

Privatization in Sub-Saharan Africa: Some Lessons from Experiences to Date

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Abstract

Privatization became a central element of economic reforms in most countries in Sub-Saharan Africa during the 1990s. Yet, empirical evidence regarding the impact of privatization remains scarce. Since the seminal work of CAMPBELL-WHITE & BHATIA [1998], covering transactions on the African continent until 1996, no comprehensive assessment has been conducted. At a time when public opposition to further privatization is growing, this paper aims at giving a broad overview of the impact of privatization in Sub-Saharan Africa from 1991 to 2002 in the light of recent developments, and to derive some general trends and conclusions from the body of empirical evidence available to date. During this period, about 2300 privatization transactions have taken place, generating a total sales value estimated at US\$ 9 billion. The main findings on the impact of privatization are as follows: first, privatization has had a minimal one-off impact on the budget; second, firm turnover and profitability have generally increased immediately following privatization but the evidence is mixed regarding the sustainability of the initial post-privatization upswing; third, employment has been adversely affected by privatization, although the latter has not resulted in massive layoffs in absolute terms; fourth, FDI and stock markets have played a limited role in privatization transactions despite some showcase transactions; fifth, regulation and competition have often been overlooked in the privatization process, and even where they have been dealt with, enforcement problems have greatly limited their effectiveness; sixth, privatization has created new political patronage opportunities, leading to numerous corruption scandals which have damaged the credibility of the privatization process; finally, social aspects of privatizations have generally been overlooked, reflecting the tendency to focus on privatization transactions, rather than on sector reorganization at large including wider social objectives.

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1. Introduction

Privatization became a central element of economic reforms in most countries in Sub-Saharan Africa during the 1990s, putting increasing emphasis on private sector development. As elsewhere, privatization policies in Africa were aimed at enhancing the efficiency of resource allocation via increased competition, providing fiscal benefits to cash-strapped governments, attracting more private investment and improving the access of the private sector to finance in general. As a result, privatization has become “*the superordinate medium-long term objective of adjustment programs everywhere in Africa*” BENNEL [1997] (p.1785). At the same time, public discontent and opposition to privatization programs has gained ground in various regions, including in Africa. Most criticism voiced by the local press, Parliaments but also NGOs and academics rests on the alleged adverse affects of privatization on unemployment and on the poor, and on perceptions of widespread corruption in the privatization process. The case of Zambia is a case in point: on the one hand, Zambia’s privatization program has been praised by many observers during the 1990s in terms of government commitment, preparatory work, transparency in execution and legal framework²; on the other hand, corruption scandals in some key transactions³ and the pull-out of Anglo American from the KCM copper mine in 2002 have led to strong resistance to further privatizations from parliamentarians and the population at large⁴. The same resistance can be observed in other countries such as Benin, Ghana, and in Kenya, particularly related to the privatization of public utilities. Ironically, privatization has almost become a “bad word”, but very little is known about its impact in most countries except at the anecdotal level. Since the seminal work of CAMPBELL-WHITE & BHATIA [1998], covering transactions on the African continent to 1996, no comprehensive assessment has been conducted, with the exception of a special section on privatization policies in Africa in OECD [2003] and a first review attempt by NELLIS [2003]. The prime objective of this paper is to shed some light on the impact of privatization in Sub-Saharan Africa, updating the work of Campbell-White & Bathia in the light of recent developments, and to try to derive some general trends and conclusions from the body of empirical evidence available to date. Section 2 conducts a statistical overview of privatization across Sub-Saharan Africa between 1991 and 2002. Section 3 discusses various dimensions of the impact on privatization, covering enterprise performance, unemployment, FDI and capital markets, regulation and competition, governance, and income distribution impact. Due to data limitation, the discussion is primarily aimed at stimulating the debate on these important issues, but does not constitute an exhaustive analysis at this stage. Finally, section 4 draws some key lessons from the experience to date and section 5 offers some conclusions.

² See CAMPBELL-WHITE & BATHIA [1998], pp.111-112

³ For example, the sale of the Luanshya division of ZZCM mines in 1997.

⁴ For example, the website www.zamnet.zm/zamnet/post/post.html hosts a "live" debate regarding the controversial privatization of *Zambia National Commercial Bank (ZNCB)*, which is a binding condition for the further release of debt relief funds under the HIPC initiative.

2. Privatization across Sub-Saharan Africa 1991-2002: a Statistical Overview

Like any other statistical exercise in Sub-Saharan Africa, compiling data on privatization transactions and sales value is not an easy task. The data reported here comes primarily from the privatization database, which is being maintained by the World Bank Africa Region. The following caveat is important to note: the database seems to be incomplete, particularly in recent years. To be sure, there are differences among information sources. For instance, there are discrepancies between the Africa Region database and the data gathered by CAMPBELL-WHITE & BATHIA [1998] in their detailed study of privatization, most notably on sales value data. When the comparison is extended to the seminal work of BENNEL [1997], similar problems arise. These problems are not new, and stem from the fact that the final stages of many privatization transactions are often confusing and may involve unexpected developments. Typically, Governments list state-owned enterprises (thereafter “SOEs”) as “divested” when an agreement is signed between the authorities and a private buyer, but transfers may be subsequently cancelled for a variety of reasons (e.g. buyer’s failure to honor payment, government’s failure to approve the deal etc.). However, such transfers could well show in privatization statistics, and when the same enterprises are again lined up for privatization, “new” transactions are reported, hence the obvious problem of multiple accounting. The cut-off date for reporting a transaction as “final” is therefore sensitive, and it is actually an important source of noise in the data⁵. In addition, firms are sometimes broken up into various companies, which complicates measurement. For instance, Cote d’Ivoire’s *Palminindustrie* was broken up into 13 companies in the privatization process. Depending on the methodology used, it is either reported as 1 sale or as 13 sales.

With this caveat in mind, the main findings of the statistical analysis are the following:

Between 1991 and 2002, roughly 2300 privatization transactions were recorded, with total sales value estimated at around US\$ 9 billion (see Table 1). As shown in Chart 1, privatization transactions followed a bell-shape pattern, peaking in the mid-nineties. Overall, privatization activity seems to have concentrated on Eastern and Southern Africa (Mozambique, Zambia, Tanzania, Kenya, Uganda) and Ghana, with these six countries accounting for 60% of the total number of transactions. In terms of sales value of transactions however, the picture is slightly different, as South Africa alone accounts for 35% of total sales revenue; the other key players include Ghana, Nigeria, Zambia and Cote d’Ivoire, and these 5 countries together account for 70% of total (see Chart 2). This illustrates the fact that there is no correlation between the number of transactions and the total sales value, a point already made in previous studies.

Privatization seems to have been far-reaching in Zambia, Mali, Togo, Kenya, the Gambia and Ghana, where the share of state-owned enterprises divested since the mid-1980s ranges from 70 to 90%. By contrast, countries with less comprehensive privatization programs (0-10% of state-owned enterprises divested) include Congo, Ethiopia, Gabon, Nigeria and Zimbabwe. These are very rough estimates, however, as the total number of state-owned

⁵ See PAULSON [1999], pp.234-235 on the so-called phenomenon of “redivestiture”.

enterprises at the beginning of the privatization process is not always easy to gauge⁶ and is very sensitive to public sector definition and coverage.

Chart 1. Number of privatization transactions

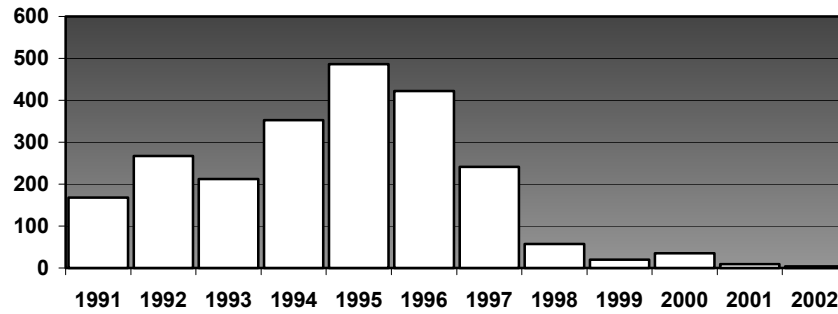
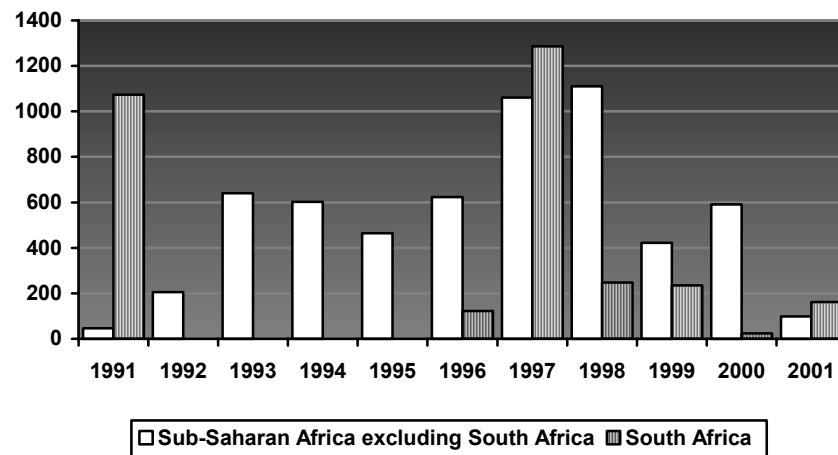


Chart 2. Total transaction value (Millions US\$ per year)



⁶ In some cases (e.g. Mozambique), the number of divested companies exceeds the official number of SOEs. In addition, no account was taken for newly established state enterprises parastatals since the mid-1980s (e.g. Senegal).

Table 1. Privatization record in Africa 1991-2002

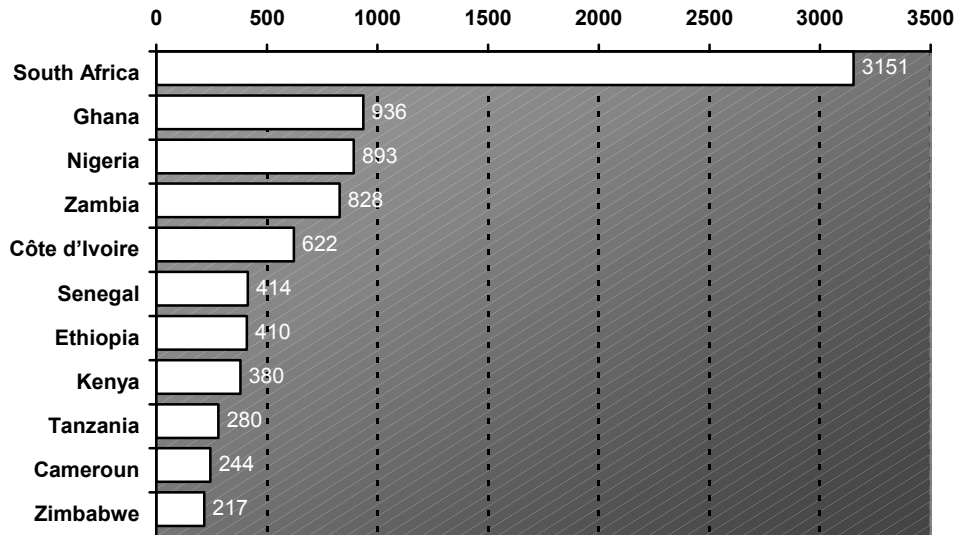
Country	Number of transactions	Sale Value (US\$ mn)	Share of total SOEs divested
Angola (*)	57	6	...
Benin	28	49	38%
Burkina Faso	23	9	32%
Burundi	38	4	...
Cameroon	48	244	28%
Cape Verde	44	53	...
Central African Republic	18	...	50%
Chad	35	12	...
Congo (Brazzaville)	67	50	...
Congo (Kinshasa)	5	...	4%
Côte d'Ivoire	82	622	55%
Ethiopia (*)	10	410	6%
Gabon (*)	1	...	6%
Gambia	17	2.4	85%
Ghana	181	936.5	69%
Guinea	31	45	27%
Guinea Bissau	25	0.5	64%
Kenya	189	381	79%
Lesotho	10	6.5	20%
Madagascar	61	16.9	33%
Malawi	11	53.2	44%
Mali	59	67.4	92%
Mauritania	19	1.2	20%
Mozambique	474	135	39%
Niger	10	1.8	18%
Nigeria	30	893.5	6%
Rwanda	1	...	3%
Sao Tome & Principe	4	0.4	...
Senegal	39	415	23%
Sierra Leone	8	1.6	31%
South Africa	8	3151	...
Sudan	32	...	...
Tanzania	199	287	53%
Togo	49	38	89%
Uganda	102	174	79%
Zambia	253	828	90%
Zimbabwe	6	217	10%
Total	2273	9111.9	Average: 40%

Sources: Africa Region Privatization Database, World Bank, 2003; WDI database 1991-2000; IMF Staff Country Reports, 1998-2003; BENNEL [1997], Table 1, CAMPBELL WHITE & BHATIA [1998], Appendix A

Notes: The share of total State-Owned Enterprises divested was obtained in using BENNEL [1997] data (state-owned enterprises as of mid-1980s) and correcting for privatization operations which took place between the mid-1980s and 1990.

(*) In the case of Angola, the authorities have reported 275 additional privatization transactions, but no information is available regarding the sector, the year and the firms actually privatized. In the same category, 115 additional transactions were reported by Ethiopia and 25 by Gabon, with no information whatsoever. These transactions (total: 415) are excluded from Table 1.

Chart 3. Countries in which total transaction values exceeded US\$200 millions (1991-2002)



In terms of sectoral distribution, the picture emerging from the CAMPBELL & WHITE [1998] study remains valid: *the bulk of privatization transactions has taken place in manufacturing and industry, followed by agriculture, services, tourism and real estate* (see Chart 4). *Public utilities and energy remain far behind, and quite interestingly, public utilities privatization did not accelerate throughout the second half of the 1990s* (see Chart 5)⁷. This situation could change, however, with many transactions involving utilities are currently under way (as of 2003), mostly in Western and Central Africa. Currently, average government share of equity in those sectors (energy, electricity, water and telecoms) remains sizable after privatization, i.e. ranging from 12% to 40%, as shown in Table 2. This contrasts with all the other sectors where government (average) share after privatization is roughly 6%. As usual, general averages hide sizable country differences, and the relatively low number of transactions involving utilities tends to distort averages.

⁷ This assessment could be biased by the data-reporting problem referred to when discussing the database, however.

Chart 4. Privatization transactions by sector (1991-2002)

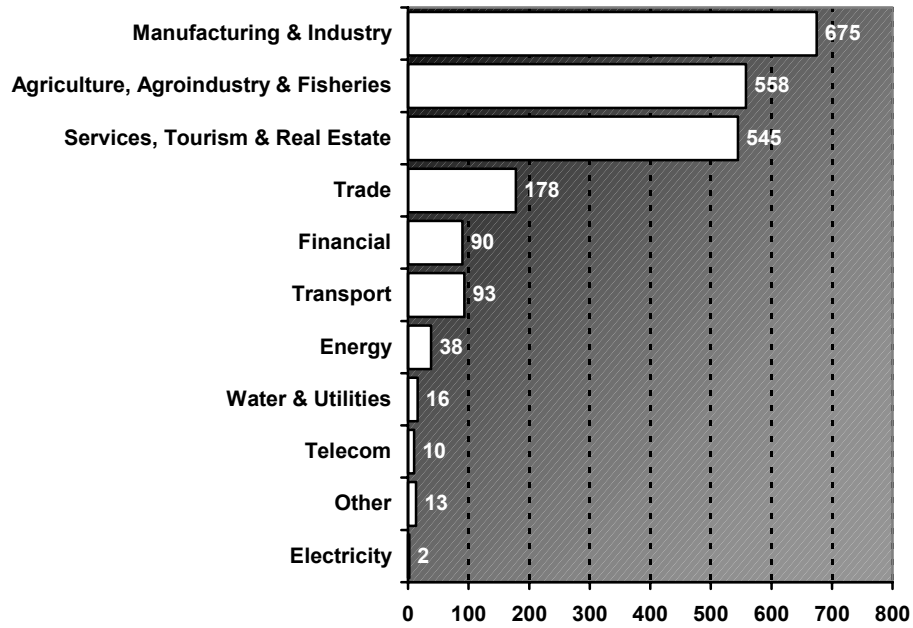


Chart 5. Public Utilities Privatization

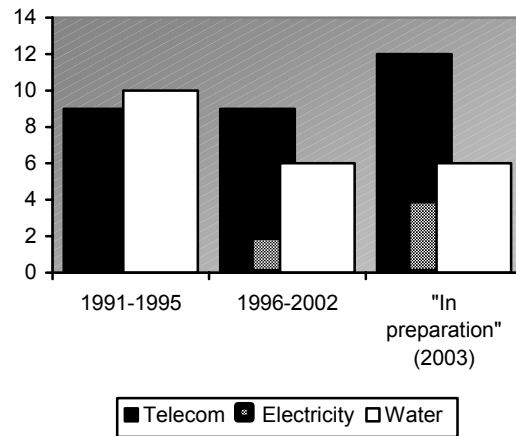


Table 2. Government’s share of equity before and after privatization

Sector	Average Government’s share of equity	(%)
Manufacturing & Industry	Before privatization	79.7
	After privatization	7.9
Agriculture, Agroindustry & Fisheries	Before privatization	79.5
	After privatization	1.6
Services, Tourism & Real estate	Before privatization	70.2
	After privatization	14.3
Trade	Before privatization	95.3
	After privatization	3.3
Transport	Before privatization	97.6
	After privatization	4.9
Financial	Before privatization	86.7
	After privatization	8.2
Energy	Before privatization	88.3
	After privatization	46.5
Water	Before privatization	100
	After privatization	12.5
Electricity	Before privatization	100
	After privatization	33
Telecoms	Before privatization	95.8
	After privatization	42.8
Other	Before privatization	63.3
	After privatization	10.2
Total average government’s share of equity before privatization		89.1
Total average government’s share of equity after privatization		10.3

In terms of privatization methods used throughout the decade, *the bulk of transactions were conducted through competitive sale of either shares or assets*, as shown in Table 3 and Chart 6. *Liquidation was used in 17% of transactions, and most typically in the early stages of privatization programs, which reflects the fact that the first SOEs to be targeted for privatization were often in a desperate financial situation.* Quite interestingly, uncompetitive methods (i.e. direct sales of shares or assets, preemptive rights) were used extensively in certain key “privatizers” such as Ghana, Kenya and Cote d’Ivoire, as shown in Table 4: in Kenya, 53% of transactions were conducted through uncompetitive methods⁸, and the corresponding figures are 31% in Cote d’Ivoire and almost 20% in Ghana. Although the measure is certainly very crude, *some (very) limited correlation can be detected between privatization methods and governance*, as shown in Chart 7: Governance seems to be poorer in countries where uncompetitive were mostly used, and vice and versa. The use of uncompetitive methods is just an illustration of how transparency and governance problems affected the privatization process, but transparency concerns no doubt go beyond the use of uncompetitive methods. Anecdotal evidence

⁸ Note however that in many cases, the firms privatized were joint ventures between public and private investors, with shareholders agreements stating that in the case of dissolution of the venture, the non-dissolving partner had to be given a preemptive right to purchase the other partner’s shares. The existence of this legal clause explains the unusually large share of privatizations conducted through preemptive rights in Kenya.

shows that transparency is also a big issue in competitive sales, and in management/employee buyouts.

Table 3. Methods of Privatization (1991-2002)

Method of divestiture	Number
Shares sold on Competitive Basis	728
Asset sold on a competitive basis	454
Liquidation	388
Shares sold to Existing Shareholders with Pre-emptive Rights	158
Lease	104
Direct sale of shares (i.e. non-competitive)	96
Shares sold through public floatation	69
Not specified	48
Restitution to former owner	47
Management contract	42
Management/Employee Buyout	33
Direct sale of assets (i.e. non-competitive)	29
Joint-venture	28
Free transfer of assets	12
Transfer to Trustee	11
Debt-Equity Swap	10
Concession	8
JV(D)	5
Lease /Management contract	2
Merger	2
TOTAL	2274

Chart 6. Privatization methods 1991-2002

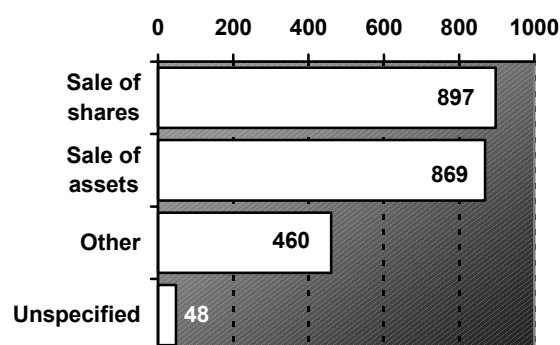
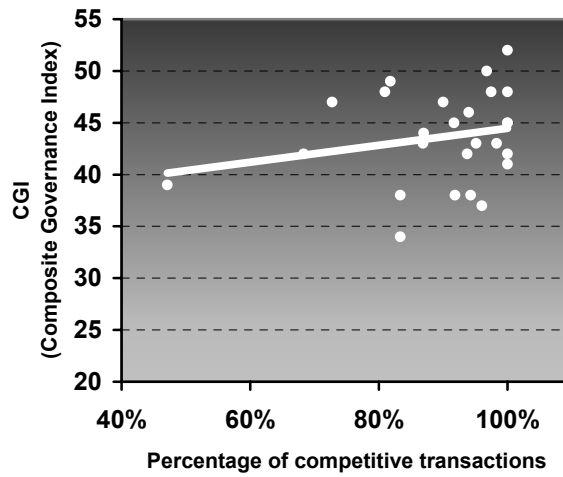
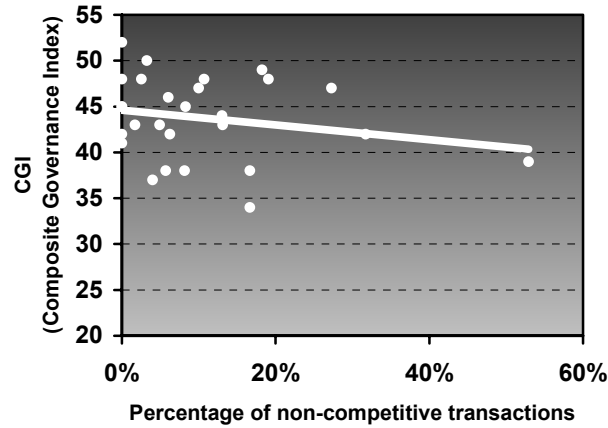


Table 4. Countries in which uncompetitive methods reached 20% of total transactions (% of transactions)

Country	Direct sale of assets	Direct sale of shares	Preemptive rights
Cote d'Ivoire	8.5%	12%	11%
Gambia		23%	
Ghana	5%	4%	9%
Kenya	2%		51%
Malawi		27%	
Sao Tome		25%	

**Chart 7. Privatization Methods and Governance:
Some (limited) correlation**



CGI: Composite Governance Index taking into account government effectiveness, rule of law, regulatory quality and control of corruption. Computed from World Bank Governance Dataset 2001-2002. Index ranges from 0 (poor) to 100 (good).

Non-competitive transactions : defined as transactions processed through either direct sales of shares or assets without competitive bids

Competitive transactions: defined as transactions processed through competitive sales of assets or shares but excluding direct sales, as well as other methods (management contracts, transfers, management/employee buyout, swaps, joint ventures etc.)

Sample: 27 Sub-Saharan countries

3. Impact of privatization

a. Impact on Government financial flows

When CAMPBELL WHITE & BHATIA [1998] compared the stated objectives of privatization programs over time across countries, they found out that one of the most important official motivations was fiscal. Despite several attempts to reform SOEs in the 1980s under donor guidance, notably by setting up data production and monitoring systems, the financial and economic performance of most public enterprises remained dismal, and required heavy subsidies from central governments. So quite logically, if fiscal considerations were the prime driving force of privatization, one could have expected divestiture from the largest state-owned companies and other parastatals. In practice however, the larger enterprises were specifically excluded from privatization until the late 1990s, with very few exceptions. Worse, no fiscal monitoring was put in place to assess the impact of privatization, except in Tanzania and Lesotho, resulting in little idea of the expected or actual outcomes of privatization programs. In terms of expectations, it is fair to admit that the fiscal impact of privatization is bound to be dynamic over time, with a one-off stock effect (privatization receipts) which could be either positive or negative depending on costs to be covered (retrenchments, liabilities) and a subsequent positive flow effect resulting from the decrease in direct and indirect subsidies over time, and increased tax revenues arising from the privatized firms. Let's consider each effect in detail.

① *In the short run, privatization has had a minimal one-off impact on the budget.*

This conclusion is actually quite clear-cut, as only a fraction share of privatization revenues accrued to the Government budget (Chart 9), with the notable exception of Cape Verde. In several countries (e.g. Zambia, Mozambique, Uganda), proceeds were channeled by law to specific extrabudgetary funds in order to finance specific activities or operations such as settling liabilities or retrenchment costs, or even supporting small-scale entrepreneurs⁹. Given the desperate financial situation of some of the firms to be privatized in certain countries, privatization receipts have often been completely wiped out in settling liabilities or severance payments, without considering serious transparency problems. In Zambia for instance, there were no net proceeds at all to be transferred to the privatization revenue fund. Finally, in some countries, privatization proceeds could still be outstanding: in Ghana for instance, a substantial portion of the proceeds has yet to be collected. One should also point out that in almost all countries, the actual value of some individual sales has been close to an obsession and has fueled considerable political debate (see Box 1 for the example of Zambia's ZCCM copper mines).

② *On average, the overall remaining level of subsidization after more than a decade of privatization is an open question mark, although there is limited evidence that direct subsidies decreased dramatically*

The lack of data makes it very difficult to draw firm conclusions regarding the evolution of (net) financial transactions between the government and former public enterprises over time. The problem is especially acute for *indirect* subsidies, which are difficult to identify and to quantify. Such subsidies typically include equity support (usually to absorb financial losses), favorable financing terms and favorable fiscal terms (e.g. exemptions), but can also

⁹ See CAMPBELL WHITE & BATHIA [1999], pp.83-84, and DAVIS, OSSOWSKI *et al.* [2000], pp.9-15.

cover privileges such as special concessions. Netting out public enterprises subsidies to the government is even more difficult, as public enterprise accounts are rarely available. Even if the analysis is restricted to direct subsidies only –which is very partial-, country data is still scarce, particularly in Francophone African countries. Data collected for 9 countries (Burkina Faso, Ghana, Guinea-Bissau, Mauritania, Mozambique, Tanzania, Uganda, Zimbabwe and Zambia) reveal a sizable fall in direct subsidies between 1991 and 2000, as shown in Chart 10, with average direct subsidies moving from 1.4% GDP to virtually 0% between 1991 and 2000. Although the negative trend identified in the above countries is certainly *plausible*, the overall remaining level of subsidization after more than a decade of privatization is an open question mark. As a matter of illustration, calculation of the total net subsidies to public enterprises was carried out in the case of Uganda by the IMF¹⁰ for the years 1993-1998. The results show that net subsidies to public enterprises have slightly decreased from 3.5% of GDP in 1993 to 2.3% of GDP in 1998 and that indirect subsidies accounted for more than 70% of total subsidies to public enterprises. These ratios of net subsidies to GDP (2.7% on average) are quite large compared to health and education expenditures which averaged 3.5% of GDP during the same period. It turns out that only eight enterprises account for 90% of total net subsidies, including *Uganda Railway Corporation, Uganda Commercial Bank, Uganda Electricity Board, Uganda Post and Telecommunications* and *National Water & Sewerage Corporation*. Thus, despite the fact that more than one hundred companies were divested since 1991, it is hard to say that the net fiscal impact of privatization has been impressive, which offers another illustration of the illusion created by the number of privatization transactions. It is reasonable to assume, however, that there will be a net positive fiscal impact in the much longer run, i.e. when large state-owned utilities companies come into private ownership and stop benefiting from indirect subsidies.

③ *The impact of privatization on tax revenue has been mixed at the microeconomic level*

This conclusion must be qualified in many respects, as it is actually very difficult to isolate the effect of privatization on tax revenues from fundamental changes in the tax regime or exogenous factors affecting tax revenue collection (weather, war etc.). Intuitively, privatization may lead to higher tax revenues for the government. This reflects both increased profitability and efficiency at the level of the private firm responding to market incentives and the fact that public enterprises often benefited from weaker auditing and tax collection efforts. On the other hand, from the point of view of tax administration, tax collection may be easier in a system dominated by few large SOEs than with many smaller private firms which may prove more skillful at evading taxes¹¹. The existence of these two opposite effects has been quite clear in Sub-Saharan Africa. At the one end of the spectrum, JONES, JAMMAL & GOKKUR [1999] found in the case of Cote d'Ivoire that the increased profitability of privatized firms led to additional tax revenue, accounting for 41% of net government benefits. At the other end of the spectrum, Tanzania illustrates the case of a tax base moving away from a large, easy-to-tax public sector to a largely informal private sector. According to Table 1, roughly 50% of SOEs have been privatized. However, what Table 1 does not reveal is that the tax base has been *eroding* in the second half of the nineties, reflecting the fact that most private firms remained outside the tax net either because they operated in the informal sector or because they enjoyed various

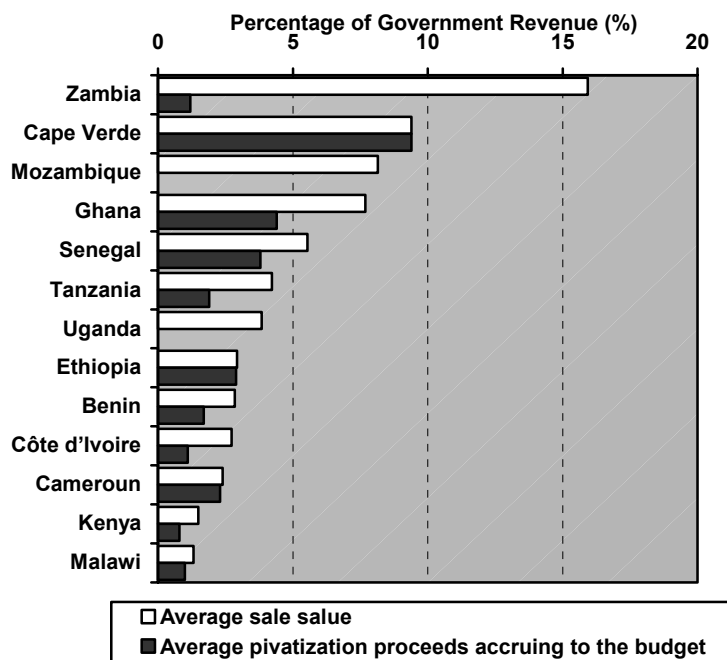
¹⁰ IMF Staff Country Report 99/116, pp.43-51.

¹¹ DAVIS, OSSOWSKI *et al.* [2000], p.17.

exemptions¹². Interestingly, between 1996 and 2001, the bulk of tax exemptions was granted to private companies (40% of total exemptions) and not to remaining parastatals. Overall, it appears that the major changes in the structure of taxation and tax administration reforms aimed at increasing tax collection introduced during the 1990s have contributed significantly to the slight increase in tax revenue recorded in most Sub-Sahara African countries. Although this may be a bold conclusion at this stage, it would seem indeed that privatization has been *less decisive* than profound tax administration reform for revenue performance.

These trends tend to suggest that it is perhaps an overstatement to present privatization as an obvious “fiscal opportunity”. Although the argument is theoretically valid in the long run, its amplitude is highly correlated with the level of pre-privatization subsidization and with the overall efficiency of the tax system in the short run.

Chart 9. Countries where the average sale value exceeded 1% of Government revenue (1991-2001)

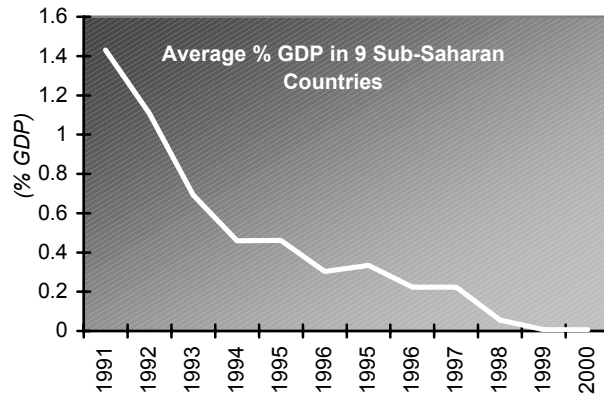


- Notes: Government revenues exclude grants and refer to average revenue over the period.
- Data on privatization proceeds accruing to the budget should be considered with caution as there were many classification and definition problems in the early 1990s. As a result, data tends to be biased towards the latter part of the time period considered (i.e. 1996-2001).
 - Data is often biased by some key transactions: the copper & cobalt transactions of the late 1990s substantially inflate Zambia's rating. If such transactions were to be removed, average sale value would amount to 7.7% of government revenues during the period under consideration. In the case of Cape Verde, divestment from public utilities (telecom, electricity and water) and banks transactions largely inflate the figure. The sale of Ashanti Goldfields has the same effect on Ghana's rating. In the case of Senegal, the rating is also biased by the sale of SONATEL (Telecom) and SENELEC (electricity) in 1997. Finally, Mozambique's rating is sensitive to the very low average of Government revenue (11.3% of GDP).

Sources: World Bank Privatization Database, *IMF Staff Country Reports*, various years

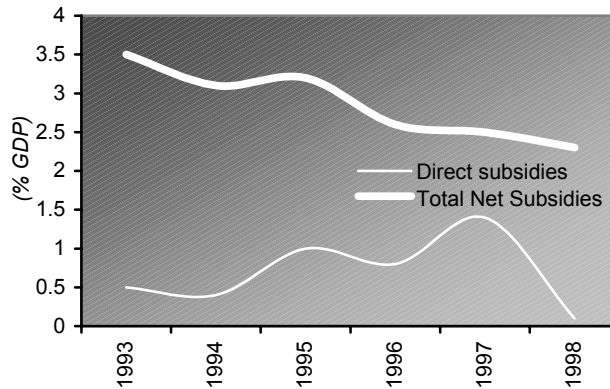
¹² See IMF, “Tanzania: Selected Issues and Statistical Appendix”, *IMF Staff Report*, January 2003, pp.5-15.

Graph 10. Direct Subsidies to Public Enterprises



Sample countries: Burkina Faso, Ghana, Guinea-Bissau, Mauritania, Mozambique, Tanzania, Uganda, Zimbabwe, Zambia
 Sources: *IMF Staff Country Reports*, various years

Chart 11. Uganda - Direct and Total Net Subsidies (1993-1998)



Source: *IMF Staff Country Report 99/116*, Table 15

Box 1. Looking for the best deal. The case of Zambia's ZCCM copper mines

Zambia Consolidated Copper Mines Limited (ZCCM) was Zambia's largest commercial enterprise, generating more than 70% of the country's foreign exchange earnings and contributing about 10% of GDP in the early 1990s. The main shareholders of the company were the Zambian government (60% of the shares) and the South African conglomerate *Anglo American* (27% of the shares). Although ZCCM was the fifth largest copper producer in the world, it was in dire financial condition and suffered from a chronic lack of investment. Between 1992 and 1996, the government examined a number of options to privatize ZCCM and initiated talks with *Anglo American*, the latter being an essential partner as it also held preemptive rights to purchase any shares sold by the government once the government share fell below 50%. Even if *Anglo American's* cooperation was perceived as essential for the success of any privatization proposal, there were also fears about the formidable influence *Anglo* could exert on the future of Zambia, were ZCCM to be entirely swallowed by *Anglo*. This concern was actually behind the 1994 Kienbaum report funded by the World Bank, which advised the unbundling of ZCCM assets¹³. After two years of internal debate and another study commissioned by the Zambian government, the unbundling strategy was finally adopted. The *Zambia Privatization Agency (ZPA)* took over responsibility for managing the ZCCM privatization and negotiations with interested investors started in 1997. *Anglo American* had all the way stated that the unbundling was not its preferred option, but it was willing to cooperate with government's strategy. The first asset to go was the Luanshya Division to the RAMCOZ group for US\$35 mn¹⁴, but only one bid was received for the largest package of sets. The bid, which came from the Kafue Consortium representing US, UK and Canadian companies, offered US\$150 mn in cash plus committed investment of US\$400 mn. This fell short of Zambia's expectations. In the following months however, as the price of copper collapsed, partly because of the East-Asian crisis, the Kafue Consortium reduced its cash offer and demanded the inclusion of additional assets in the package. ZCCM operating losses were also mounting and the assets were deteriorating, lacking badly needed investment. Eventually, as ZPA became systematically bypassed by the Zambian government (who appointed the former CEO of ZCCM to lead the negotiations), discussions soured on book asset valuation and negotiations collapsed. By mid-1998, "*Anglo-American was the only suitable mining investor that continued to show lukewarm interest in ZCCM's assets*"¹⁵, but it took almost one and half more year to form a consortium including the International Financial Corporation (IFC) and the UK's Commonwealth Development Corporation. The sale of what now constitutes KCM (the largest chunk of ZCCM) finally took place in March 2000, for US\$30 in cash and committed investment of US\$200 mn for the Konkola Deep¹⁶. Yet, in early 2002, *Anglo American* announced its intention to step out: accumulated losses since March 2000 were estimated at US\$108m, partly because of plummeting copper prices and because the cost of developing Konkola had more than trebled from US\$300m to US\$1bn. Zambia is now back to square one, looking for a brave enough strategic investor to take over vastly outdated assets in the midst of a depressed copper environment.

The ZCCM story shows that the costs of delays in the privatization process turned the fiscal opportunity into a major financial disaster for the Zambian government. As part of the deal, the government had to assume ZCCM's accumulated debts of about US\$ 770 mn and had to grant generous tax incentives to investors. Ultimately, the drive for maximizing the transaction value has turned into a major financial and economic debacle.

¹³ CRAIG [2001], p.394.

¹⁴ The outcome proved a disaster as the firm collapsed shortly after the deal with RAMCOZ being placed into receivership. More details about this particular transaction are given in section 3c.

¹⁵ WORLD BANK [2002d], p.16.

¹⁶ The last (smaller) package was sold to the *Glencore International* consortium for some US\$20 mn in cash.

b. Change in Enterprise Performance

Assessing enterprise performance post-privatization is a very challenging task, both methodologically and statistically. This is usually done either by comparing pre and post enterprise performances, or by trying to work out a counterfactual scenario under a “reasonable” set of assumptions (“*what would have happened in absence of privatization?*”). Unfortunately, there are very few rigorous studies dealing with Sub-Saharan Africa. For one thing, access to enterprises financial data is very limited and even when firms are willing to disclose information on post-privatization performance, there are often unable to provide pre-privatization data for comparison¹⁷. This situation is aggravated by the fact that in most situations, there is no post-privatization monitoring. Last but not least, privatizations often do not take place in a vacuum, but are part of an evolving macroeconomic framework where liberalization policies can affect enterprise behavior and financial performance¹⁸. External economic shocks such as a sharp reduction in commodity prices or more generally, a global economic downturn or boom, are also likely to affect enterprise performances, which makes the analysis very time sensitive. In such circumstances, assessing causality between privatization and enterprises performance is a difficult challenge.

Available studies (BENNEL [1997], CAMPBELL-WHITE & BHATIA [1998] and PAULSON [1999]) rely mostly on anecdotal evidence and on mail questionnaires to report some results on the ground, but no attempt has been made to date to measure financial and operating performance of newly privatized firms in Africa. BOUBAKRI & COSSET [1999] carried out a first analysis of privatized firms’ performance in Africa, but their sample is limited to 16 enterprises spread out between Ghana, Morocco, Nigeria, Senegal and Tunisia. Their results suggest a weak improvement in the profitability of newly privatized firms, and indicate that efficiency as well as output measured by real sales decreased slightly, while capital expenditure rose significantly in the post-privatization period. The limited sample, as well as the over-representation of firms from Morocco and Tunisia (65% of the sample) make it impossible to draw any conclusion from such results for Sub-Saharan Africa. However, three general findings can be derived from the existing country studies over the 1991-2002 period:

- ① *Privatization results have generally been positive in the manufacturing, industrial and service sectors.*
- ② *Firm turnover and profitability have generally increased immediately following privatization –which is to be expected– but the evidence is mixed regarding the sustainability of the initial post-privatization upswing.*
- ③ *Notwithstanding measurement problems, private investment has generally increased following privatization relative to public investment.*

These average results hide large performance variation across sectors and countries, which are associated with considerable variation in the country business environments. Although the evidence is still patchy, some country examples are provided in Box 2. From a business

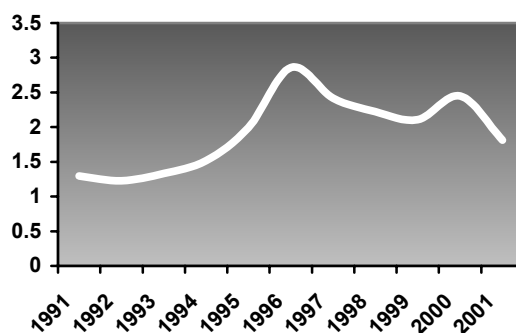
¹⁷ CAMPBELL WHITE & BATHIA [1998], p.85.

¹⁸ An obvious example is the devaluation of the CFA Franc, in January 1994, which put tremendous financial pressure on those firms dependent on imports.

performance point of view, an important message is that privatization appears to have been a relatively successful “*damage control exercise*”. Against this background, the biggest question mark has to do with the sustainability of privatized firms over time. To some extent, the private investment picture in most countries also signal a more or less bell-shape trend (see Chart 12), which may indicate that the volume of private investment so far realized does not suffice to fulfill the objective of using privatization as a catalyst to private sector activity. This is hardly surprising given the fact that most countries have only recently started to divest from the larger infrastructure firms and other “strategic” sectors.

More fundamentally, the existence of a small number of outright failures and scandals has definitely affected the general public’s perception of the economic impact of privatization. For instance, even if the overall privatization program of Zambia is often described as a model case and a “success”¹⁹, the most of important sector of the economy (copper) has gone through a very messy privatization process involving scandals and eventually the pulling out of the private buyer after two years of operation in the case of the most important mines²⁰.

Chart 12. Aggregate Ratio of Private to Public Investment in Sub-Saharan Africa²¹



Source: IMF Staff Country Papers, various years

¹⁹ See CAMPBELL-WHITE & BATHIA [1998], pp.111-113.

²⁰ See Box 1.

²¹ Private sector definition is not uniform across Sub-Saharan Africa and SOE investment is often reported as “private investment”. As a result, private investment figures are notoriously inflated in some countries, which makes it very difficult to identify reliable trends over time. In Chart 12, 24 countries were used but only 10 of them exclude SOEs in private investment figures.

Box 2. Enterprise performance post-privatization. Some country evidence

In **Cote d'Ivoire**, an impact study applied to 81 privatizations (JONES, JAMMAL & GOKGUR [1999]), covering not just infrastructure firms but a range of firms already operating in competitive markets (in agriculture, agro-industries, tradable and non-tradable sectors) concluded that firms performed better after privatization and that they performed better than they would have had they remained under public ownership. The study also found that the set of transactions as a whole contributed positively to economic welfare, with annual net welfare benefits equivalent to about 25% of pre-divestiture sales. These results stemmed from a number of effects, including increases in output, investment, labor productivity, and intermediate-input productivity. Available studies do not point to major failures in the privatization program, but a number of questions remain with respect to competition (cocoa sector) and regulation (electricity, telecommunications), as there are claims that public monopolies were simply replaced by private monopolies.

In **Mozambique**, a 1996 impact study over 91 firms across the country found that following privatization, most of the enterprises in the sample could be characterized as showing an overall improvement in their performance based on increases in sales, production levels, number of employees and salaries paid. Another study covering 152 firms in the manufacturing sector between 1992 and 1998 found similar results in terms of labor productivity, investment and sales growth, although new entrants seemed to be better than privatized firms in terms of sales growth, job creation and contribution to investment²². A flagship of the privatization program is that of *Cervejas de Moçambique* (CDM), a brewery company created following the privatization of the three local breweries in 1995. Production tripled between 1995 and 1998. One of the major failures of the program is certainly that of the privatization of *Banco Commercial de Moçambique* in 1996, which was completed despite major concerns about the only bidder, a Portuguese consortium. Soon after, the bank was in trouble because of fraud, large loans to connected parties and problems with the pre-privatization portfolio resulting from poor regulations and lax supervision and political pressure to lend to “well connected” parties, and had to be recapitalized in 2001.

In **Tanzania**, a study by an independent auditing firm for the *Parastatal Sector Reform Commission* (PSRC) compared indicators before and after privatization, based on the results of a survey at the end of 1998. The study found that on average, companies showed an increase in productivity and investment post-privatization²³. Another study, covering 18 newly privatized firms in various manufacturing, services and industrial sectors, revealed mixed profit performance in the first years following privatization²⁴. In many instances, amounts and status of parastatal debt greatly affected and complicated profitability measures.

²² See BIGGS, *et alt.* [1999], pp.11-21.

²³ “Tanzania: Selected Issues & Statistical Appendix”, *IMF Country Report 03/2*, January 2003, pp.96-97.

²⁴ DUE, TEMU & TEMU [2000].

Box 2. Enterprise performance post-privatization. Some country evidence (continued)

In **Zambia**, a 2001 survey of 56 privatized firms (including the largest 20 privatized enterprises and a sample of smaller companies) found that the turnover of most enterprises increased in the two years immediately following privatization, and that firms were generally slightly better off for years after privatization despite a depressed business environment²⁵. However, for many of the typically smaller and local market oriented enterprises, the initial post privatization upswing in turnover has not been sustained. The study concludes that the program achieved an important measure of “damage control” since only 19 firms (out of 254) had failed since privatization. Among the flagships of the privatization program are the cases of *Zambia Coffee* and *Zambia Brewery*, which have both expanded production and investment massively since privatization. But the program’s darkest spot is certainly that of the *Copper Mining Company ZCCM*, which was finally privatized in 2000 after 5 years of procrastination. The debacle began with the collapse of *RAMCOZ* in 1999 including retrenchment scandals, and followed with the pulling out of Anglo-American from ZCCM in 2002. These problems seriously tarnished the privatization picture given the importance of the copper sector in Zambia.

In **Ghana**, partial studies show a general growth in the divested companies, particularly those in the mining, manufacturing and services sector between 1992 and 1998²⁶. In the mining sector for instance, the profit ratio to sales increased by 950%. A 1999 survey of 47 newly privatized firms showed that privatization also helped increase the volume of investment in the divested sectors through the introduction of new equipment and major rehabilitation of production plants which would not otherwise have taken place. Pooled data from 32 firms over the 1986-1995 period show that the financial performance of private firms both in terms of return on assets and return on sales was stronger than in state-owned enterprises, although other factors also played a role in explaining financial performance²⁷. Among the flagship cases is the privatization of *Ashanti Goldfields Company (AGC)*, which was able to tap into international capital markets to fund investment in new equipment and technology following state divestiture. As a result, gold production rose substantially while production costs declined over time. Other sectors, such as the “strategic” oil sector, have been much more difficult to deal with, but the most striking failure of the program is the privatization of *Ghana Telecom (GT)* in 1997, sold to Malaysia Telekom. Ghana was among the first African markets to see the partial privatization of a state-owned fixed carrier and the introduction of competition in the basic services market in 1997. Although GT’s financial performance has improved since its privatization, the company failed to meet cumulative network deployment targets, overall quality of service has remained low, with Ghana remaining one of the few African markets with more fixed than mobile users. This failure is first and foremost that of a disorganized market framework that led to the licensing of multiple operators using various technology standards, confusing Telecom sector policy, and ineffectual regulatory oversight. It was labeled as a “*case study in how not to liberalize a market*”²⁸.

²⁵ WORLD BANK [2002d]

²⁶ See APPIAH-KUPI [2001] and OPOKU [1999].

²⁷ BAVON [1998], pp.53-72.

²⁸ *Pyramid Research*, 26 February 2002.

Box 2. Enterprise performance post-privatization. Some country evidence (ctd)

In **Nigeria**, a survey over 34 firms conducted by the Nigerian government revealed that the performance of the enterprises improved markedly compared to their status before privatization²⁹. For instance, the average turnover of the companies increased by 221%. A further assessment of profitability of these enterprises using return on investment showed positive post privatization growth for most companies as 19 or 55.9 percent of the companies recorded more earnings after privatization from funds invested. A look at the investment turnover also revealed that most of the companies (62%) experienced increases in the ratio of turnover to capital employed.

In **Sénégal**, a WORLD BANK [1995] study concluded that the collective performance of privatized firms deteriorated after privatization in terms of net operating surplus and profits before taxes, real variable costs and total factor productivity. In the second half of the 1990s, the privatization of its major utilities (telecom and water in 1996, electricity in 1999) have been more positive in terms of profitability at the firm level, but the cases of water and electricity have not yielded the expected results in terms of performance, access and prices.

In **Uganda**, firm surveys indicate that privatization has led to increased industrial capacity utilization and profitability. Capacity utilization of the privatized firms has increased by 11% according to some reports, with the more spectacular growth recorded in the beverage industries. NGO reports also indicate that privatization has led to increased supply of quality good and services to the market, especially essential commodities (sugar, salt, soap), which prior to privatization were in short supply³⁰. Among the flagship cases is the opening up of the Telecommunication sector in 1998 when a second network license was won by *Mobile Telephone Networks* of South Africa (MTN). At the other side of the spectrum is the case of the *Uganda Commercial Bank* in 1997, which had to be placed under government management again two years after its privatization owing to a huge governance scandal (see Box 4).

In some other countries, evidence about post-privatization performance is patchier, which reflects the fact that some important transactions took place very recently. In **Cameroon** for instance, privatization only gained momentum after 1998, when the focus shifted to large agro-industrial and transportation enterprises and the public utilities. Even so, only a very limited number of deals were effectively finalized (among which, the sale of the electricity company *SONEL* in 2001) and post-privatization performance assessment is still in its infancy. Anecdotal evidence reveal significant problems with electricity supply since privatization, but no detailed study exists to date. The only sector subject to monitoring is the financial sector, following its restructuring from 1996 to 1998. All commercial banks in Cameroon have been privatized or liquidated, show satisfactory management ratios, and are now solvent, liquid and profitable.

²⁹ *Abuja Mirror*, January 19-25, 2000. See also *International Privatization Review 2001*, pp.116-117.

³⁰ SAPRI [2001].

c. Impact on Employment

One of the most common fears associated with privatization worldwide is certainly job destruction. Given the size of the public sector in Sub-Saharan Africa, similar fears have and continue to be nurtured. Here again, data is scarce and incomplete, and exhibits large variation across sectors and countries. Available studies and information point to the following observations:

① *Employment has been adversely affected mainly in the period leading up to privatization or in case of liquidation*

② *Even if the work force of privatized/liquidated firms diminished in relative terms, there has not been massive layoffs in absolute terms. In some countries, retrenchment packages have become a serious issue, however.*

③ *Although the general trend is a continuous decline in employment levels over time, there are a few cases where employment increased in the years following privatization, reflecting good performance and new business opportunities*

The first observation reflects the expected pre-sale “cleaning up” of many parastatals, where overstaffing and redundant labor force was a major issue.

The second observation reflects the fact that first and foremost, **government have deliberately delayed privatizing enterprises where a high social cost could be expected**³¹, which also explains why privatizations have targeted by and large small and medium-sized SOEs. In Zambia, employment of the privatized non-mining sector declined by about 30% between 1992 and 2001, and by about 20% in the mining sector. Interestingly, although the layoffs were largely concentrated in the earlier years, employment declined on a continuous basis until 2001. In Tanzania, partial data obtained from a sample of privatized enterprises indicated that employment declined by 30-50%³², with sizable firm variation. In Benin, overall employment in the companies declined by 36% between 1990 and 1996. In Mozambique, the decline in employment has been fairly small, at least in the manufacturing sector, i.e. about 0.8% between 1992 and 1997. These partial results are more anecdotal than anything else, as no systematic study has been conducted on the employment trend of privatized companies over a sustained period of time. **As for firm performance, it is perhaps best to describe the employment effects in terms of “damage control” for the time being.**

Workers and trade unions opposition to privatization has been a major factor behind the delay of the privatization process in a number of countries, and more particularly in Ghana, Malawi and Tanzania in the mid-1990s. This has resulted in harsh negotiations about retrenchment benefits, which have not only deterred potential investors but also exhausted a sizable portion of privatization receipts in a number of cases. In some countries (e.g. Benin, Mozambique, Zambia), employment guarantees have been used as bidding conditions, with various degrees of success. The best-known failure in imposing employment guarantees is the case of the *Luanshya and Baluba copper mines* in Zambia. Although it was assessed in 1998 that up to 3000 workers would become redundant under any reasonable business plan, the private company RAMCOZ agreed to take over the

³¹ CAMPBELL WHITE & BATHIA [1998], p.95.

³² DUE, TEMU & TEMU [2000].

mines and not to dismiss any of the 7000 workers. Shortly after the deal, RAMCOZ laid off 3000 workers and failed to make termination payments. When the company went out of business in 1999, the remaining 4000 workers joined the unemployed. Eventually, the Zambian government had to pay partial compensation to the workers, but the case is still not finalized as of mid-2003.

Another example of the retrenchment issue is the management contract for the electricity utility in Tanzania, TANESCO, in May 2002. In the context of an *ad hoc* system of widely varying retrenchment payments, TANESCO workers prevented the members of the new management team from entering their offices, pending an agreement on a generous retrenchment package with the government that would cost more than 1% of GDP. Although the new management team eventually took over the company, no agreement between the government and the workers has been reached to date³³.

The third observation is perhaps the most encouraging, since it suggests that after the initial shock on employment as a result of privatization, some firms were able to expand. In Ghana for instance, employment in divested enterprises went up by 59%, and enterprises such as *Golden Tulip Hotel*, *Ghana Agro-Food Company* or *Tema Steel Company* have all achieved employment increase rates beyond 100%³⁴. In Cote d'Ivoire, employment in privatized firms increased by an average of 3.9% per year after privatization while falling by almost 2% per year prior to privatization according to a 1999 study of 81 privatizations³⁵. In Burkina Faso, employment in privatized firms has also marginally increased following privatization between 1993 and 1999. Such examples remain the exception rather than the rule, although the general trend is a continuous albeit less pronounced decline in employment over time.

Lastly, it is important to note that there are very limited information available about employment benefits, making it extremely difficult to assess post-privatization evolution of wages and salaries at this stage.

One very general conclusion can be drawn from this limited discussion: **the impact of privatization on employment has been by and large postponed in most countries**, as most of the overstuffed SOEs remains to be privatized. The ongoing privatization of large SOEs, mainly public utilities, may change the picture in the near future. As a result, despite the fact that the decline in employment may appear to be high in some privatized firms in percentage terms, absolute numbers of retrenched personnel remain fairly low. One possible exception to this conclusion is Zambia, where several thousands of jobs have been lost in the mining debacle as well as in the privatization of public transportation services.

d. Impact on FDI and Local Capital Markets

Privatization programs have attracted foreign direct investment in most countries, particularly in connection with some large transactions such as the *Ashanti gold mine* in

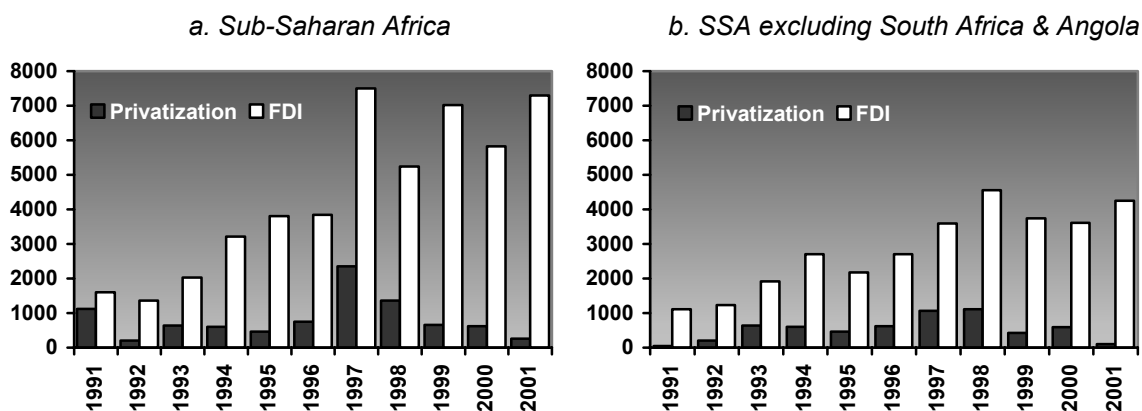
³³ IMF, "Tanzania: Selected Issues & Statistical Appendix", *IMF Staff Country Report 03/2*, January 2003, p.98.

³⁴ APPIAH-KUBI [2001], p.217.

³⁵ JONES, JAMMAL & GOKGUR [1999], p. VII-8.

Ghana or the *ZCCM copper mines* in Zambia. However, privatization-related FDI in Africa has remained fairly small by international standard: during the first half of the 1990s, privatization-related flows represented a mere 5% of total FDI on average, versus 43% in Eastern and Central Europe and 15% in Latin America³⁶. With the exception of 1997 and 1998 when important services companies (e.g. *Telecom Cote d'Ivoire*, *SONATEL* in Senegal) were privatized, the situation is likely to be only marginally better in the second half of the 1990s. Although data on privatization-related FDI is scarce, it can be seen from Chart 13a below that net FDI flows to Sub-Saharan Africa were 50% higher in the second half of the 1990s although the total transaction value was 30% higher on average than during the first half of the 1990s. Even when South Africa and Angola are removed from the sample, which together attract 65% of total FDI in Sub-Saharan Africa, the picture does not fundamentally change (Chart 13b). Among the reasons behind the limited role of FDI in the privatization process already identified by earlier studies, the most important seems to be the lack of opportunities for foreign investors. As noted earlier, in most countries, the bulk of divested firms consisted of small and medium sized enterprises, with few “big tickets” beyond the mining sector and former public utilities.

Chart 13. Net Foreign Direct Investment and Privatization Transaction Values (US\$mn)



Source: *Global Development Finance 2003*

What about capital market development? Privatization and capital markets are interdependent, as stock exchanges can be used to mobilize domestic and foreign capital for privatization while the off-loading of SOE’s shares can boost local stock exchanges. With privatization, market capitalization is expected to increase, and so is the volume and value of stocks traded. Given the very low development of financial markets in Sub-Saharan Africa (except in South Africa and to a lesser extent in Zimbabwe), how have stock markets and privatization programs been connected? Evidence to date point to two general conclusions:

- ① *Stock markets have played a limited role in privatization transactions despite some showcase transactions*
- ② *Some privatizations have stimulated embryonic stock market activity in the short run*

³⁶ CAMPBELL-WHITE & BATHIA [1998], p.100.

The first finding is not really a surprise, as it reflects the embryonic state of financial markets in many African countries. There are about 15 stock exchanges in Sub-Saharan Africa³⁷, the bulk of them being very small both in terms of GDP share and turnover. In 1998, the government of Tanzania sold 26% of the shares of *Tanzania Breweries Ltd* through the newly established Dar es Salaam Stock Exchange. This was the only privatization carried out entirely through the stock market. The market remains very small, however, with only 4 companies listed. In Ghana, a number of state-owned enterprises, including all the banks, were sold through public share offers on the stock exchange. Interestingly enough, some large companies such as *Ghana Telecom* and *Ghana Oil Company* have not been allowed to be privatized on the stock market. Capitalization of five former SOEs alone accounted for 75% of total stock exchange capitalization in 1998. In Cote d'Ivoire, the privatization program had a substantial impact on the growth of the Abidjan Stock Exchange (BVA): privatized companies have constituted the main source of new additions to the BVA since 1993. The regional stock market (*Bourse Régionale des Valeurs Mobilières*), which replaced the BVA in 1998, also played an important role in allowing Senegal's privatized telecom company *SONATEL* to have access to finance, but still lacks depth and liquidity, as only an handful of shares are truly dynamic. The second finding reflects the fact that some key privatization transactions have indeed boosted the otherwise non-existent stock-market activities for a limited period of time, but as can be seen from Table 5, the effect on market capitalization is especially manifest for the 1990-1995 period but less for the 1996-2000 period, especially in terms of value traded.

Table 5. Capital Markets Indicators (1990-2002)

Country	Market capitalization					Value traded		Turnover ratio		Listed domestic companies		
	\$ millions			% GDP		% GDP		(a)		1990	1995	2002
	1990	1995	2002	1990	2001	1990	2001	1990	2002	1990	1995	2002
Cote d'Ivoire	549	428	1328	5.1	11.2	0.2	0.1	3.4	0.7	23	30	38
Ghana	76	2005	740	1.2	10.1	...	0.2	0.0	2.5	13	17	24
Kenya	453	1925	1423	5.3	9.2	0.1	0.4	2.2	3.8	54	56	57
Nigeria	1372	1350	5740	4.8	11.3	0.0	1.2	0.9	10.6	131	182	195
South Africa	137540	232062	187622	122.8	78.0	7.3	61.5	...	78.9	732	626	450
Tanzania	..	10.5(b)	398	..	4.3	..	0.1	..	1.9	..	1 (b)	4
Zambia	..	442	217	..	6.0	..	1.3	..	22.5	..	10	9
Zimbabwe	2395	1969	15632	27.3	88.0	0.6	16.9	2.9	19.2	57	64	76

(a) Total value of shares traded during the period divided by the average market capitalization

(b) 1998 value, i.e. at the opening of the Dar es Salaam Stock Exchange

Source: *World Development Indicators 2003*

³⁷ At the local level: Botswana, Cameroon (not yet effective), Ghana, Kenya, Namibia, Malawi, Mozambique, Mauritius, Nigeria, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. At the regional level: Cote d'Ivoire (UEMOA) and Gabon (CEMAC, in preparation).

e. Impact on Ownership

The issue of local versus foreign participation in privatization deals is highly political in many countries as it is linked both to the general public's acceptance of privatization policies and to transparency and governance issues. In several countries, business groups have criticized the prominent role of foreign companies in the privatization and denounced "*economic recolonization*"³⁸. In fact, nationality issues have become an extremely hot political issue especially in Eastern and Southern Africa countries³⁹, in contrast to West Africa where the debate has been less emotional. Broadening local participation has sometimes been a decisive element in certain transactions, but it has never been an *explicit strategy* in Sub-Saharan African countries. In fact, several privatization deals in Eastern Africa involved sales of investments in companies with preemptive rights of existing shareholders or sales on non-competitive terms⁴⁰, which seems to be in contradiction with the desire to broaden ownership. One obvious reason behind the absence of a clear strategy regarding the broadening of ownership is the very limited access of domestic investors to finance. Another is the lack of management expertise in sensitive sectors. As stated before, there have been some attempts to deal with the ownership question in the context of a number of transactions: in Kenya, when KLM bought 26% of the shares of *Kenya Airways* in 1996, shares were also listed on the London and Nairobi Stock exchanges, with both offerings oversubscribed. Kenyan investors acquired 34% of the shares, international investors took 14%, the airline employees enrolled in a special program to purchase 3% while the government of Kenya retained 23%. It is estimated that as many as 110'000 different shareholders participated in the domestic offering⁴¹. Other examples include Uganda, with the ownership scheme involving farmers of the *Uganda Tea Growers' Corporation (UTGC)* and Zambia's *Privatization Trust Fund* established in 1994 as a vehicle for selling public minority shareholdings once the majority of shares have been sold by the *Zambia Privatization Agency* to core private investors. With this caveat in mind, the following observations can be made about the impact of privatization on ownership:

- ① *Local entrepreneurs have bought the vast majority of small and medium sized SOEs*
- ② *Large SOEs in the "strategic" sectors (e.g. mining, public utilities) have almost invariably been taken over by foreign investors. As a rule, the larger the transaction value, the higher the involvement of foreign investors*⁴²
- ③ *Whenever nationals purchase a public enterprise, they are more likely to buy it on credit than on a cash basis, compared to foreign buyers, with potential default implications*⁴³

³⁸ HARSCH [2000], p.8

³⁹ See TANGRI [1999], pp.54-61.

⁴⁰ Kenya offers a compelling case in this respect with 51% of transactions were in the form of preemptive rights sales between 1991 and 2001.

⁴¹ MAKONNEN [1999], pp16-17.

⁴² See CRAIG [2002], p.13.

⁴³ See BENNELL [1997], *op.cit.* p.1797; "Ghana: Selected issues", *IMF Country Report Nr.2*, January 2000, p.90.

f. Regulation and Competition

Market structure, competition and regulation frameworks clearly matter in the privatization process. In competitive sectors, “competition” is not necessarily a trivial outcome depending on the original market structure and the sequencing of reforms, and requires a proper framework. In non-competitive sectors, such as some infrastructure monopolies like water distribution or power distribution, enterprise privatization is tantamount to privatizing the sector in which it operates. Adequate regulation is therefore crucial for the proper functioning of the sector. In all cases, the conventional wisdom is that competition and regulation should be dealt with *before* any final decisions are taken on the ownership question⁴⁴. The main argument here is that privatizing first and regulating later does not constitute a first-best option from an economic standpoint, and instead tends to strengthen vested interests, complicates subsequent regulations, leads to “regulation capture” and may seriously curb effective competition. In the telecom sector for instance, empirical research indicates that competition gains are higher in countries where regulation has been addressed prior to the introduction of competition⁴⁵. SHIRLEY *et al.* [2002b] also insists on the “reputation advantage” of setting up the regulator beforehand.

One would *a priori* think that regulatory and competition issues are even more decisive for the post-privatization business environment in Sub-Saharan African economies, where most sectors have generally been either oligopolistic or monopolistic, and operated with information asymmetries and poor institutional frameworks. With widespread private participation in public utilities and infrastructures across the region (as shown in Table 6), how have these issues been dealt with in Sub-Saharan Africa. Available evidence points to two general findings.

① *In the first half of the 1990s, neither the regulatory framework nor the competition framework was developed as an integral part of the reform*

② *In the second half of the 1990s, when large utilities were privatized in some countries, although regulatory frameworks were put in place, enforcement problems have limited the effectiveness of both regulation and competition in several countries.*

The first conclusion, which is very blunt, was reached unambiguously by CAMPBELL-WHITE & BATHIA [1998] (p.48), and indicates that the issues of competition and regulation have almost systematically come as a painful afterthought. In most countries, privatization was pushed ahead before a sound regulatory framework was in place, which both prejudiced the process of privatization itself and laid it open to the charge of creating private monopolies which would exploit the consumer. The very same argument holds for competition, as it turns out that there are no anti-trust legislation in most African countries, which favor cartel arrangements and abuse of economic position. In Ghana for instance, it appears that the privatization program focused on economic considerations but paid little attention to establishing credible regulatory institutions. Apart from a free trade policy, the government had no policy on either competition or regulation⁴⁶, and the guidelines on

⁴⁴ GUISLAIN [1997], p.212.

⁴⁵ WALLSTEN [2002]. See also FINK, MATTOO & RATHINDRAN [200] for further analysis of sequencing.

⁴⁶ See APPIAH-KUBI [2001], p.223.

privatization failed to address the issue of regulating private sector commercial activities and pricing decisions of privatized firms enjoying operating in infrastructures. It was only after a public outcry following substantial price hikes by former public utilities in 1998 that the *Public Utilities Commission* was formally constituted⁴⁷. This has naturally driven many enterprises to look to securing their monopoly power. The case of the electricity sector in Cote d'Ivoire, which also offers some perspectives on the risks of regulatory capture, is reviewed in detail in Box 3.

The second conclusion mentioned above is more serious in scope as it highlights the institutional deficiencies and limitations prevailing in most African countries with regard to the creation of credible regulatory agencies and the enforcement of contracts and the rule of law in general. Indeed, recent experiences with utility privatization between 1997 and 2002 in Sub-Saharan Africa show that more attention has been paid to regulation and competition frameworks, but implementation remains a very serious problem in most cases. Under the auspices of the World Bank, technical assistance and advice has been given to Governments in the context of recent privatizations. For instance, during the privatization of Gabon's *Société d'Energie et d'Eau du Gabon* (water sector), technical assistance was aimed at developing an independent regulatory authority as the capacity of the Gabonese government to regulate was very limited. As the relations between the concessionaire and the authorities over the next 20 years (the duration of the contract) were described in great detail in the transaction documents, efforts were geared towards pinning down the rules of the game as much as possible. The concession contract specified in detail all the respective obligations of concessionaire and conceding authority, the penalties, the accounting rules, the rules for tariff review, mechanisms for arbitration, and so on.

Of course, the move towards detailed regulations is a double-edged sword. First of all, the greater the contract specificity, the greater the likelihood of opportunistic negotiations, as parties may be tempted to take advantage of any subsequent change in conditions to reopen contracts and embark on endless renegotiation. Second and more fundamentally, in practice, the effectiveness of any competition or regulation framework is highly dependent on how contracts are defined and enforced, and on the functioning of the judiciary. Unfortunately, the lack of *de facto* independence of regulatory authorities and of the judiciary often goes hand in hand. Box 3 presents some illustrations of this problem in the cases of Ghana (Telecom sector) and Guinea (water sector), while providing a more positive story for Uganda (Telecom sector). Although the regulation issue is naturally receiving a lot of attention in the context of utilities and infrastructure, it is also important in other (more competitive) sectors like transportation as illustrated by the case of Tanzania: in Dar es Salaam for instance, after fifteen years of chronic transport shortages, private buses have now managed to meet demand following privatization. Yet, there is no effective control of entry into the market of the intra-regional and inter-regional transportation sector⁴⁸. It now appears that the market is over-supplied as a result of the lack of state control over conditions of entry and regulations of standards within the market. Competition between a very large number of private operators “*has manifested*

⁴⁷ *idem.*

⁴⁸ IMF, “Tanzania: Selected Issues and Statistical Appendix”, *IMF Staff Country Report 03/2*, January 2003, p.93.

*itself in speeding, overloading of vehicles, and reluctance to comply with policy directives on concessionary tariffs*⁴⁹. A lack of effective regulation on working conditions allows bus owners to take advantage of the abundant supply of labor to protect their own margins at the cost of their workers and passengers.

To conclude, it is fairly obvious that effective competition and regulation remain the most daunting challenge in all countries of Sub-Saharan Africa, with the exception of South Africa. It is not a new problem, it is a persistent one which deserves more attention at the policy level, as it has implications on many post-privatization aspects, including that of the social outcome of privatization.

⁴⁹ RIZZO [2002], pp.153-154.

Table 4. Private Participation in Public Utilities in Sub-Saharan Africa (1990-2002)

Country	Energy ⁵⁰	Telecom	Water & Sanitation
Benin	-	-	-
Botswana	-	✓	-
Burkina Faso	-	-	✓
Burundi	-	✓	-
Cameroon	-	✓	-
Cape Verde	✓	✓	✓
Central African Republic	-	✓	✓
Chad	-	✓	✓
Congo	✓	✓	✓
Cote d'Ivoire	✓	✓	✓
Dem. Rep. of the Congo	-	✓	-
Gabon	✓	-	✓
Gambia	-	-	-
Ghana	✓	✓	-
Guinea	✓	✓	✓
Guinea Bissau	✓	✓	-
Kenya	✓	✓	-
Lesotho	-	✓	-
Madagascar	-	✓	-
Malawi	-	✓	-
Mali	✓	-	✓
Mauritania	-	✓	-
Mauritius	✓	✓	-
Mozambique	-	✓	✓
Namibia	-	✓	-
Nigeria	-	✓	-
Niger	✓	✓	✓
Rwanda	-	✓	-
Sao Tome & Principe	✓	✓	-
Senegal	✓	✓	✓
South Africa	✓	✓	✓
Sudan	-	✓	-
Swaziland	-	✓	-
Tanzania	✓	✓	-
Togo	-	-	-
Uganda	-	✓	✓
Zambia	✓	✓	-
Zimbabwe	✓	✓	-

Source: *World Bank PPI Project Database, African Privatization Database, HALL, BAYLISS & LOBINA [2002].*

⁵⁰ Defined to include electricity generation, transmission and distribution, and natural gas transmission and distribution (but not extraction or processing).

Box 3. Competition and Regulation. Some Country Evidence

The telecom sector in **Ghana** is a textbook case of failed liberalization due to a very weak institutional setting and provides interesting lessons on the impact of weak regulation on competition.

Ghana was among the first African countries to see partial privatization of a state-owned fixed carrier and introduce competition in the basic services market. In December 1996 it privatized its incumbent firm, *Ghana Telecom* (GT), and sold a license to another investor to build a competing network in 1997 (*Westel*). Three mobile operators began their operations between 1992 and 1996. So on paper, stiff competition was injected in the telecom sector, with 2 fixed-line carriers and three mobile operators. However, although the reforms produced a rapid growth in fixed lines, expansion was strictly limited to Accra, targets were not met and Ghana remained one of the few markets in Africa with more fixed than mobile users. Worse, competition never worked: GT maintained a market share of at least 99% until 2002, while *Westel* never got off the ground: after three years of operations, *Westel* only had about 2600 subscribers due to very serious interconnectivity problems with GT. The mobile market also suffered from interconnectivity problems and proved very chaotic, as mobile operators using various technology standards were allowed to offer services under loosely defined “authorizations” rather than formal licenses with well defined obligations. What lies behind Ghana’s telecom mayhem is a weak regulatory framework, subject to political influence and an inability to enforce decisions. Interestingly, regulation was an integral part of the reform, and the December 1996 Act creating the *National Communications Authority* (NCA) gave the regulator considerable authority including responsibilities for granting licenses, setting standards, providing tariff rules and regulating the use of frequencies. NCA was also empowered to require operators to permit interconnections (by imposing default agreements if necessary). However, the regulations prepared to accompany the act have never been passed by Parliament. In addition, the Act failed to safeguard the NCA’s independence from political influence, as the President appointed all members of its board, and the NCA remained under the control of the Minister of Communications. In fact, the NCA has never functioned as envisioned in the Act, had no board of directors between 1997 and 2000, was led by interim managements, was mostly staffed by retired professionals from GT⁵¹, and had neither information nor power to act as a neutral regulator.

This weak environment has seriously hampered competition, as GT *had every incentive to make interconnection difficult for all potential competitors that needed access to its customers*. Worse, the amount of public information available about GT diminished drastically after privatization (despite the fact that GT is still 70% public owned), leaving it virtually free from public scrutiny.

In February 2002, the Ghanaian government abrogated its management contract with Telecom Malaysia and signed a three-year similar contract with Norway’s *Telenor*. Although the change of strategic investor may signal a new start for the sector, the need to address the vastly inadequate regulatory environment remains.

⁵¹ SHIRLEY *et al.* [2002b], pp.22-24.

Box 3. Competition and Regulation. Some Country Evidence (continued)

The telecom sector in **Uganda**, offers an interesting example of liberalization in a setting similar to Ghana's, but where the institutional framework supported rather than hampered competition. Uganda, like Ghana, allowed competition in basic services by selling a second network license in 1998 while struggling with the privatization of its incumbent operator, *Uganda Telecommunications* (UTL), which eventually was divested in June 2000 on the fourth privatization attempt. Prior to 1997, the authorities had issued a limited cellular license in 1994 to *Celtel*, a private GSM service operator backed by *Vodafone Airtouch Group*. By and large, the sector was largely unregulated.

The second network license was won by *Mobile Telephone Networks* of South Africa (MTN) in April 1998 through an open bidding process. The privatization of UTL was also initiated in 1998, but Parliament, concerned with corrupt practices in other transactions, suspended all privatization activity. Despite the fact that the UTL transaction was explicitly exempt from this ban, the process dragged on until 2000, when 51% of the shares were sold to a multinational consortium. Both MTN's entry and UTL's privatization have boosted competition: shortly before UTL privatization, MTN's market share was close to 60%, while UTL's share had dropped to 25% and Celtel's share was around 12%. Connected customers grew by 265% in about two and half years and MTN overshot all its contractual expansion targets. With the privatization of UTL, competition moved to the mobile front, and the number of wireless subscribers surged while tariffs declined further.

One important dimension of this success is the demonstration effect of the institutional framework: the Uganda Communications Commission (UCC) was created in 1997 and had the responsibility of granting licenses, setting standards, providing tariff rules, regulating the use of frequencies. NCA was also empowered to require operators to permit interconnections (by imposing default agreements if necessary). As in Ghana, UCC was not fully independent of the Ministry of Communications, yet the Government has not intervened to date in the regulatory process, reflecting its credibility concern vis-à-vis private investors. One additional factor which may have paradoxically helped is the fact that the telecom sector was not considered as overly "strategic" by the Government, which may also explain the lack of political interference in the regulatory process. And although interconnection issues have given rise to tensions, competition has not been hindered. The regulator has illustrated a growing track record of fairness and transparent methods of work as well as a growing tradition of non-interference from government⁵², which has favored competition.

Interestingly, the sale of UTL proved to be more valuable and viable into a competitive market than before competition was in place, and contrary to what happened in other countries, delaying a sale until the regulatory body was up and running provided important comfort to bidders. The delay also helped establish competition in Uganda, in sharp contrast to the case of Ghana. This example strongly suggests that sequencing in competition and regulation is an important issue in order to avoid distortions and the abuse of dominant incumbent power.

⁵² See SHIRLEY *et al.* [2002a], pp.33-48.

Box 3. Competition and Regulation. Some Country Evidence (continued)

In **Cote d'Ivoire**, the electricity sector is a typical example of the problems associated with privatizing the utility first and then gradually refining the regulatory structure as the need arises.

By 1990, financial mismanagement had nearly bankrupted EECI –the electricity company. Despite very high electricity tariffs, it faced increasing liquidity problems and risked insolvency. This prompted President Houphouët Boigny to call up the French businessman Bouygues and ask him to make a bid. An *ad-hoc* Ministerial committee was set up to negotiate the deal bilaterally with the Bouygues group and *Electricité de France* (EdF). After 5 months of negotiations, a 15 year concession was given to the new *Compagnie Ivoirienne d'Énergie* (CIE) to manage for a fee the generation, transmission, distribution, import and export of electricity. Responsibility for investment remained in the hands of the former public concession holder, EECI, which also oversaw the application of the concession. CIE is managed by SAUR (of the Bouygues group) and EdF, which jointly own 51% of CIE through a subsidiary. Starting in 1994, new “competing” generation independent power producers (IPPs) were commissioned: CIPREL (owned by SAUR and EdF) and Azito (owned by ABB, EdF and the Aga Khan group). The power sector is fed by two offshore associated-gas investments that are owned by two consortia, one led by Ocean Energy and the other by Apache and Bouygues (Foxtrot). In 1994, a *National Electricity Fund* was established to ensure balanced financial management of power sector resources.

Additionally, the Government reformed the regulatory framework in 1998, creating three entities including: (i) SOGEPE, which owns the assets on behalf of the Government and which monitors the financial flows in the system; (ii) ANARE, the economic regulator, which monitors the performance of the companies, recommends tariffs, and settles disputes; and (iii) SOPIE, which purchases the power from the IPPs, supervises the investment program and monitors dispatch. This system has led to the proliferation of official institutions with overlapping functions and responsibilities, and unsurprisingly, the division of labor between the different entities (CIE and EECI in particular) has never worked in practice⁵³: CIE is responsible for generation and distribution, but does not control either investment or maintenance; yet, the investment structure can only work when the sector is in financial equilibrium, which has not been the case since 1999.

This confusion naturally creates tensions, as the Government alleges that there has been over-billing for services by CIE since 1990, and that CIE has overstated the level of rural connections completed. On the competition front, despite the presence of so-called independent power producers, the sector remains heavily controlled by the Bouygues group and EdF, through their stakes in both CIE and IPPs, but also in the offshore gas consortiums, which is peculiar. This dominant position is unlikely to be challenged, as a bilateral agreement, signed in the Spring of 2002 between the Government and the Bouygues group, allows for a 20 years renewal of the electricity concession, thereby compromising any serious possibility of revisiting the structure of the sector. The deal, made in exchange for the building of a third bridge in the Abidjan lagoon, is also an unfortunate illustration of transparency problems which still plague the privatization process.

⁵³ See TURKSON [2000], Chapter 3, pp.46-49.

Box 3. Competition and Regulation. Some Country Evidence (continued)

In **Guinea**, a well-documented case of the impact of improper regulation is the privatization of water distribution services. In 1989 Guinea signed a lease agreement with a French private consortium led by *Compagnie Générale des Eaux* and SAUR to operate the state-owned *Société d'Exploitation des Eaux de Guinée* (SEEG), to deliver water, bill and collect payment in 17 urban centers. The government, through the *Société Générale des Eaux de Guinée* (SONEG), retained ownership of the assets, responsibility for setting policy and tariffs, and channeling investment. Before the reform, the price of water was an artificially low US\$0.12 per m³, and it was initially projected that the average charge to consumers would need to rise to US\$0.76 per m³ in 1995 and then fall back to US\$0.68 to meet operational costs⁵⁴. The cost of phasing in increasing tariffs was funded by an IDA loan, and this subsidy was to decline as either periodic rate increases or efficiency gains reduced the need. However, by 1997 the price per m³ stood at US\$ 0.83, a near seven-fold increase from 1989, and more than 40 times the 1986 price. The price was very high by international standards and was considerably higher than in most other lease/concession arrangements in Asia and Latin America. Connection costs reached US\$90, that is 60% of monthly average income of a high public servant, and the minimum bimonthly payment for service was about US\$13. With the high price of water from the network, many residents could not or would not pay for it: in 1994, nearly 12'000 connections were inactive because of non-payment⁵⁵. As put by NELLIS [2003] (p.4), "*post-privatization, an essential commodity had become less affordable*". Arguably, the reform resulted in an increased connection rate (although slower than anticipated), rapid metering, improved water and service quality, improved bill collection from private consumer, higher total factor productivity and improved financial situation. However, the amount of unaccounted water remained above 40%, reflecting in part government payment arrears or non-payment.

Although the reasons behind the high price of water in Guinea remain unclear, one crucial factor was the institutional framework, combining overlapping responsibilities, weak regulation, weak judiciary and political influence. For instance, the division of investment responsibilities between SEEG and SONEG has led to significant delays and problems. On the regulation side, SONEG was responsible for monitoring SEEG, but suffered from a lack of autonomy (major decisions were made by the cabinet of the Minister and even to the Presidency), and to information asymmetries between SONEG and SEEG. Finally, implementation of the different contracts between SONEG and SEEG has been difficult, reflecting low administrative capacity and the absence of an independent judiciary. With this weak institutional setup, SEEG remained too dependent on the Government to cut-off government departments that did not pay their water bills, which contributed to pushing up water prices. And with poor regulatory oversight, SONEG had limited information on SEEG's finances, which may have induced SEEG to request abusive tariff increases.

⁵⁴ TRICHE [1990].

⁵⁵ BROOK COWEN [1996].

g. Governance and Predation

As reported in CAMPBELL WHITE & BHATIA [1998], transparency problems have affected the credibility of privatizations in most African countries, and hence, questioned the very nature of competition introduced following the privatization of state owned enterprises. In a thought-provoking book on the politics of patronage in Africa, TANGRI [1999] claims “*where states elites have been able to direct and manage closely the privatization process and, in particular, ensure that privatization transactions maintain rather than undermine political support for themselves, the governments have been less unwilling to undertake public sector divestiture programmes*” (p.57). The political obstacles to privatization have been actually weaker than expected, and on occasion, political leaders have used privatization as a way of recentralizing power, reasserting presidential control over patronage networks, and weakening political contenders⁵⁶. Many allegations of corruption have appeared in the local press of nearly all countries, fed by some of the features of many privatization transactions in Sub-Saharan Africa. First of all, the choice of enterprises to be privatized has not followed transparent criteria, Second, information about transactions has rarely been subject to publications in the early stages of privatization programs. Third, final approval of transactions was often a government prerogative, confined to a small group of state officials. Fourth, the use of privatization proceeds has rarely been transparent⁵⁷. Fifth, the financial arrangements of some apparently competitive transactions have revealed shocking details, leading people to suspect political patronage⁵⁸. Of course, one should be cautious about sorting the real cases from politically motivated accusations. In addition, some of the alleged problems were not specific to privatization only, but applied to business practices in the private and the public sector, despite the fact that similar abuses did not enjoy wide press coverage⁵⁹. With this caveat in mind, there are some well documented cases reported by watchdogs such as *Transparency International* or scholars⁶⁰, which are worth looking at. A sample of these cases is given in Box 4.

Skeptics could argue that the initial redistribution of assets during privatization is not a serious issue, first because privatization itself will create new incentives for behaving in an economically efficient way, and second because the market is likely to reallocate assets to efficient owners over time. These arguments may however have little bearing on most African countries for two reasons: first, incentives may still be distorted when both competition and regulation issues are not properly addressed, particularly when existing private stakeholders can secure “preferential” treatment from the authorities and lock the market, and second, in the absence of developed capital markets, asset reallocation is simply not taking place.

⁵⁶ See VAN DE WALLE [2001] pp.162-164. On the same issue, see also HIBOU [1999].

⁵⁷ In Uganda for instance, privatization receipts were placed off budget in a “divestiture account” to be used for paying off public enterprise debts, compensating workers for job losses and other “unspecified” purposes; yet, the legislation was so vague on accounting procedures that various allegations of misuse of funds and asset-stripping have been voiced by Parliament. See DAVIS, OSSOWSKI *et.al.* [2000], p.5.

⁵⁸ In Ghana for instance, the properties of *ATS Motors* were reported to have been handed over to the buyers as collateral security for a bank loan *before* the required initial payment for the purchase was made.

⁵⁹

⁶⁰ For instance, TANGRI [2001], pp.117-133.

Of course, things have to be put into perspective. Privatization programs have been subject to widespread corruption in other regions of the world as well, and in particular in transition countries such as Russia⁶¹. In the absence of a reliable database, it is impossible to claim that privatization-related corruption is “worse” or “better” in Sub-Saharan Africa than in Transition countries or in Latin America. Suffice it to say, privatization offers important corruption opportunities, particularly for large transactions, regardless of the region specifics. The important message is that, *as elsewhere, the reputation cost of some big corruption scandals involved in privatization transactions has contributed to discrediting privatization programs in many countries and this has led to a major perception problem about the credibility of privatizations which is now difficult to overcome.*

Box 4. Governance & Predation. Some country evidence

The case of Uganda Commercial Bank - *Uganda Commercial Bank* (UCB) was the largest commercial bank in the country, holding nearly 50% of the commercial bank deposits and having the largest branch network in Uganda. Preparations for UCB privatization began in 1994. An expatriate management team was retained, and in 1996, tenders were sought internationally with the assistance of Morgan Grenfell investment bank. Of the seven short-listed interested bidders, only Westmont Land of Malaysia submitted a formal bid of US\$11 mn, which was accepted. An agreement was signed on October 27, 1997 to sell 49% of UCB equity to Westmont Land, with an option to purchase another 2%. The sale was formally completed only on April 30, 1998, following various delays in meeting payment deadlines⁶².

Shortly after sale completion, it was discovered that the transaction had been financed by loans from Greenland bank, the private commercial bank of the Greenland Investments group (GIL) in which President Museveni’s brother, Salim Saleh, was a major shareholder. The Central Bank also discovered that UCB, while operating under Westmont-appointed management, had placed deposits with Greenland Bank in excess of the amount that had been advanced to Westmont to finance the purchase of shares of UCB. Likewise, UCB began extending unsecured loans worth some US\$40 mn to companies associated with GIL and to interests owned by Salim Saleh⁶³. The Central Bank, had to move in to manage both UCB and Greenland, until the latter's final closure in April 1999. The deal with Westmont was called off. The Central Bank also confirmed subsequently that there was a “secret agreement” between the two parties whereby Westmont was a “briefcase” company representing GIL interests. Salim Saleh admitted in December 1998 to buying UCB through GIL “to prevent it falling into the hands of foreign investors” among other reasons⁶⁴. He was also involved in other privatization scandals. Yet, criminal investigation was not been deemed necessary by the Select Investigation Committee of Parliament in its final October 1999 report, in contradiction with its November 1998 interim report. After two years of management by the Central Bank, and amid considerable Parliament’s opposition, UCB was again tendered for bidders and finally sold to *Standard Investment Corporation Limited* (Stanbic Bank) of South Africa in May 2002.

⁶¹ See KAUFMANN & SIEGELBAUM [1997], pp.419-458.

⁶² See *IMF Country Report No.99/116*, Uganda: Selected Issues & Statistical Appendix, October 1999, p.27.

⁶³ See TANGRI [2001], p.125.

⁶⁴ *Idem.*

Box 4. Governance & Predation. Some country evidence (continued)

Zambia's ZZCM Luanshya mine – The sale of the Luanshya mine to India's Binani Group in June 1997 has been subject to various allegations of corruption⁶⁵. Although these allegations are difficult to verify, the circumstances of the sale are very dubious: The Zambian Privatization Agency (ZPA) had been indeed negotiating the sale of the mine and had already identified Canada's *First Quantum Minerals* as the "preferred bidder", but shortly after the decision to sell Luanshya Mine to First Quantum, the Committee of Ministers intervened and ordered the ZPA Board to meet the following day to "consider another bid". The bidders were given a 48-hour ultimatum to submit fresh bids. When the bids were opened, it was discovered that the Binani Group had bettered that of First Quantum Minerals by a marginal fraction. First Quantum Minerals sued the Zambian government and the Binani Group, arguing that the contents of its bid must have been leaked to Binani. The evidence presented to the Court showed that ZPA officials doubted the Binani' Group's pledge to retain the 7000 plus workforce at Luanshya Mine, as well as the Group's ability to raise capital to finance its development projects. Yet, the ZPA changed its mind, suggesting that it must have come under political pressure to sell the Mine to Binani. It appears indeed that the Binani Group (which incorporated the Luanshya assets into a new company called "RAMCOZ"), had no sound track record in the mining industry, no reasonable business plan, and ended up failing to pay its major creditors, failing to service its debt, and failing to pay retrenchment fees to redundant employees (as pointed out in section c). This scandal led to the resignation of the Attorney General, George Chilupe, who had the "final say" over the divestiture of state enterprises before the signature of the sale by the Finance Minister. According to the local press, it was found that the Attorney General was paid a substantial amount of money into his United Kingdom bank account for letting the sale go through despite all the irregularities marring the transaction.

As of mid-2003, the case of the Luanshya mines is still unresolved. RAMCOZ has been placed under receivership at the instance of Zambia National Commercial Bank, one of its largest creditors. A parliamentary report has identified asset-stripping, gross negligence, abuse of the Privatization Act and other malpractices, but under pressure from the Government, the Parliament finally rejected the report⁶⁶.

⁶⁵ See HOPE & CHIKULO [2000], pp.168-169.

⁶⁶ TRANSPARENCY INTERNATIONAL [2001], p.62.

h. Consumer Benefits and Income Distribution Impact

Since one of the objectives of privatization is to gear incentives towards demand while being subject to hard budget constraints, assessing the impact of privatization on consumer's surplus and on welfare is a key issue. Unfortunately, these issues have rarely been addressed in a systematic basis. Only in Cote d'Ivoire (JONES, JAMMAL & GOKGUR [1999]) have consumer surpluses been properly estimated. It turns out that consumers benefited only modestly as a result of privatization, obtaining only 5% of the benefits. According to the authors, ex-ante sectoral performance, inherited structure and ex-post regulatory policies are important explanatory factors. In Guinea, the same methodology was used in the water sector only, and the results show that consumers achieved almost 60% of the benefits⁶⁷, despite the fact that water prices increased by 700% between 1989 and 1997, and that the physical network expanded less than originally anticipated⁶⁸. In other countries, the picture is patchy and anecdotal, but *price increases following privatization seem to be the rule, together with an increase in coverage, however limited to urban areas*. Given the great deal of sector variation, assessing benefits accruing to consumers on an average basis remains very difficult. In former public utilities, it is still early to assess whether access to services and coverage has increased depending on the sectors. As a general rule, the experience with transportation, water and electricity is mixed, whereas the experience with Telecom is clearly positive with the possible exception of Ghana. In the latter sector, privatization has almost invariably brought down fixed lines costs, and coverage has increased. The mobile phone market has literally taken off, but at the expense of further investment and maintenance in fixed line telephony, however. In this respect, a showcase example is *MTN-Uganda*, which overshot its expansion target by 25% after two years of operation, instead of five as originally scheduled; as a result, teledensity increased by 250% between 1998 and 2000. Bank privatization has generally not led to a substantial increase in financial intermediation owing to structural impediments, which remain unaddressed in most countries (legal framework, role of the judiciary etc.).

Another important dimension is the quality of products and services. This is difficult to assess, as consumer surveys are not generalized across Africa. Some partial enterprise surveys exist, offering the supply side perspective, but demand is still by and large ignored from the exercise. Without careful consideration of the counterfactual, causality is also difficult to establish. Notwithstanding these difficulties, *anecdotal evidence indicates that the quality of privatized services (including customer services) has increased in some but not all cases*. A flagship example is certainly *Kenya Airways*, which was turned into one of the best African airlines in terms of performance, reliability and service, after being privatized in 1996 with KLM as the strategic investor. Other examples include the water sector in Guinea, where the quality of water drastically improved post-privatization and Cote d'Ivoire, where the customer response rate in telecom services increased substantially post-privatization⁶⁹. In Ghana, an impact assessment study of privatization found that 50% of divested manufacturing respondent firms recorded considerable improvements in the

⁶⁷ MENARD & CLARKE [2000], pp.43-44.

⁶⁸ The percentage of the population with access to water rose from 38% in 1989 and an estimated 70% in 2001.

⁶⁹ JONES, KAMMAL & GOKGUR [1999], p.I-28.

quality of their products as a result of stepped up quality insurance and control efforts⁷⁰. This still leaves out the other 50% though, and strangely enough, only gives the supply side of the story.

Beyond general welfare considerations, assessing the distributional impact of privatization has received little attention in Sub-Saharan Africa's context, mostly because of data limitations. Income distribution decomposition and consumption data are still very partial in most Sub-Saharan Africa, and do not allow for sophisticated statistical exercises. Equity considerations have therefore been by and large overlooked to date, although the tradeoff between efficiency and equity is definitely a crucial dimension in the current debate about the impact of privatization worldwide⁷¹. The distributional impact of price increases for instance depend a lot on consumption patterns, access to goods and services for some income groups, and the existence of differentiated prices pre-privatization. Such considerations are particularly important in public utilities and infrastructures in particular while there have certainly less practical relevance in sectors such as oil and mining for instance. In the absence of reliable statistics, no serious exercise can be attempted, and one is left with a handful of hypotheses resting on anecdotal evidence:

① There doesn't appear to be any association between privatization, poverty and income distribution trends

As a general observation, it is important to note that poverty (defined as \$1/day) generally increased across Sub-Saharan Africa during the 1990s, as documented by SALA-I-MARTIN [2002]. There were considerable country differences however, as reported in Table 7, with the worse deterioration in poverty occurring in Nigeria (+48%) Madagascar (+ 27%) and Zambia (+27%) whereas the highest decline took place in Uganda (-22%). Very limited evidence on income distribution trends reported in Table 8 also shows large country variation, but in any case, data is too scarce to assess the potential role of privatization in those trends: "far-reaching privatizers"⁷² such as Zambia, Kenya, or Ghana, appear at both ends of the spectrum, and the same can be said for less successful privatizers such as Nigeria and Ethiopia.

② On average, the price increases following the privatization of some public utility services have only marginally affected the poor living in urban areas

A priori, one could argue that public utility privatization could have negatively affected the urban poor, not only through price increases but also through cutting services to illegal users, thus breaking an inefficient yet implicit "welfare contract" between the government and the poor. However appealing, this may not hold for various reasons. Using the water sector as an example, one can argue that in all cases, water quality and safety increased dramatically after privatization. This implies that, as documented by Menard & Clarke [2000] in the case of Guinea, publicly supplied water was an important vector of disease prior to privatization. Thus, it may hard to argue that the cracking down on all those tapping water illegally for instance has really contributed to worsen their situation in making them dependent on unsafe water compared to pre-privatization times. The situation is similar in the electricity sector, where frequent power outages and discharges often resulted in huge

⁷⁰ APPIAH-KUBI [2001], p.217.

⁷¹ See BIRDSALL & NELLIS [2002].

⁷² Defined in terms of percentage of SOEs divested, as reported in Table 1.

voltage variations and thus in damages. With higher electricity prices yet better managed electricity delivery, it is hard to make a case for the worsening of the poor's situation. Overall, it is intuitive to think that the urban poor have been very relatively unaffected by privatization, either positively or negatively⁷³.

Table 7. Poverty trends in Sub-Saharan Africa between 1990 and 1998

Countries with an increase in poverty rates	Countries with no change in poverty rates	Countries with a decline in poverty rates
Burundi Central African Republic Gabon Guinea-Bissau Madagascar Niger Nigeria Rwanda Senegal South Africa Tanzania Tanzania The Gambia Zambia	Ghana	Burkina Faso Cote d'Ivoire Ethiopia Guinea Kenya Mali Uganda Zimbabwe

Note: Poverty is defined as less than 1\$/day

Source: SALA-I-MARTIN [2002].

Table 8. Gini Index trends in the 1990s

Country	Time 1	Time 2
Ghana	33.9	39.6
Guinea	46.8	40.3
Kenya	57.4	44.5
Nigeria	45	50.6
Senegal	53.1	41.3
Uganda	39.2	37.4
Zambia	46.2	52.2

Note: Time 1 and Time 2 are not uniform across countries. Generally, Time 1 is located in the first half of the 1990s whereas Time 2 is located in the second half of the 1990s except in the case of Guinea and Kenya where both observations are from the first half of the 1990s.

Source: *World Development Indicators*, 2002

⁷³ One further element in favor of this hypothesis is that this generally corresponds to what has been observed elsewhere, and most notably in Latin America's urban centers, as documented by MCKENZIE & MOORKHERJEE [2003].

③ *On average, the effect of privatization on the poor living in rural areas has been neutral except in a limited number of negative cases*

Rural areas have been relatively unaffected by most privatization transactions and hence, it is intuitive to think that the poverty picture has not fundamentally changed. The one possible exception includes divestitures resulting in large employment layoffs in rural areas and where large segments of the surrounding population depended directly or indirectly on the SOE's activities: a possible example is the case of *Luanshya & Baluba copper mines* in Zambia (see section 3d).

To conclude, it is not an overstatement to claim that social aspects and impacts of privatizations have been by and large overlooked, reflecting the tendency to focus on privatization *transactions*, rather than on sector reorganization at large, including wider social objectives. Given the paucity of data, the rest is a matter of conjecture. At this juncture, one is tempted to believe that the income distribution impact of privatization in Sub-Saharan Africa is *at best neutral, at worse negative as the previous implicit "welfare contract" is breached*. People living in extreme poverty have almost certainly not been affected at all either way by privatization programs in Sub-Saharan Africa. But both the impact of privatization on some services and the net employment reduction in divested SOEs has negatively affected some groups, intuitively the middle-lower group of the distribution.

4. Some Lessons

With the broad overview presented in the previous sections, what are the main lessons to be drawn from the experience with privatization in Sub-Saharan Africa at this juncture?

One important lesson is that *there is a general perception problem with the achievements of privatization, linked to unrealistic ex-ante expectations*. At the risk of over-generalization, and although additional post-privatization assessment of enterprise performance are needed to draw firm conclusions, it is tempting to say that privatization represented *more a damage-limitation exercise than an economic booster*. This is already quite an achievement given the starting point of many SOEs. Most privatizations took place in the context of highly imperfect market competition, obvious political patronage, absence of regulations, weak institutional capacities, and fragile macroeconomic stabilization. In addition, most of the divested firms were in desperate financial situations, crippled by debt and short of liquidity. Under such conditions, the difficult context of privatizations mattered even more than the transactions *per se*. With this caveat in mind, it is not surprising that privatizations yielded mixed results in Sub-Saharan Africa, with large differences across sectors and projects. It has not been a plain disaster, but it has not been an outright success either. It has, however, been somewhat better than public perceptions. Therefore, depicting the picture as half full or half empty is very much a matter of *perceptions* and *ex-ante* expectations. What seems obvious is that donors, technical advisers and policy makers, have all suffered from an illusion bias regarding the possible achievements of privatization given the difficult business and institutional environment in Sub-Saharan Africa. Indeed, the simplistic way privatization was sold to the general public created very high expectations, which could not possibly be met, resulting in the overall

perception of “failure”. It is pretty clear for instance that privatization has been oversold with regard to the alleged net fiscal benefits associated with privatization, private sector investment and job creation, except in a few specific success stories. The reality check has been hard-hitting, but rather than stressing the disappointing “impact” of privatization, it is certainly more relevant to wonder what else could have been done (the usual counterfactual puzzle). The counterfactual is certainly difficult to find given the above-mentioned conditions prevailing in most countries, and any useful discussion would involve case specific aspects. That is not to say that the privatization strategy (unbundling activities or not, privatization versus liquidation etc.) was appropriate in all transactions, but this would require in depth study of its own. The general lesson for future privatizations is to tackle this key perception problem first by putting the achievements and deceptions of privatization transactions in perspective, by being more realistic about the impact of a particular project, and even more importantly, by having a more sector-oriented approach rather than a transaction-focused approach in which privatizations are part of a series of interconnected structural changes.

Second, *there is a general recognition that privatization has been heavily donor-driven, which has generated a reform ownership problem and sometimes an unfortunate bias in the sales price negotiations.* Individual privatization transactions have been often linked to World Bank and IMF disbursements, as donors placed a lot of emphasis on the *number* of transactions, and influenced the timing and pace of privatization⁷⁴. The World Bank and other donors have often initiated much of the design work in the face of low government commitment or consensus, leading to weak ownership⁷⁵. Against this background, privatization has often been perceived as a donor requirement but rarely as an economic necessity from an efficiency standpoint. The stated objectives of privatization have hardly been more than window dressing: with the exception of Zambia and Ghana, the stated objectives appeared to be fairly general, not transaction specific, and were sometimes only remotely linked to privatization *per se*⁷⁶. What seems obvious is that the need to meet IMF & World Bank conditionality in order to get financial assistance and the need to address the desperate financial situation of some SOEs were the dominant forces behind privatization policies. With limited government commitment and huge donor pressure, the outcome of privatization is not fundamentally different from that of other structural reforms: uneven. Thus, it can never be emphasized enough that government commitment is fundamental, and that neither conditionality nor other pressures can substitute for that. This is even more crucial nowadays, since virtually all the “basket-case” SOEs have been liquidated and the debate is now firmly focused on some key infrastructure utilities such as water.

Third, *privatization has created new political patronage opportunities, which need to be addressed in order to reestablish credibility in the privatization process.* This is certainly neither worse nor better than other instruments of patronage, but under the present highly imperfect competition situation, rents are still around, alive and kicking. As indicated in the previous section, this situation has led to several scandals, contributing to the serious

⁷⁴ See CAMPBELL WHITE & BHATIA [1998], pp.26-34 and chapter 7 for a discussion of this crucial issue.

⁷⁵ CAMPBELL WHITE & BHATIA [1998], p.43.

⁷⁶This reflects the fact that very often, privatization was part of a broader program of public enterprises reform where the objectives were defined for the entire program.

damage associated with the credibility of the privatization process. This is all the more unfortunate because privatization has often been sold as a solution to the endemic corruption problem plaguing state-owned enterprises. The main lesson here is that future privatizations must seriously address the current credibility gap. This involves cracking down on existing allegations of corruption as well as offering tangible proof regarding the effective transparency of future privatization deals in order to restore public confidence. Both governments and donors have a role to play in this very challenging task. The first proposition is politically sensitive as it involves targeting all actors suspected of corruption, including foreign firms. This is important because there is a widespread perception in Sub-Saharan Africa that donors are “covering up” for large private firms. In this respect, there are already some encouraging first steps: the first is that OECD countries have accepted to take measures against their firms taking bribe abroad; the second is that the World Bank is also slowly recognizing the problem: in the *Lesotho Highlands Water Project* implemented in the early nineties, a number of consulting firms and contractors working on the project have been charged with paying bribes and their trial is currently under way with the Bank paying for the prosecution of the case⁷⁷. In addition, the Bank has also come up with a “black list” of firms and individuals ineligible to be awarded a Bank-financed contract because they were found to have violated the fraud and corruption provisions of the Bank’s internal guidelines⁷⁸. On the side of governments, progress is also being made. In Mozambique for instance, the *Banco Commercial de Moçambique* (BCM) case (see Box 1) took 2 years to come to court and a warrant has now been issued for the arrest of the former attorney general, who is suspected of corruption. The second proposition, insuring transparency, requires innovative methods to make sure that even public tendering are not bypassed at the last minute by governance interference. This can be achieved if donors or specialized agencies take on the reputation risk in supervising the process and making sure that there is proper competition *for* the market, especially in public utilities. For instance, the *International Financial Corporation* (IFC) has been advising governments through its private sector advisory services facility in a number of recent privatization deals in Sub-Saharan Africa including in Gabon (water sector), Cameroon (electricity sector), Uganda (telecoms) and Kenya (*Kenya Airways*). Given the active lending role of various arms of the Bank in Africa (IDA lending, IFC lending, MIGA guarantee), credibility in being perceived as a neutral broker may be an issue in some cases⁷⁹, so alternatively, international governance watchdogs such as *Transparency International* could also help supervise the transactional aspects and offer their seal of respectability on the deal, as suggested by NELLIS [2003].

Fourth, *while privatization may be instrumental in creating a competitive framework, it is only a necessary condition but not a sufficient one*. This is of crucial importance for the economic efficiency of the economic sectors in which privatized firms operate. Experience in Sub-Saharan Africa and elsewhere suggests that the link between privatization and

⁷⁷ TRANSPARENCY INTERNATIONAL [2001], p.63. Interestingly enough, the *World Bank Oversight Committee for Fraud and Corruption* is also investigating the alleged corruption, but its conclusions are still pending (see WORLD BANK [2002a], p.19).

⁷⁸ The list can be found at <http://www.worldbank.org/html/opr/procure/debarr.html>

⁷⁹ One obvious example of potential conflicts of interest is the situation of Cote d’Ivoire’s electricity sector, which is dominated by the Bouyges Group (France) and by private firms with IFC stakes.. Under such a setting, one would think that an IFC advisory mandate to restructure the whole sector would raise some conflicts of interest issues. Interestingly, such a mandate was seriously considered in 2002.

private sector development is far from evident, as privatization does not necessarily lead to increased competition in the absence of a proper framework⁸⁰. This does not suggest that that effective competition can be created without privatization, but that privatization is only the first step in fostering competition. Competition has often been “captured” by private operators, which have been eager to negotiate exclusive rights and preferential treatment. This has favored collusive behavior, cartel arrangements, and abuse of dominant position. This is certainly not new: some private firms had been granted preferential treatment in the 1980s in some countries⁸¹. In this regard, effective domestic regulation and competition frameworks are still the cornerstones of successful post-privatization environments. Unfortunately, these issues cannot be dealt with in a vacuum, and are part of the general institutional capacity deficiencies of most countries, most notably in the legal and judiciary system. In competitive sectors, one obvious example is the financial sector, which is dominated by commercial banks in Sub-Saharan Africa. Despite some problems and failures (most notably in Mozambique and in Uganda), privatization of commercial banks has led to obvious improvements in the financial sector: reckless lending has stopped, so has the drain on public resources, and the sector is financially much sounder than a decade ago in all countries which experienced bank privatization. Problems do however remain. Bank profitability is by and large due to large consumer fees, but does not result from bank intermediation returns. Competition is very limited, reflecting a high banking concentration ratio⁸², and the savings base remains at basement levels. Consequently, banks do very little bank intermediation and the market is often characterized by excess liquidity, yet private sector financing is scarce and banks are not keen on extending loans. This picture summarizes the major paradox of some privatizations, as the economic behavior of banks is perfectly rational given the high risks associated with the *business environment* in which they have to operate. Table 9, which compiles firm surveys in 18 African countries, gives a broad overview of the red tape faced by businesses including banks in terms of length and costs of various procedures (without bribes, however). The proper enforcement of contracts at the level of the judiciary system⁸³ is by far the most serious problem that commercial banks typically face, which goes beyond red tape considerations. Political interference, corruption and a very unfortunate jurisprudence favoring debtors versus creditors in some cases, are the most serious constraints. Under such conditions, it is perfectly logical that financial intermediation is virtually non-existent, and bank privatization does not change this fundamental institutional impediment. In non-competitive sectors such as water and electricity distribution, the obvious problem is the regulatory contract between the service provider and the authorities, which is critical to avoid abuses, but also to secure investment, define access targets and deal with key social issues such as tariff rebalancing and cross-

⁸⁰ On this point, see OECD[2003], p.33.

⁸¹ One good example is Senegal’s “*conventions spéciales*” giving absolute monopoly power, exclusive import licenses, tax relief and free capital transfers in the sectors of cement, sugar and tomato paste.

⁸² Just as a matter of illustration, 80% of deposits is held by the five largest banks.

⁸³ One extreme case is certainly Cameroon, where not only are financial guarantees non-enforceable, but the regional Central Bank (BEAC) has also agreed -if not helped- judges to access central banks offices and seize bank accounts to cover the debt owed to third parties, taking advantage of the implementation loopholes of the OAHADA (harmonization of business law) framework in Cameroon. This practice, known as “*saisie-attribution*”, was identified thanks to vigorous IMF pressures on the government, but effective corrective measures are yet to take place.

subsidization. But here again, the typical problems have to do with regulation enforcement and conflict resolution.

Table 9. Business Environment Indicators
(As of January 2002)

	ENTRY REGULATIONS			CONTRACT ENFORCEMENT		INSOLVENCY	
	Start-up procedures	Time to start up a business (days)	Registration costs (% GNI per capita)	Procedures To enforce a contract	Time to enforce a contract (days)	Time to resolve insolvency (days)	Costs to resolve insolvency (% of insolvency estate)
Benin	9	63	168	44	248	1150	18
Burkina Faso	15	39	328	24	376	..	..
Cameroon	13	56	197	46	548	328	18
Cote d'Ivoire	10	91	136	18	150	800	18
Ethiopia	8	44	429	24	895	..	..
Ghana	10	126	98	21	90	591	18
Kenya	11	68	44	25	255	1667	18
Madagascar	15	68	58	29	166	800	18
Malawi	11	56	94	12	108	..	..
Mali	13	61	230	27	150	1278	18
Mozambique	16	214	74	18	540	..	..
Niger	11	27	390	29	365	..	..
Nigeria	9	50	92	12	87	336	1
Senegal	9	58	116	30	335	..	..
South Africa	9	32	7	18	207	730	18
Tanzania	13	37	229	14	127	1095	8
Uganda	17	36	114	16	99	730	38
Zambia	6	40	43	16	188	1365	8

Source: World Bank Doing Business Database, 2003

So what is to be done? First of all, *it is time to recognize that there are costs associated with the creation and maintenance of regulatory and competition institutions.* The biggest failure is certainly to have tried to sell privatization as an efficient cost-cutter for cash-strapped countries, hoping that free market forces would do the rest. Most African governments have “discovered” that setting the right market environment and regulations framework entailed costs in the short run. These costs can be perceived as investing into future private sector development, but they must be addressed. Second, *institution and capacity building must be part of the reform agenda in a more systematic way.* Institution building is not well covered in economic theory and has only gained recognition in the late 1990s⁸⁴, but there is now a consensus among donors that most structural reforms are unable to deliver tangible results under the current institutional setting. This is, however, a formidable challenge for governments, populations and donors, as institutional reform is intrinsically linked to political, sociological and cultural factors, which evolve slowly over time. Some “shortcuts” or “stopgap” measures can be worked out in some specific sectors, such as the *contacting out of regulatory services* or the *recourse to specific contracts generally arbitrated offshore and enforced by international treaty.* However, such devices alone do not offer any long-term solution to the institution building problem *per se*, as they simply bypass rather than build domestic capacity. Technical assistance and capacity building financed by donors to design regulatory agencies can help along the way,

⁸⁴ See WORLD BANK [2002b]

especially if the focus is on relatively simple systems. The World Bank, for instance, has begun to explore the feasibility and desirability of establishing global principles for the design of regulatory regimes as well as a certification program for regulatory practitioners⁸⁵. Such efforts are useful to a certain extent, but their ingestion must be home-grown to be sustainable over time. The bottom line is that this process is bound to take time, as it involves fundamental changes in terms of power relations. If one accepts this analysis, the most tricky policy question is whether or not to go ahead with privatization where the legal, regulatory and institutional frameworks are weak, and likely to remain so for some time. In other words, if institution building takes time to materialize, what is to be done in the meantime? Given the complexity of the issues involved, no simple answer can give justice to this classic dilemma. In the light of the experience with privatization documented in this paper, it is obvious that the real issue is how to tackle infrastructure privatization, and former public utilities in particular. In such sectors, it can be argued that speed may not be the essence, and setting up a basic institutional environment prior to the privatization seems to be favorable, complemented with some of the “stopgap” measures identified above. By contrast, institutional issues matter far less in tradable sectors, so privatization policies should be not be affected.

Fourth, *one of the important lessons of the last decade in Sub-Saharan Africa is that the distributional impact of privatization has, by and large, been overlooked*. As a result, we know relatively little about the social impact of privatizations. This is where the fiscal logic of most privatization transactions (maximize the transaction value in order to produce a positive fiscal effect) is in contradiction with the costs associated with cross-subsidization schemes and other pro-poor spending, which are critical to expand coverage of certain former public utility services like water and electricity. These social objectives are intrinsically linked to the above-mentioned regulation issue. Therefore, intended privatizations need to be subject to prospective welfare analysis from the point of view of the society as a whole. This is an *awareness exercise* which has implications for sector strategy, proper regulation details, and poverty reduction strategies. Depending on the starting point, some important redistributive effects are unavoidable, but it is important to be able to gauge these dynamic effects in order to be best prepared to sell such reforms to the public. This is a crucial public relation issue.

5. Conclusions

More empirical studies are needed, most notably at the level of post-privatization performance and at the welfare analysis level, to refine and nuance the sometimes impressionistic conclusions of this study. At this juncture, what is striking is that while most authors agree that privatization can yield very positive results “*if and when done properly*”, experience in Sub-Saharan Africa shows that issues and pitfalls have not

⁸⁵ A number of initiatives were taken in 2001-2002, aimed at exploring the feasibility and desirability of developing an individual certification program. These included: a) a needs-assessment covering regulatory agencies in Latin America, Africa, Europe, and Asia; b) a report on the governance and administration structures of various certification programs; and c) a convention of regulatory experts (in May 2002), to discuss the possibility of developing a certification program for regulatory professionals.

fundamentally changed between 1991 and 2002. The Campbell-White & Bathia's study and the "*ten commandments*" of African privatization developed by the IFC⁸⁶ (11 actually...) still capture the thrust of the privatization challenge. For sure, political commitment, proper transparency, regulation and competition frameworks have been repeatedly emphasized by scholars and practitioners of privatization in Africa and elsewhere over time, but they are still at the forefront of privatization concerns. This suggests that institutional transformation and by extension, fundamental changes in business environments, have been the weakest link in the reform agenda and have undermined the operational credibility of privatization. The resulting perception problem in African public opinions is an additional challenge in the political economy of reform: carefully studying available evidence, understanding what has worked and what has not worked and trying to better assess the likely consequences of future privatization for the society as a whole can only offer some humble guidelines for tomorrow's practitioners.

Thierry Buchs, CPM
December 5, 2003.

⁸⁶ See <http://www.ifc.org/publications/pubs/impact/impsm99/commandm/commandm.html>. The "10 commandments" are: 1. *Thou canst lead thy horse to water, but verily... ; 2. Know thy priorities; 3. And there shall come forth a host of thine enemies...; 4. Privatization must bringeth forth the benefits; 5. Money is NOT the root of all privatization; 6. Fatten thy calf before the slaughter; 7. Competitive bids bringeth better bargains; 8. Involve all stakeholders; 9. Privatization costeth money (a lot of it); 10. Thou shalt regulate; 11. Thou shalt choose good advisers*

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