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ALTERNATIVES TO PRIVATIZATION IN AFRICA

Abstract

Most African countries are under increasing pressure from Western governments and international financial institutions led by the World Bank and the International Monetary Fund to liberalize their economies and privatize public sector enterprises. But despite such external pressure to privatize public sector enterprises, most African countries face enormous economic and political constraints that would either slow down the pace of privatization or make it difficult to implement.

It is primarily because of Africa's intractable economic and political problems that I suggest in this paper alternative approaches to full privatization. Alternative strategies discussed include: contracting out public sector activities; use of contract management; introduction of cost-sharing programs; and, putting emphasis on competition at the enterprise level.

Though intended to reduce the economic and political consequences of privatization, the alternative approaches would also improve the overall performance of public enterprises in Africa.

Introduction

Most African countries are presently under increasing international pressure to restructure their economies. In particular, Western governments and international financial institutions led by the World Bank and the International Monetary Fund (IMF) are compelling nearly all African countries to liberalize their economies and privatize[1] public sector enterprises.[2]

The collapse of centrally planned economies of Eastern Europe and the former Soviet Union together with the widespread poor performance of public enterprises in Africa have provided the impetus for accelerated economic liberalization and demands for the privatization of the public sector enterprises in Africa. But despite the pressures, the privatization of public enterprises in Africa is likely to be economically cumbersome and politically risky. Also, evidence from several Third World countries strongly indicates that enterprise performance depends on the quality of management rather than on the type of ownership.

This paper seeks to suggest alternatives to full privatization in Africa. The alternatives suggested here seek to enhance managerial autonomy and accountability, while improving the performance of public enterprises in Sub-Saharan Africa. In addition, the alternative strategies are intended to minimize overall economic and political problems that may be associated with privatization in Africa.

Background to the Privatization Debate

Central to the current privatization debate is the ideological desire to reduce the role of the state in the national economy[3] and a strong belief in the superior economic performance of the private sector.[4] The emergence of privatization in Western industrialized countries has been a result of a strong belief in the use of the market as a solution to structural problems and also as a means of achieving broader economic objectives. The reemergence of privatization as a major policy issue in the West in the mid-1970's through the 1980's is attributed to the election of conservative governments of Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States. Both governments were ideologically committed to the use of the market to solve economic problems. But in Africa and other developing countries, privatization has come about because of a combination of poor public enterprise performance and pressure from international financial institutions particularly the World Bank and the International Monetary Fund. The World Bank and other Western financial institutions argue that a change in ownership would subject public enterprises in Africa to market forces and pave the way for greater efficiency and financial accountability.

There has been a great deal of emphasis given to the transfer of public enterprises to the private sector in developing countries but very little has been said about the quality of management and enterprise performance. Recent studies reported in several developing countries indicate that enterprise performance is a result of good management rather than the type of ownership.[5] Furthermore, although the overall performance of public enterprises in developing countries has been disappointing, there is evidence that parastatal organizations from such varied countries as South Korea, Brazil, Uganda, Iraq or Kenya have performed better than private firms in the same countries.[6] In South Korea, for example, parastatal organizations are not only efficient substitutes for private sector firms but are also used for providing export growth and stimulating the private sector. The success of Korean public enterprises is largely attributed to "high political commitment, appropriate methodology that measures performance and incentive, and career development systems which are performance related."[7] On the other hand, the success of the Ugandan public enterprises prior to 1971 was primarily attributed to both the quality of management and the absence of political interference in their operational decisions.[8] Finally, a recent comparative study of public enterprise performance in Tanzania and Zambia done by this author concluded that enterprise performance is a result of the quality of management.[9]

Given that enterprise performance is determined by management rather than ownership, it is difficult to assume that privatization would serve as a panacea for improving the financial performance of public enterprises in Africa. More significantly, African countries in contrast to those in Asia or Latin America face rather peculiar constraints that may render the process of privatization economically cumbersome and politically explosive.

Political and Economic Constraints to Privatization in Africa

In the 1960's and 1970's, many African governments regardless of their ideological inclinations took over both resource-based industries and most economic activities owned and operated by foreigners.[10] These policy actions were strongly influenced by both economic and political considerations. State control of the economy was perceived as necessary to achieve rapid economic development. The widespread drive for import substitution industrialization (ISI) and economic diversification were undertaken by nationalized or newly established public enterprises in Africa. Beyond import substitution and economic diversification, the public enterprise sector has emerged as a major employer in most developing countries. For example, the World Bank estimates that "on average between one-third and one-half of all modern sector employment has been accounted for by the State in Africa and Asia."[11] In many African countries, the growth of the public sector is perceived as necessary for providing patronage and employment in order to guarantee the stability of the state.

In addition to economic reasons, political or ideological concerns were responsible for the nationalization and Africanization policies that characterized the African continent in the 1960's and 1970's. Policies of economic and managerial control were influenced either by an egalitarian development ideology (such as nationalization called for by the Arusha Declaration in Tanzania) or by an intense desire for economic nationalism (as was the case with the Mulungushi economic reforms in Zambia). Nationalization was intended to prevent the continued domination and exploitation of African economies by transnational corporations. It also aimed at creating socioeconomic equality among the different social classes. Africanization simply meant the replacement of foreigners employed in the nationalized firms or government sector with indigenous personnel. And economic nationalism entailed the transfer of financial resources and managerial skills to private indigenous entrepreneurs.

Both market and socialist oriented countries in Africa accepted and encouraged the central role of the state in the development of their economies. In market oriented African countries such as Kenya, Ivory Coast, Malawi, or Nigeria, emphasis was put on the indigenous ownership and management of the economy. Indigenous entrepreneurs were encouraged and even assisted financially by the state in the ownership and management of previously foreign controlled enterprises. In these countries, public enterprises were used primarily to facilitate the transfer of financial resources and managerial skills to private indigenous entrepreneurs. Thus the state through public enterprises sought to promote the growth and expansion of indigenous capitalism. In socialist oriented countries such as Tanzania or Guinea, the state intervened in the economy through public enterprises in order to halt foreign domination and exploitation of the economy and to promote the equitable distribution of resources. In both situations, state involvement in the economy is still perceived as necessary for creating economic growth and facilitating the redistribution of resources.

The privatization of public enterprises in Africa is likely to run into serious economic and political constraints. The absence of capital markets in most African countries may lead to situations in which previous owners or transnational corporations repossess confiscated or nationalized enterprises. In Ghana, for example, transnational corporations are said to be purchasing most of the assets or shares of public enterprises being privatized.[12] Similarly, privatization efforts elsewhere in Africa will almost certainly entail the return of public enterprises to previous foreign owners.[13] Ownership by transnational corporations tends to "widen the existing inequalities in the international distribution of wealth."[14] Also, the sale of national assets to foreign investors may undermine the policies of nationalization and Africanization pursued in the 1960's and 1970's.

It is also doubtful whether African countries committed to privatization reforms will tolerate a new phase of foreign control and domination of their economies. For instance, Uganda's Finance Minister in a 1989 speech to Commonwealth ministers in Kingston, Jamaica, observed that: "total privatization of the economies in the Third World ... would be tantamount to handing (them over) ... to foreign investors."[15]

But even if public enterprise assets or shares were sold off only to indigenous entrepreneurs and firms, problems of concentrating ownership in the hands of a small wealthy local elite will arise. This would perpetuate inequalities of wealth and income among different social classes or ethnic groups. According to Logan and Mengisteab, the privatization of public sector enterprises in Africa is: "Likely to exacerbate existing inequalities in the distribution of wealth between sectors and social classes in the economy (and to) perpetuate the concentration of resources in the hands of a small and powerful class of politicians cum entrepreneurs within the urban sector."[16]

Also, since most African countries are characterized by political structures and norms that stress political patronage, privatization of the public sector is likely to "promote a 'crony capitalism' which benefits relatives, friends and political supporters of those in government."[17] This would undermine the rationale for the efficient allocation of resources.

Finally, in some African countries, privatization would disproportionately benefit the ethnic group in power, to the disadvantage of marginalized groups.[18] Privatization in such situations would also exacerbate the existing regional/ethnic imbalance in resource distribution and provide intense ethnic competition and rivalry.

In general, therefore, sales or transfers of privatized national assets to a wealthy local elite or transnational corporations would undermine national equity objectives and reverse the achievements of nationalization and Africanization policies of the 1960's and 1970's.

Beyond economic constraints, privatization of public enterprises in Africa would attract considerable domestic political resistance. Cowan has observed that "political questions arising from the sale of national assets are ... thornier than the financial ones."[19] Thus opposition from local interest groups that stand to lose from privatization is most likely to constitute a powerful political constraint. Workers and trade unions may resist privatization because of fear of losing jobs and receiving reduced real wages. Board members and top managers (who individually or as a group receive high salaries and enjoy enormous fringe benefits) will strongly object to the disposal of public enterprises. Also, government officials and the political elite who fear loss of authority and opportunity for patronage are likely to sabotage or slow down the pace of privatization.[20] Finally, charges by political opponents of the regime that the government is giving away the national assets to foreign capitalists or local racial minorities (such as Asians in East Africa or Lebanese in West Africa) at below market prices, could increase political risks of the incumbent government and make the implementation of privatization cumbersome.

The Need for Alternatives to Privatization in Africa

Privatization as a policy option has been extensively debated in many Third World countries. A number of countries especially in Asia and Latin America have already implemented substantial privatization measures, but with mixed results. In Africa, Togo, Kenya, Ivory Coast, Nigeria, Niger, Mali and Uganda, have each announced plans to sell off several public enterprises. Nigeria, for example, has embarked upon a privatization policy under which forty-nine out of one hundred and seven public enterprises are to be sold off.[21] And in Uganda, a government appointed task force recommended that thirty-four out of seventy public enterprises should either be dissolved or sold off to the private sector.[22]

As noted earlier, most African countries face enormous economic and political constraints that would either slow down the pace of privatization or make it cumbersome to implement. It is primarily because of such economic and political problems that I recommend below a number of alternatives to the privatization of public enterprises in Africa. I should mention, however, that many of the proposed alternatives are either already familiar to or being implemented by several African countries.

Alternatives to Privatization

Contracting out activities previously handled within the government sector is already practiced in several African countries. In Senegal, the contract-plan system permits the financial management of public enterprises through private management contracts that ensure tighter financial controls on such enterprises. Under this arrangement, the state retains ownership and non-technical management of the enterprise. In Ivory Coast, most government sector services are contracted out to the private sector. Contracting out government sector services to local or foreign agents is relatively common for such activities as road maintenance and construction. But this approach could be satisfactorily applied to the organization and management of public enterprise activities. Besides, it is argued that this approach is capable of yielding returns equal to or greater than the investment.[23]

Use of local or foreign contract management has become widespread. In Zaire, a private foreign company manages the national airline. Leasing public sector services to private sector operators is also common in Zaire. In Sierra Leone, public sector hotels have been leased to private sector operators. And in Uganda, the Kampala Sheraton Hotel is being managed by the San Francisco-based Sheraton International.

Besides contracting out services or using contract management, some African countries have introduced cost-sharing programs. For example, Kenya and Uganda have recently introduced payment of user charges or fees for state health care services. It is argued that "through cost-sharing programs, the burden on the public sector budget is reduced."[24]

Finally, emphasis is being put on the deregulation of the economy as well as competition at the level of public enterprises. The World Bank acknowledges that because of economic and political constraints, less than five percent of public enterprises in low-income African countries had been privatized or closed down in the 1980's.[25] But the same World Bank report notes that more progress was instead made in the deregulation and liberalization of public enterprises in Sub-Saharan Africa during the same period. This was largely achieved through conditions attached to World Bank and International Monetary Fund lending programs.[26]

Encouraging competition at the enterprise level is expected to improve public enterprise performance. According to Jones and Vogelsang, "the inefficiency of government enterprises stems from their isolation from effective competition rather than public ownership per se".[27] In addition to promoting enterprise competition, the government can improve public enterprise performance by deliberately withdrawing government loans, grants or subsidies to public enterprises. Reliance on market funding could alter public enterprise behavior in two respects. First, financially independent public enterprises are most likely to escape more intrusive forms of government intervention which often reduce the overall efficiency of the enterprise. Secondly, since public enterprises relying on market funding must respond to conditions set by banks and other financial institutions, they are likely to improve both their conduct and performance.

In addition to financial reforms, the government can provide incentives to public enterprise managers. It is suggested that "the government must ... provide a performance evaluation system that links [both] costs and accountability ..."[28]

The proposed alternatives guarantee state ownership and seek to minimize political interference without reducing managerial autonomy and financial accountability of public enterprises in Africa. Also, since most of the alternatives are neither new nor politically explosive, they stand a better chance of acceptance and implementation than full privatization measures. Finally, the alternatives appear to resolve the problem of lack of competent management, while at the same time promising to improve public enterprise performance.

Conclusion

There is no doubt that African countries are under intense pressure from Western controlled financial institutions such as the World Bank and the IMF to restructure their economies. But because of the peculiar economic and political problems that most African countries face, measures stressing full privatization of the continent's vast public enterprise sector are likely to run into great difficulties. It is for these reasons that this paper seeks to provide alternative approaches to full privatization. The good news is that most of the proposed approaches are either being implemented or are already familiar to most African countries. The alternative strategies discussed include: contracting out activities, use of contract management; introduction of cost-sharing programs and putting emphasis on competition at the enterprise level.

Though intended to minimize the economic and political consequences of privatization, these alternative approaches would also help to improve the overall performance of public enterprises in Africa.

NOTES

[1] Privatization refers to the transfer of ownership of an enterprise from the public/state sector to the private sector.

[2] Public enterprises or parastatal organizations are government owned or controlled entities which are expected to earn the bulk of their revenues from sales and possess a distinct legal identity and are also self-accounting. Regulatory agencies or statutory boards are excluded from the analysis.

[3] Pan Y Yotopoulos, "The (Rip) Tide of Privatization: Lessons from Chile", *World Development*, 17, 5, 1989, esp. pages 683 — 698.

[4] Yacob Haile-Mariam and Berhanu Mengistu, "Public Enterprises and the Privatization Thesis in the Third World", *Third World Quarterly*, 10, 4, October 1988, pp 1565 — 1579.

[5] Paul Cook and Colin Kirkpatrick (eds.), *Privatization in Less Developed Countries*, New York: St. Martin's Press, 1988, p. 19. Also see Yacob Haile-Mariam and Berhanu Mengistu, op. cit., p. 1580.

[6] Yacob Haile-Mariam and Berhanu Mengistu, op. cit., pp. 1573 — 4.

[7] Ibid., p. 1573.

[8] Ibid., p. 1576.

[9] Johnson W. Makoba, "The Impact of Government Policy on the Performance of Industrial Public Enterprises in Two Selected Sub-Saharan African Countries: A Comparative Study of Public Control and Public Enterprise Behavior in Tanzania and Zambia, 1964 — 1984", Ph.D. dissertation, University of California, Berkeley, May 1991, esp. chapters nine and ten. The study shows that in both countries public enterprises managed by expatriate (foreign) management performed much better financially than those under local management over the study period.

[10] For details see Baran Tuncer, "An Approach Paper on Public Enterprises in Eastern African Region", (unpublished) World Bank Paper, 1984.

[11] Quoted in Simon Commander and Tony Killick, "Privatization in Developing Countries: A Survey of the Issues" in Paul Cook and Colin Kirkpatrick (eds.), op. cit., p. 93.

[12] *The New Vision*, Monday, September 18, 1989, p. 4.

[13] For example, in Uganda privatization efforts are inevitably leading to the return of public enterprises to transnational corporations and Asians from whom the Amin regime confiscated the enterprises in 1972.

[14] Simon Commander and Tony Killick, op. cit., p. 98.

[15] *The New Vision*, Kampala, Uganda, Friday, September 29, 1989, p. 12.

[16] Bernard I. Logan and Kidane Mengisteab, "The Potential Impacts of Privatization on Health Care Delivery in Sub-Saharan Africa", *Scandinavian Journal of Development Alternatives*, VIII, I, March 1989, p. 137.

[17] Simon Commander and Tony Killick, op. cit., p. 98.

[18] For example, in Uganda, the Baganda who constitute over twenty-five percent of the population are the most economically dominant ethnic group. This group together with the Banyankole who are presently in power would inevitably emerge as the major beneficiaries of privatized national assets. A similar situation exists in many other African countries such as Kenya, Nigeria, etc.

[19] Gray L. Cowan, "Africa Reconsiders its Parastatals", *Africa Notes*, CSIS, 33, Sept. 4, 1984, p. 2.

[20] See *The New Vision*, Kampala, Uganda, May 30, 1989, p. 7; and, Simon Commander and Tony Killick, op. cit., p. 114.

[21] *Africa Events*, 15, 7, July 1989, p. 41.

[22] *African Concord*, May 3, 1988, p. 35.

[23] *The New Vision*, Kampala, Uganda, May 30, 1989, p. 7.

[24] Ibid.

[25] Quoted in Paul Cook and Colin Kirkpatrick (eds.), op. cit., p. 28.

[26] For a detailed analysis of the impact of World Bank and IMF conditions on Sub-Saharan African economies, see the following sources: Carol Lancaster, "Economic Restructuring in Sub-Saharan Africa", *Current History*, 88, 538, May 1989, pp. 2113 — 216 and 244; and, Mahmood Mamdani, "The IMF and Uganda", *Africa Events*, June 1989, pp. 34 — 37.

[27] Leroy P. Jones and Ingo Vogelsang, *The Effects of Markets on Public enterprise Conduct and Vice Versa*, Ljubljana, Yugoslavia, ICPE Monograph Series, No. 7, 1983, p. 20.

[28] Ibid., p. 61.

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