

Privatization shifts gears in Africa

More concern for public acceptance and development impact but problems remain

Over the past decade, African governments, often under pressure from creditor institutions to act quickly, have sold off thousands of state-owned enterprises. According to the proponents of privatization, the goal is to cut waste, improve economic efficiency, stimulate the private sector and mobilize more foreign and domestic investment. However, the process has been fraught with problems and controversy, causing governments to proceed more carefully.

By **Ernest Harsch**

Nigerian President Olusegun Obasanjo announced a new privatization programme in July 1999 shortly after becoming that country's first elected head of state in 15 years. He was scathing in his criticisms of Nigeria's large public sector, where some of the more than 1,000 state-owned enterprises have been losing millions of dollars annually. "State enterprises," he declared, "suffer from fundamental problems of defective capital structure, excessive bureaucratic control or intervention, inappropriate technology, gross incompetence and mismanagement, blatant corruption and crippling complacency."

A three-phase programme would be carried out, Mr. Obasanjo revealed, under a new high-level National Council on Privatiza-

tion chaired by Vice-President Abubakar Atiku. First to be sold will be the remaining government shares in 11 firms already listed on the stock exchange. Then hotels and vehicle assembly plants will be privatized. Finally, in the third phase, to begin in 2001, the government will sell the electricity and telecommunications utilities, national airline, four oil refineries and a fertilizer company. Although some of these are among the biggest public enterprises in the country, the programme itself is not as sweeping — or as controversial — as a privatization plan announced by the previous military regime just before it left office. Nigeria should privatize carefully and not be rushed, President Obasanjo emphasized. Nor, he added, should it

privatize simply to please the International Monetary Fund (IMF) and World Bank, but to stimulate economic recovery.

A similar approach to privatization is becoming increasingly evident across Africa. For years, African governments relied on large public sectors to stimulate economic development — often because of the extreme weakness of indigenous private business during the immediate post-independence era — but with the intensified push for economic liberalization by the IMF, World Bank and other creditor institutions, more and more African leaders are agreeing to privatize. This, they are told, will help cut public sector inefficiency and waste, provide greater scope to the private sector, attract more investment, bring in new technology and revive economic growth. At the same time, some governments want to proceed in a measured way, avoiding if possible the pitfalls, conflicts and setbacks that marked many of the privatizations carried out in the late 1980s and early 1990s.

Controversy and risk

Privatization in Africa remains highly controversial and politically risky. There have been numerous strikes against proposed sell-offs of state enterprises as unions fear lost jobs or reduced benefits. Student activists, academics and others have condemned both the theory and practice of privatization. Some indigenous business groups have criticized the prominent role of foreign companies in the privatization process. Even high-level government officials, such as Gabonese Interior Minister Louis Gaston Mayila, have denounced privatization as a form of "economic recolonization." In a few countries, opposition to privatization has been cited as one factor in the ouster of incumbent governments, either through election or military coup.

Nigeria's national electricity sector is slated for privatization in 2001.

Until recently, African governments did little to counter such public views, even as the direct economic benefits of privatization were minimal or not very evident. Privatization attracted limited amounts of new investment, frequently failed to foster a genuine competition and had few linkages to any broader developmental goals. The secrecy with which many sales were concluded also tended to foster a public perception that privatization mainly benefited foreign investors or local entrepreneurs with political connections.

While acknowledging some of these shortcomings, Mr. Oliver



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Campbell White, a senior public enterprise specialist at the World Bank, argues that “by and large, privatization has been really a great success. Unfortunately, people don’t know enough about it.” Overall, he told *Africa Recovery*, privatization has strengthened public finances by reducing the huge subsidies that governments often had to sink into loss-making enterprises. Some enterprises, once privatized, have subsequently gone out of business, Mr. Campbell White conceded. “If they are subject to open competition, it is conceivable that some will fail. There’s no guarantee.” Many others, he added, have increased their efficiency, expanded operations and hired new workers.

There is still much room for improvement, analysts argue. In recent years, African governments and international institutions such as the World Bank have focused on a number of key privatization issues in an effort to reduce the problems and increase the benefits. So far, they have met with only partial success. These issues include:

- Minimizing job losses
- Paying greater attention to social and political concerns
- Encouraging prospective buyers to outline future investment plans
- Linking privatization programmes with broader development and private-sector promotion strategies
- Broadening company ownership to include employees and the general public
- Ensuring better follow-up and monitoring, and
- Implementing transactions in a more open, transparent manner, with greater involvement by unions and other concerned parties

The last point is particularly important, according to a 1999 working paper of the UN Economic Commission for Africa (ECA).^{*} Emphasizing that achieving broader national consensus is vital, it states that “a participatory approach to privatization by providing public information and encouraging debate is the best way to secure consensus.”

A continent-wide trend

Such shifts in approach become all the more important as the pace of privatization picks up across the African continent. Although some African countries began modest privatization programmes in the 1980s, it was not until the 1990s that the numbers increased significantly. A 1998 World Bank study, *Privatization in Africa* (written by Mr. Campbell White and Ms. Anita Bhatia), reported that nearly 2,700 privatization transactions had taken

place in sub-Saharan Africa by the end of 1996. In the three years since then, there have been hundreds more.

Hardly any African country does not now have some kind of privatization programme. Even such countries as Liberia and Sierra Leone, which have been devastated by war, have either

begun to privatize some enterprises or plan to when security conditions improve. Rwanda, still trying to recover from the genocide of 1994, has a very active privatization programme. It finalized 11 sales in a three-month period in 1998 alone. Namibia is one of the very few with no plans to privatize, largely because its state enterprises are generally operating at a profit.

In the first half of the 1990s, many of the public enterprises divested in Africa were small- or medium-sized, yielding large num-

bers of privatized enterprises but only modest revenues. Mozambique, with 548, had the greatest number of privatizations up to 1996 but the average value of the transactions was just \$300,000. In contrast, Zimbabwe sold only four enterprises in that period, but those sales brought in an average of \$6.3 mn each.

From 1996-97, African privatization programmes shifted to larger and more attractive state-owned enterprises such as national airlines, banks, shipping companies, public utilities and telecommunications enterprises. As a result, revenues rose significantly. According to World Bank data, the total sales value of all enterprises privatized in sub-Saharan Africa from 1988 to 1996 reached just over \$2.7 bn. This was nearly matched in 1997 alone, when new privatizations brought in a total of \$2.3 bn. In addition, the governments of Egypt, Morocco and Tunisia earned \$2.4 bn from privatizations in 1997, compared with \$3.3 bn in 1995-96 and just \$1.2 bn over the five-year period 1990-94 (see graphs, page 11).

Telecommunications has become a particularly dynamic sector for privatization. Many African phone systems are antiquated and unable to reach more than a small minority of the population. African governments found that selling shares of their telecommunications enterprises to established foreign companies was an easy way to gain access to new technologies and investment resources to modernize and expand their systems. Between 1995 and 1997, portions of telecommunications enterprises in six sub-Saharan countries were sold for a total of more than \$1.7 bn (see table) and the new owners or partners announced ambitious plans for additional investments. Eritrea, Cameroon, Gabon, Kenya, Mali, Mozambique, Niger and Nigeria are also now in the process of privatizing their telecommunications systems.

Because of privatization, the size of Africa’s public sector has decreased markedly. The World Bank estimates that the number of state-owned enterprises in sub-Saharan Africa fell from 6,069 to

Country	Year	Sales (\$ mn)	Share sold (%)
Cape Verde	1995	20	89
Guinea	1995	45	60
Ghana	1996	38	30
Côte d’Ivoire	1997	210	51
South Africa	1997	1,260	30
Senegal	1997	191	60

Source: International Telecommunication Union, Economist Intelligence Unit, World Bank.

^{*} “Broadening Local Participation in Privatization of Public Assets in Africa,” 1999, prepared for the ECA’s Economic and Social Policy Division by Mr. Dawit Makonnen, a consultant.

4,058 between 1990 and 1995, a 33 per cent reduction. Though smaller in size, the remaining public sector is generally in better financial health since many of the most inefficient and unprofitable firms were among those sold off or liquidated.

Côte d'Ivoire illustrates the shift away from state enterprises. With the sale of more than 50 state firms, the public sector's contribution to gross domestic product (GDP) declined from 9.5 per cent to 2.8 per cent between 1994 and 1997 and its share of formal employment fell from 22 per cent to 7 per cent over the same period. Meanwhile, the private sector has been strengthened. According to Mr. Jean-Claude Brou, head of Côte d'Ivoire's

Privatization Committee, the privatized firms made new investments of CFA 330 bn francs (\$600 mn) between 1994 and 1998, thereby "contributing to the strong growth registered by the Ivorian economy over the past four years."

Conditions and timetables

Much of the initial impetus for privatization in Africa came from creditor institutions, above all the IMF and World Bank, as part of their push for structural adjustment. By 1998, some 34 African countries had World Bank project or programme financing agreements that included privatizations and three-quarters of World Bank loans or credits were conditional, in part, on privatizing state enterprises.

Such conditions have provoked resentment from African governments and fed a popular public view that privatization is basically creditor-driven. Since some of the larger and better publicized cases of privatization involved sales to foreign companies — often from Britain, France, Portugal or Belgium — such external pressure also spurred accusations that privatization is in fact a form of "recolonization."

Governments have sometimes been undermined as a result. In 1996, Benin's President Nicéphore Soglo, a former World Bank official, lost his bid for re-election; political analysts attributed the defeat in part to his programme of rapid and sweeping privatization.

Beyond the political repercussions, the ill-prepared and hasty manner with which many of the early privatizations were carried out contributed to the economic and social difficulties that were encountered. "Donors have exerted pressure to privatize without sufficient information," the World Bank's 1998 study acknowledged.

"Anxious to see speedy action and results, donors ... have spurred African governments into privatization without understanding the constraints or the resources and time needed to overcome them." In particular, a stress on numerical targets tended to put a higher priority on how many enterprises were privatized, rather than how well privatization was carried out.

Over time, some of the creditor institutions, including the World Bank, began to partially reassess their approach and exhibit a new degree of flexibility. In May 1996, the Senegalese government announced that it was rejecting all the offers to buy the state groundnut marketing and processing enterprise, Sonacos, since they were far below the company's estimated value. Some officials worried that the rejection would stir World Bank anger. Instead the Bank representative in Dakar, Mr. Cadman Atta

Cotton: breaking up an 'integrated' sector?

Throughout much of francophone West Africa, cotton is a major export crop, bringing in significant foreign exchange earnings and providing livelihoods for millions of small-scale farmers. From the days of French colonial rule, much of the cotton sector in these countries has been organized in an "integrated" manner. State enterprises provide farmers with seeds, credits and extension services. They buy and gin their crops and market the cotton abroad. In recent years, the World Bank and IMF, in line with their general push for privatization, have pressed governments to sell off or open up their cotton agencies to private participation.

Côte d'Ivoire sold portions of its cotton company in 1998 but most other countries have been very reluctant to privatize. Resistance has come from both governments and the Compagnie française pour le développement des fibres textiles (CFDT), a French state enterprise that owns significant minority shares in most of the francophone cotton agencies. Critics charge that the CFDT opposes privatization because it simply wants to preserve its semi-monopoly position.

However, both CFDT and government officials point to major economic and development considerations. As with other export crops, they worry that liberalization could lead to a decline in the quality of cotton exports. More significantly, in Burkina Faso, Central African Republic, Mali and elsewhere, cotton enterprises provide subsidized inputs and guaranteed markets for many rural farmers. They limit the impact of world market fluctuations on some of the poorest farmers.

Such protection could disappear if the sectors are broken up and privatized, notes Mr. Jean-Luc Lecorre, deputy director of the Africa Merchant Bank which manages investments in agro-industrial enterprises undergoing privatization. Liberalization of markets for fertilizers and other inputs could also bring a reduction in cotton yields if prices are raised higher than farmers can afford, he says. "For such a highly integrated sector, the risks of privatization are many." If privatization becomes necessary, he suggests that governments try to bring in established agro-industrial companies willing to make long-term investments as opposed to commercial enterprises simply after quick profits.

Another option is to sell or turn over portions of these cotton enterprises to the producers themselves. This already is under way in Senegal where 30 per cent of the shares in the state cotton company are being ceded to farmers' associations, with plans to later sell other portions to employees, the general public and a "strategic investor."



Mills, praised the Senegalese authorities for turning down such “ridiculous” offers. He also pledged not to suspend an agricultural adjustment loan which included privatization of the enterprise among its conditions. As of early April 2000, the groundnut enterprise remained under majority government ownership.

During a December 1995 visit to Washington, Eritrean President Isaias Afewerki noted that the US Agency for International Development (USAID) had become less aggressive in insisting on rapid privatization. “The language and approach of USAID has completely changed,” he said. “I remember three or four years ago they told us: ‘you should privatize companies within six months.’ That kind of thing was a constant source of friction between us and USAID officials.”

While it may have eased, the pressure to privatize has not ended. Privatization has remained a common and central feature in many World Bank and IMF loan agreements. Officials of the two institutions have publicly complained about what they regard as the slow pace of privatization in Cameroon, Comoros, Ghana, Malawi, Zimbabwe and other countries. In December 1997, the IMF halted lending to Niger under an enhanced structural adjustment facility when the government, under fire from a wave of bitter labour strikes, failed to move toward privatization of 12 major enterprises. The Fund resumed lending the next year when the government again promised to push ahead with privatization.

Mr. Campbell White argues that continuing pressure from the World Bank stems from a concern for the broader process of economic reform even at the expense of greater attention to issues like employment or social equity. “Unfortunately,” he says, “the drive to get the reform process moving and to keep it on track tends very

often to result in this institution pushing: privatize, privatize, privatize. Perhaps some of these humanitarian issues do get a little bit sidelined, but that’s not due to disinterest. It’s merely that there’s a bigger agenda of reform that has to take place.”

Labour demands job protection

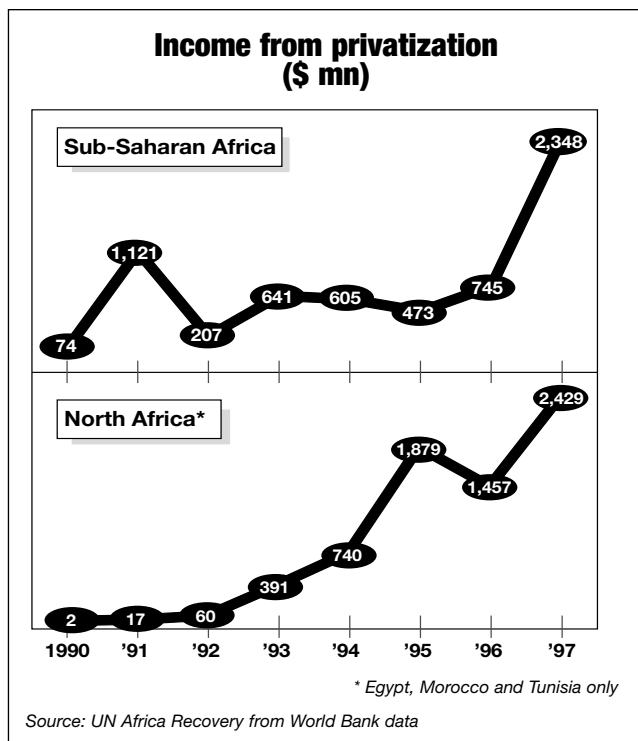
From the beginning, the most publicly persistent and organized opposition to privatization in Africa has come from the labour movement. Most recently, in 1999, there were strikes or threatened strikes against privatization in several countries including Benin, Cape Verde, Gabon and Niger. Sometimes workers succeeded in blocking or slowing down the privatization of specific enterprises or influencing negotiations for a privatization agreement. At other times, responding to external pressures, governments have simply brushed labour opposition aside, leaving a legacy of anger and political tension.

Usually, workers are reacting against threatened jobs or the possibility that benefits might be jeopardized under new management. Fears are heightened by the fact that some of the early privatizations did result in job losses. These either came with the arrival of new management, or earlier, as governments restructured financially troubled enterprises to make them more attractive to potential buyers. In São Tomé and Príncipe, agricultural labourers not only lost their jobs when state farms were privatized, they also were evicted from the plantation housing where they and their families lived.

There has been almost no follow-up monitoring of privatized enterprises, so accurate figures on pre- and post-privatization employment levels are generally unavailable. The World Bank conducted a survey of 54 privatized enterprises in Benin, Burkina Faso, Ghana, Togo and Zambia and found that between the time of privatization and the first quarter of 1996, overall employment in the companies had declined by 15 per cent, ranging from a steep fall of 36 per cent in Benin to a very slight increase of 0.1 per cent in Burkina Faso. In 1999, the Sudan Workers Trade Unions Federation charged that some 40,000 workers had lost their jobs in that country since privatization began in 1992.

Government and donor officials argue that many of these jobs might have been lost anyway since governments simply could not keep subsidizing crisis-ridden public enterprises indefinitely. Through privatization, they say, the enterprises have been placed on a sounder footing and in some cases have been able to expand operations and hire additional workers (or rehire some of those who were initially retrenched).

Nevertheless, governments and privatization commissions are now more attentive to job concerns. Frequently, when a state enterprise is offered to private bidders, retention of existing staff is either an explicit criterion or a major consideration when the government assesses offers. In Burkina Faso, the government received four offers for its giant sugar complex in Banfora in 1998. It immediately turned down one company that wanted to



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cut 700 staff and ultimately sold to a bidder that offered the lowest price and pledged to maintain the entire workforce while making significant new investments.

Shares and a voice in privatization

Although not yet a widespread practice, employee shareholding schemes are becoming more common as governments try to win workers' acceptance of privatization by giving them an ownership stake. When Senegal's telecommunications enterprise was sold in 1997, the workers were permitted to buy 10 per cent of the shares at a special discount (see box, page 15). In Benin, employee equity participation is part of the privatization law, although it has yet to be implemented.

"One of the mistakes we made in privatizing in Africa," notes

Mr. Campbell White, "was not talking to labour leaders early on." Now union representatives are gradually gaining a limited voice, in some cases in the enterprises and, in others, with a formal role in the national privatization agency. In Ghana, the central labour federation was eventually given a seat on the Divestiture Implementation Committee (DIC), which oversees the sale of state assets. The Ghana Trades Union Congress complained that it was not involved when the committee was first established. However, "it is better late than never," notes the federation's Secretary-General Christian Appiah Agyei. Despite continuing skepticism about the privatization programme, he said that the union decided to take an active part in the DIC to ensure that workers get the benefits due to them. "What we have achieved for our members who were declared redundant might not be the best but, as a popular saying goes, half a loaf is better than none."

In other countries too, unions have shifted from outright opposition to privatization to trying to influence the way it is carried out. In Niger, telecommunications workers went on strike in August and September 1999 to protest government plans to break up and sell the mobile phone network. The workers felt that such a move would undercut the value of the business for potential investors and might jeopardize its prospects after privatization. The government relented and agreed to sell the enterprise as a single entity.

Privatization pluses and minuses in Mozambique

Mozambican trade unionists criticize privatization for causing unemployment while the government says that privatization creates more jobs. Among the hundreds of companies (mostly very small) that have been privatized, both sides can find examples to back up their case. In some cases, new owners of smaller companies, far from resuming production, used business premises as warehouses. In one extreme example, a new owner turned the building of the company he had acquired into a church.

Occasionally, flagrant abuses led the government to cancel a privatization plan and retain the company under state ownership until another tender could be arranged. This happened in 1996 with the Maputo mattress factory, Morfeu, after the new owner failed to pay the company's debts, pay his workers on time or draw up an investment plan.

The government says such cases are not representative and that most privatized firms are functioning reasonably well. President Joaquim Chissano told parliament in March 1999 that while some privatized companies had laid off staff, others had hired new workers and that, in total, the number of jobs had increased by 40 per cent.

President Chissano said that when the privatization programme began in the late 1980s, only 42 per cent of state companies were operational. The rest were paralyzed or "semi-paralyzed." Today, 77 per cent of privatized companies are working, he said. Ten per cent are undergoing rehabilitation and 13 per cent are still inactive.

The government claims that "90 per cent" of privatized companies have been sold to Mozambicans. This is true, but most of the big companies are in the other 10 per cent. The country's three cement factories are now owned by the Portuguese cement giant, CIMPOR; the country's only glassware factory is in the hands of another Portuguese firm, Barbosa e Almeida; and two of the three breweries were sold to South African Breweries (SAB).

The breweries, run as a company called Cervejas de Moçambique (CDM), are an example of a highly successful privatization. SAB invested heavily in new machinery, and production at two breweries, in Maputo and Beira, tripled between 1995 and 1998. This relatively cheap local beer is available all over southern and central Mozambique, and has destroyed the once thriving trade in smuggled South African beer. The government benefited too. Taxes paid by the breweries rose by 700 per cent. By 1998, CDM provided about 5 per cent of total tax revenue. The brewery workers also are doing well. CDM pays a minimum wage equivalent to \$96 a month, more than two-and-a-half times the statutory minimum. CDM was the first company quoted on the Mozambican stock exchange, which opened in October 1999.

— Paul Fauvet, Maputo

Development and social equity

Privatization often has an impact far beyond a firm's immediate employees and their families. Some public enterprises were originally established with broader development goals in mind: to build infrastructure, stimulate production in the absence of a strong private sector, spearhead industrial diversification or extend essential economic and social services to previously neglected sections of the population. In the initial rush to privatize, those goals were sometimes forgotten.

In the late 1980s, agricultural marketing boards and rural development agencies were dismantled or partly privatized in a number of African countries. Farmers generally welcomed the removal of price controls on their crops but they soon found that credit and agricultural inputs became more expensive or simply disappeared. The private sector did not rush to fill the gaps in the marketing chain, especially in poorer or more remote rural areas where profit margins were small. In Senegal, associations of small-scale farmers in the Senegal River Valley complained about the disruptions caused by the sudden elimination of state agricultural marketing and input supply operations.

The Zambia National Farmers Union supported the privatization of maize purchasing but is critical of the hasty manner in which it was carried out in the early 1990s. Smaller-scale Zambian farmers within the organization and in the rival Peasant Farmers' Union charge that agricultural prices now are far more unpredictable than in the past. In 1997, the main organization of cocoa farmers in Côte d'Ivoire criticized the ongoing privatization of the cocoa marketing and price stabilization board, pointing out that the agency funded the expansion of rural infrastructure and that private companies were unlikely to do so. Despite their concerns, the board was dissolved in January 1999.

In the case of major export crops, governments sometimes worry that privatization of marketing boards will lead to a decline in the quality of the crops sold abroad. This happened when Nigeria's cocoa marketing board was abruptly dissolved in 1986; it had selected only high-grade cocoa for export and its dissolution brought a decline in quality and lost Nigeria its premium niche in the world market. Ghana, which has long enjoyed a high premium abroad for its cocoa exports, is resisting IMF proposals to liberalize the export business, even as internal cocoa buying has been liberalized. Partly for similar reasons, a number of francophone West African countries are reluctant to privatize their state cotton enterprises (see box, page 10).

On occasion, inequities within countries have also become an issue. In largely francophone Cameroon, chiefs and local political dignitaries from the anglophone South-West Province met with national officials in February 1999 to oppose plans to privatize the Cameroon Development Corporation (CDC), one of the country's largest agro-industrial enterprises. They stressed the CDC's historical role in helping develop their province.

In Uganda and Tanzania, the governments, unions and local financial communities all raised concerns that selling major state banks to foreign institutions would lead to the closure of smaller and less profitable rural branches and deprive many people of basic banking services. The Ugandan government has indicated that a potential buyer's commitment to maintaining a nationwide network of branches will be one of the criteria for the sale of the Uganda Commercial Bank.

Broadening ownership

To many ordinary Africans, privatization is a very distant process in which they have no hope of participating. World Bank

Senegal: both smooth and rough

Since 1995, Senegal's privatization programme has moved into high gear. As elsewhere in Africa, the process has been uneven. Some cases of privatization have proceeded relatively smoothly and with a broad measure of public acceptance. Others have been highly controversial and turbulent. Two cases in particular highlight the range of experiences.

Telecommunications: A 33.3 per cent share of the Société nationale des télécommunications (Sonatel) was sold in July 1997 to a subsidiary of France Télécom which also took over management of the company. This followed the collapse of an earlier agreement to sell a third of Sonatel to a Swedish-US consortium. Although the consortium offered a higher price than France Télécom, it was unwilling to make the same commitment to retain staff or match France Télécom's long-term investment plans. Under the plans, the number of telephone lines would quadruple over the next decade. Through a subsequent recapitalization in 1999, France Télécom's ownership share was increased to 42 per cent.

At the time of the original sale, 10 per cent of the shares were sold to Sonatel employees at a highly discounted rate, easing some of the workers' earlier anxieties about privatization. Another 17 per cent were then offered for public sale through the francophone regional stock exchange in Abidjan, Côte d'Ivoire; two-thirds were reserved for Senegalese nationals and institutions. All shares were quickly bought up, including by some 9,000 Senegalese individuals who paid a total of CFA 17 bn (\$30 mn). This surprised some analysts who had expected little individual participation because of Senegal's generally low savings rate. Since then, Sonatel shares have risen in value and traded briskly on the Abidjan exchange, dwarfing almost all other stocks.

Despite the relative success of Sonatel's privatization, the World Bank has been critical of the continued monopoly the company enjoys over the country's network of fixed telephone lines. It argues that the sector needs to be opened up to competition.

Electricity: The same year that Sonatel was privatized, the government announced plans to sell majority shares in the state electricity company — the Société nationale sénégalaise d'électricité (Sénélec). The company's unions vehemently denounced the move and launched a series of strikes and go-slow actions which contributed to country-wide power blackouts. This prompted the government to imprison a number of the top union leaders for several months.

In March 1999, the government sold a 34 per cent share of Sénélec to a consortium led by Hydro Québec of Canada which took over management of the company. The government also pledged to sell another 15 per cent of Sénélec through the Abidjan stock exchange and to reserve a further 10 per cent for company employees. This would reduce the government's stake to a 41 per cent share. So far, the unions have remained opposed to privatization and declined to take the shares reserved for them.

Meanwhile, Senegal's aged network has frequent power failures which seriously hinder the country's economic growth. Sénélec's need for substantial new financing — both to upgrade the network and pay off large pre-privatization debts — has prompted Hydro Québec to propose increasing the enterprise's capital base. If this goes ahead, Hydro Québec's ownership share could increase from 34 to 51 per cent, which could result in further confrontation with the unions.

officials cite figures to show that most privatized firms are sold to nationals, but these are generally the smaller ones. Many of the largest and most profitable go to foreigners — often from the former colonial power — fueling opposition to the perceived sell-off of "national assets."

Such views are not limited to opposition parties or trade unions; they are also held by indigenous business organizations. In early 1999, the national business forum in Cameroon — the Groupement interpatronal du Cameroun — complained that the qualifying conditions for bidding for the national water and electricity companies discriminated against local investors and favoured French

companies. In Kenya, the National Chamber of Commerce and Industry suggested that a portion of privatization revenues be set aside for a credit fund for indigenous small-scale enterprises.

Even when national investors do take a leading role in a privatized company, there is sometimes public resentment that businessmen from certain ethnic groups have an undue advantage. Moreover, the frequent secrecy or lack of public information about how buyers are selected lends credence to press reports that some privatization programmes are riddled with corruption or tend to favour political insiders.

The ECA working paper mentioned earlier argues forcefully that broadening ownership is vital for the long-term success of privatization in Africa. "Broadening local participation in privatization satisfies national aspirations. It can also activate political acceptance of privatization and, ultimately, it can boost domestic savings."

Nevertheless, only scattered efforts have been made so far in Africa to give local people greater ownership in privatized firms.

created in 1994. The PTF "warehouses" up to 30 per cent of shares in companies for later sale to the public. Rwanda is planning a similar trust fund.

While encouraging the strengthening of African stock markets as the best long-term route to broader ownership, ECA regards "directed group" ownership schemes as a promising medium-term solution. These involve offering equity shares at discounted prices or on deferred terms to people who have little capital but are directly involved in a particular production sector. One example is the Uganda Tea Growers' Corporation where tea farmers gradually buy into the corporation's factories as they sell their tea. Initial subscriptions are as low as 5,000 shillings (about \$3.30).

Commitment and transparency

Privatization "is both an economic and political exercise but more the latter," notes Mr. Bernard Verr, director-general of Nigeria's Bureau of Public Enterprises and a member of its National Council on Privatization. Therefore, he adds, privatization requires "the commitment of the highest political authority."

Some countries, like Nigeria, have placed their privatization programmes directly under the offices of the president or vice-president, or at the cabinet level. Others have created strong or semi-autonomous privatization commissions with participation from government, business and other sectors. In Botswana, the Chamber of Commerce and the trade unions were involved in the creation of the Public Enterprise Monitoring and Privatization Agency in 1999.

One of the key tasks facing such agencies and commissions is ensuring greater transparency and accountability in the privatization process. In a number of countries, separate auditing and parliamentary oversight committees have been established to help monitor privatizations. In Uganda, revelations about corruption in some privatization deals not only brought the resignation of the privatization minister but also prompted the parliament in late 1998 to order a temporary suspension of the entire privatization process until it had completed an inquiry (which led to the sacking of several more officials).

Some World Bank and IMF officials express concern about the suspension in Uganda, but Mr. Campbell White observes that such delays may be inevitable as policy discussions about privatization become more inclusive and open. "We need to pay a lot more attention to garnering information on people's views and getting people to participate in the formulation of policy. Yes, this may well slow up design, preparation and implementation early on. But once you get that out of the way, [a privatization



Ghana Information Services Department

Drying cocoa: privatization of marketing board functions can lead to lower quality exports.

Employee equity schemes are one method. Most common is the floating of shares on local stock markets, which ECA regards as "the easiest way to reach as many people as possible." Many of Nigeria's privatization transactions were carried out in this way. Regional quotas achieved an equitable geographic distribution of shares. Often, part of a large enterprise is sold to an external "strategic investor" while a certain percentage of shares is floated through the stock market. This happened with Kenya Airways and Ashanti Goldfields in Ghana.

The ECA notes the limitations of such public share floats. Many African stock markets are still in their infancy. In any case, most people are far too poor to buy shares. This has prompted governments to retain minority holdings of privatized enterprises for future public offerings; either directly or through special trustee funds, such as Zambia's Privatization Trust Fund (PTF),

programme is] very much more likely to be successful.”

How the profits of privatization are used is another area in which greater transparency is needed, analysts point out. Often, governments give very little indication of how such income is spent, further fueling speculation about high-level corruption or the diversion of funds for pre-election spending or to plug budgetary deficits.

In some cases however, governments have enhanced public confidence by not only giving a public accounting of privatization revenues but also by specifically targeting them to vital development needs. After the sale of Senegal’s telecommunications enterprise, the minister of finance, in a supplementary budget bill, allocated a portion of the revenue to social programmes.

Such moves have not eliminated all the problems facing privatization in Senegal — or elsewhere in Africa — but they have opened the way for greater public engagement and debate in a process that is now a central feature of economic change throughout the continent. ■

Zambian copper privatization stumbles

According to the World Bank, Zambia’s privatization programme has been among the most successful in Africa. By mid-1999, nearly 230 of the 280 state enterprises slated for privatization had already been sold off. However, privatization of the country’s largest enterprise by far, the Zambia Consolidated Copper Mines (ZCCM), proved much more difficult. Not only is it a sensitive issue among miners who face widespread job losses, it has also run up against the uncertainties of the world market — a problem that has plagued mining privatizations in several other African countries.

To make ZCCM more attractive to investors, the

Low copper prices have made it harder to sell Zambian mines.



UN / Milton Grant

giant enterprise was “unbundled” into five major and six smaller units. Environmental protection laws were relaxed despite the fact that the company is a major polluter. These incentives were not enough, however, to overcome investor hesitancy. In 1996-97, the price for copper on the world market began to plummet and became worse during the 1997-98 Asian economic crisis. Negotiations dragged on and some deals collapsed as potential buyers pulled out, judging the investment too risky. In 1998, a consortium offered \$130 mn for the three major mines. The government, expecting to get \$500 mn, did not take up the offer.

The continued slide in the price of copper left only one major foreign company still interested in ZCCM — the Anglo American Corporation, a British-South African conglomerate which already had a 20 per cent stake in the enterprise. In 1999, it offered \$90 mn for the same three mines. This time the Zambian authorities agreed.

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save this important enterprise. He ordered an additional tax on imported sugar and required customs officials to enforce quality controls more strictly. This was not a reversion to protectionism, he argued, but a “legal intervention to ensure healthy and fair competition.” During 1999, sugar imports began to come down somewhat.

Post-privatization monitoring

The privatization commission is now keeping a watch on privatized firms to ensure that the new owners live up to their commitments. However, it has met resistance from some companies which view government monitoring as interference in their business affairs. Some have not maintained staffing levels or made the additional investments they originally agreed to make; others are in arrears to the government on their purchase payments. ■

Mr. David Fayama (of the technical secretariat for the coordination of government development programmes) says these companies need to understand the importance of fulfilling the conditions under which they were allowed to buy the enterprises.

Despite such concerns — and even before the shift in the approach to privatization — overall investment is rising. The level of investment in these firms rose from CFA 2.3 bn francs in 1992, before privatization, to CFA 5.6 bn francs in 1996, according to Ministry of Commerce statistics. By the end of 1999, they had risen to CFA 19 bn francs.

Local private-sector involvement has not been broad-based, however. A survey of business attitudes found that while many potential investors are interested in privatization, they feel that it benefits only a small group which has sufficient finance to buy large blocs of shares. In response, Mr. Fayama suggests that small-scale businesses form consortia so that they can take a bigger share in privatized firms. ■