

Findings

Africa Region



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Privatization in Africa

In a way, the story of privatization in Africa reflects some of the problems which have beset many other development processes: lack of political commitment, poor design, insufficient resources, weak management, and corruption. But in another way it is worse because privatization is a one-off opportunity not only to reduce the fiscal and administrative burdens of a large public enterprise sector but also to spur private sector development, to instil greater government accountability, and to contribute to the fight against poverty; and that opportunity has been grasped by few governments.

Privatization in Africa is the outcome of a study undertaken during 1995 and 1996. Up to that time, privatization throughout the continent had been slow, with few visible results and a general feeling among observers and donors that African governments' commitment to the process was generally half-hearted. The purpose of the study was to answer three questions about privatization: (i) what has been happening? (ii) what has resulted? and (iii) what could be done to improve the process in terms of outcome. The data and analyses presented to answer these questions fills a significant gap in the published literature on privatization in Africa. The case-study countries were Benin, Burkina Faso, Ghana, Kenya, Madagascar, Nigeria, Togo, Uganda and Zambia.

While acknowledging that transaction data are incomplete and may contain errors, the study nonetheless provides a wealth of information not previously published as well as more reliable data than hitherto available. In fact, one of the reasons why the World Bank extended the scope and depth of the study – including building a comprehensive database of privatization transactions – was because early on in the research it became apparent that much of the then-published data was scant and some of it erroneous. Care was taken by the study team to try to verify information to the extent possible. Indeed, since the book was written, the Africa Region of the World Bank has continued to maintain the transaction database; and the more recent and corrected data are included in Bank presentations on the topic of privatization. The diligence that has been applied is reflected in the opening chapter in which the authors define how the terms "privatization" and "transaction" are applied in the book. The chapter also provides a useful list and summary explanation of each of the privatization methods which have so far

been used in Africa and their outcomes.

The study shows that more privatization has been happening across Africa than was generally thought to be the case; but it also raises many issues about how the process has been planned and implemented. The controversy starts with why African governments have privatized. The study maintains that the evidence suggests that most governments have privatized reluctantly and not for the reasons set out in policy statements. Rather, it is other, non-stated factors that have motivated the process; and this is particularly relevant now that major enterprises are being privatized and corruption is surfacing as an issue. This may explain why, with a few exceptions, governments have not made efforts to sell the process to the people. So, programs have tended to stagger along, prompted by the Bretton Woods institutions and other donors. An accompanying table compares the stated objectives of 14 countries with regard to privatization. An interesting feature here is that the privatization objectives of countries in West Africa tend not to include, in contrast to East and southern African countries, references to ownership. Case studies indicate that the following have been the principal incentives for African countries to divest :

- Political change;
- The need for World Bank, IMF and donor financial assistance;
- The need to generate proceeds;
- The precarious state of some public enterprises;
- The need to maintain employment levels; and
- At times, the need to satisfy vested interests

An important claim is that, despite an expressed desire to broaden ownership, in practice little has been done to accomplish this objective. Apart from initial public offerings in half a dozen countries and a very small number of innovative transactions, the study shows that there have been few opportunities for ordinary people to participate in the process. And this flags a serious concern about privatization's contribution to development: it means that, unless ways can be found for the poorest sections of communities either to participate in the process or to receive measurable benefits from the proceeds, such as improved social services, privatization will help the rich get richer and only very indirectly contribute to the fight against poverty.

Another valuable addition to the literature on privatization is the insight into how African governments have privatized. Different approaches which have been adopted and the weaknesses in design, preparation, implementation, and management of programs that have emerged are identified. These deal with features such as the initial conditions of privatization not being adequately understood, the flawed classification of enterprises as strategic and non-strategic (monopoly utilities

have invariably been characterized as the former and left out of the privatization program), non-establishment of important operating policies, non-transparent use of proceeds, weak

mobilization of potential investors, weak privatization agencies and the lack of appropriate legal authority.

The study also presents the record of privatization to date and, in addition to summary data on transactions, sales values, and methods employed, also includes a valuable analysis of changes in government ownership and summarizes the results up to end-1996. Since then, more of the larger enterprises have come on stream, so that by end-1997 the approximate number of transactions had increased by a further 200 to some 2900 and a cumulative total sale value of around \$6 billion. The approximately dozen countries that had undertaken some form of privatization by 1990 doubled by 1993, and by 1996, all but five countries had divested some public enterprises. Ten countries account for most of the privatization in Africa : Mozambique, Angola, Ghana, Zambia, Kenya, Tanzania, Guinea, Madagascar, Nigeria (federal government only) and Uganda. The study points to the surprising difficulty of obtaining transaction data in many countries and the failure of most governments to establish monitoring procedures so as to be able to track and evaluate enterprises' post-divestiture performance.

Regarding the impact of privatization, clear benefits from privatization have been recorded in terms of the contribution to government financial flows and at the enterprise level where there is a definite trend for privatized enterprises to improve performance, largely as a result of new investment, which has a delayed positive effect on employment. Although the data available at the time of writing suggested some job losses, recent reports on individual enterprises suggests that employment is an overstated issue: over time privatization will lead to more – not less – jobs. But, despite an impressive record of activity to date and the fact that privatization has taken off in virtually every country in Africa, the study shows that it could have been done better. Also, mitigating the social impact of privatization has not been on the agenda in most of the countries. This will become increasingly important as larger enterprises are prepared for privatization.

The difficulty of measuring the success of privatization is also discussed. Until recently, the study explains, few efforts were made to forecast the outcome of privatization programs and, worse still, in very few cases had a system been put in place to monitor post-privatization outcomes. Eight possible indicators for assessing privatization programs are also set out: extent of privatization; financial impact on government; efforts to and achievements in broadening ownership; level of foreign direct investment; enterprise post-privatization performance; program design and management; transparency; and government commitment. Each of these indicators are discussed and this practical approach to assessing government commitment is of considerable value. The eight indicators are applied to ten case study countries, from which analysis only Mozambique and Zambia emerge as success stories. The reasons why Zambia has, in the authors' opinion, the most successful privatization program are explained. A number of reasons are cited, including government commitment, the institutional arrangements (which gives the private sector a leadership role in managing and implementing the program), and the coordinated support of donors. The role of donors is discussed as well as the effectiveness of conditionalities for support, and the lessons for donors.

A recurring theme in the study is the need for more public information. The study suggests that governments could do a much better job of building and maintaining consensus if the public

were better informed before, during, and after the process. To convince the public that privatization is necessary and desirable, they need to be aware of how badly state-owned enterprises are performing and what that means for ordinary people, the options which are available, the implications of not privatizing, how the process will be carried out, and what actions government will take to mitigate negative social effects. Throughout a privatization program, implementing agencies should keep the public informed of progress, and routinely publish information about the outcome of the bidding and evaluation process for each transaction. In terms of post-privatization reporting, the public should periodically be told how privatized companies are performing, the amount of proceeds that have been generated and how that money has been utilized. Few governments have applied these principles consistently, especially as regards the use of proceeds; fewer still have done so effectively. With concerns and controversy surrounding the divestiture of larger enterprises (predominantly utilities), there will be increasing demands for transparency and disclosure, the more so in view of the increasing attention being given to corruption. Of course, more public disclosure will give rise to more debate; but the study argues that this would not only impose more discipline on governments and their implementing agencies to follow transparent procedures, it would also be a healthy contribution to democratization generally.

The summary of the lessons of experience up to end-1996 provides a ready guide to policy-makers, privatization program managers, practitioners, and other interested stakeholders on how to improve the process. The lessons of experience are being applied center on the following : demonstrate commitment; pay greater attention to securing consensus; ensure transparency; invest more in design and preparation; put institutional building blocks in place before launching a program; and do more to broaden ownership. But the key challenge now is for governments to implement the recommendations for improving public information, which is what the study sees as the most powerful tool for enforcing transparency which, in turn, will help build consensus, and assure commitment and accountability.

Privatization in Africa. 1998. Oliver C. Campbell White and Anita Bhatia. *Directions in Development series, World Bank, Washington, D.C.* For more information, please contact Oliver Campbell White, Rm. J4-143, Africa Region, World Bank, 1818 H Street NW. Washington, D.C. 20433. Tel. No. : (202) 473-7952, e-mail address : camwhite@worldbank.org