that the government will intervene in their daily operations but some sorts of information or statistics should be reported to the transport authority. So far these enterprises tend to report to the Ministry of Finance, which is monitoring the payment of the assets to the government.
- With regard to the issue of the replacement cost of vehicles in their enterprises, even though the depreciation is provided for, it will not cover the actual price of a new vehicle. This is because of the fact that there is a high inflation rate of our currency. The high inflation of the Kip is also making further complications in the payment of assets, as the value was set in US dollars. The management of the enterprises now is in the process of negotiation with the concerned authority.
- In order to evaluate the performance of a transport firm, there is a necessity to set out a range of performance criteria and benchmarks so that on this basis the operators can compare how good they are in comparison with others.
- The old age of vehicles is one of the main factors which has led to low availability of vehicles used in operations.
- Despite the fact that some sorts of provision for vehicle replacement has been made, it does not really cover the new price for acquiring new vehicles because currently there is a

dramatic devaluation of the Kip. Moreover, routine maintenance of vehicles in these companies is relatively low and not consistent. In addition, in an environment where there is intensive competition, drivers or transport operator tends to overload their vehicles which directly reduces their operating costs. On the other hand, this can quickly cause deterioration in the condition of vehicles.

- There is no an anti-trust law to protect fair competition. This has meant that some transport operators have been able to damage the spirit of competition and therefore it deteriorates the financial performance of the other enterprises who follow the rules and regulations.

6. CONCLUSION

This paper has attempted to measure how productive the state owned companies are after being privatised. However, it is very difficult to identify the level of productive performance of these companies since there is no benchmark to serve as a measurement. Overall privatisation has brought about the improvement of the quality of services to consumers and financial performance, as well as productivity. However, in order to ensure fair competition among operators in this industry, there is a need to enforce an anti-trust law so that any violation of the law behaviour with regard to competition is removed.

As regards the issue of the government intervention in transport business, for example regulation of pricing, the government still sees that there is a justification to have some control over the pricing system with the aim of protecting consumers in the case where there is exploitation of the market. One form of price control that could be introduced is a price ceiling. That is a range of prices which is calculated by the central transport authority and serves as a standard fare for all provinces of the country. In order to make the price suitable to a specific area, modifications are also made with the consent of a transport operator before implementing the price.

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