Privatization in Sub-Saharan Africa - an essential route to poverty alleviation

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Abstract: Africa faces a dire poverty situation and this is exacerbated by challenges such as low level of human development, low levels of productivity, poor investment climate and poor infrastructure. Attempts are being made by individual governments across the continent to tackle this problem by adopting poverty reduction strategies, and sometimes supported by multilateral finance institutions. Having noted that many public enterprises are inefficient and rely on subsidies, most governments have decided to privatize them in order to improve their performance. In most cases, privatization agencies have been established to spearhead the privatization programmes. These programmes yield mixed results, depending on the level of preparation for privatization, the type of public enterprise being privatized, and so on. Several studies on privatization in Africa reveal that it brings about numerous benefits, and empowers the private sector. The benefits that accrue to the nation include efficiency gains, stable and reduced prices, reduced government subsidies that can be redirected to other development initiatives, at times, payment of dividends to government and increase in employment, to mention a few.

This paper attempts to convey the message that privatization is in the interest of Sub-Saharan African countries, both in terms of poverty alleviation and enhancement of the integration process of the continent. However, in order to have the desired impact on the poor, it is of paramount importance that privatization programmes are properly designed, integrated as part and parcel of poverty alleviation strategies, and national development plans.

Privatisation en Afrique Sud du Sahara – une voie certaine pour l’allégement de la pauvreté

Résumé : L’Afrique fait face à une situation de pauvreté accentuée par des indicateurs sociaux négatifs, une productivité faible et un climat d’investissement non-attractif. Des
initiatives sont entreprises par des gouvernements à travers tout le continent pour apporter une solution efficace et durable, par l’entremise des stratégies de réduction de la pauvreté. L’inefficacité des entreprises publiques, due particulièrement au système de protection et de subvention a conduit les pouvoirs publics africains à s’engager dans la voie de la privatisation. Dans la plupart des cas, des agences de privatisation ont été créées pour piloter les programmes de privatisation. Ces programmes ont abouti à des résultats mitigés, selon le rythme de la privatisation, la nature d’entreprise publique privatisée, etc. Plusieurs études sur la privatisation en Afrique indiquent qu’elle génère de nombreux avantages, et dynamise le secteur privé. Ces avantages sont liés aux gains d’efficacité, aux prix stables et réduits, à la diminution des subventions pouvant être réorientées vers d’autres secteurs d’activités.

Cet article met en lumière l’importance majeure de la privatisation dans les pays d’Afrique au Sud du Sahara dans la mesure où elle permet de réduire la pauvreté et d’accélérer le processus d’intégration du continent. Toutefois, pour permettre à la privatisation de produire tous les effets escomptés, il s’avère important que les programmes de privatisation soient mieux conçus, mieux intégrés aux stratégies de réduction de la pauvreté et aux programmes nationaux de développement.

Introduction

Africa continues to face difficult socio-economic conditions and a number of challenges, among them, low level of human development, low levels of productivity, poor infrastructure and investment climate, will need to be addressed if the continent is to effectively integrate into the global economy, and achieve accelerated economic growth and sustainable development, and reduce poverty as desired. Achievement of poverty reduction targets requires sound macroeconomic policies, increased national savings, mobilization of resources for productive investment and employment creation as well as rationalizing expenditures so that priority areas such as infrastructure and education are given adequate attention.

Africa recorded a Gross Domestic Product (GDP) growth rate of 5.7% in 2006, compared to 5.3% in 2005 and 5.2% in 2004 (Economist Intelligence Unit, 2006). This improvement is a reflection of the continent’s efforts to enhance macroeconomic management. Increased export prices for commodities such as crude oil and minerals also contributed to a better balance of payments position as seen by the
increase in the continent’s current account surplus from 2.3% of GDP in 2005 to 3.6% in 2006. In terms of debt position, Africa’s total debt stock decreased considerably from 35.9% of GDP in 2005 to 26.2% in 2006 (IMF, 2006). This could be explained by the debt cancellation for 14 African countries under the HIPC and G8 commitments. However, due to high interest rates, total debt service obligations have only changed marginally, from 4.2% to 4.1% over the same period. This debt burden, for some countries, continues to constrain spending on public investment, thereby retarding growth and employment creation. On investment flows, Africa’s share in world investment increased from 0.6% in 2000 to 3.3% in 2005.

Governments across the continent have developed Poverty Reduction Strategy Papers (PRSP), which attempt to comprehensively address the problem of poverty, through close collaboration with development partners. These governments have seen the urgent need for appropriate policy frameworks and regional integration as well as the implementation of political and economic reforms that reinvigorate the economy. As part of this drive for reform, privatization of public enterprises has become a key focus of many African governments.

This paper attempts to convey the message that, through privatization, sub-Saharan African countries can achieve an expanded and more dynamic private sector, more efficient and effective infrastructure provision and increased investment, both domestic and foreign. These positive developments emanating from privatization will subsequently lead to the achievement of poverty alleviation goals, given their direct impact on economic growth and subsequently, job creation in these countries. For such growth to have a direct impact on poverty though, governments must take deliberate targeted measures to address social concerns. For example, many water privatizations in Africa failed to achieve the desired result in several countries (e.g. Ghana). Instead of price reduction and improved services, the poor ended up having to pay more for water, which worsened the poverty situation. Poverty alleviation strategies should include privatization as one of the key elements to avoid this kind of situation. This way, the latter can yield results in favour of the poor.

Another important message is that cross-border linkages between firms in different parts of the continent emanating from the acquisition of
stakeholders in privatized firms in different countries can be a powerful mechanism to enhance the ongoing integration process on the continent. The increased financial dealings and closer ties between companies are important elements of integration in Africa.

A major constraint faced in trying to address privatization issues in Africa is the lack of adequate data on the quantitative impact of privatization. Several studies have been conducted but most of these cover developing countries in general with little specific emphasis on Africa. Despite this shortcoming however, an attempt has been made to conduct a thorough analysis based on the limited information available. There appears to be very little research in identifying the direct impact of privatization on poverty in Africa and this is a crucial gap that needs to be filled through further research.

I. What is privatization

Privatization can be defined in several ways depending on the form it takes. The World Bank defines privatization as “a transaction or transactions utilizing one or more of the methods resulting in either the sale to private parties of a controlling interest in the share capital of a public enterprise or of a substantial part of its assets”, or “the transfer to private parties of operational control of a public enterprise or a substantial part of its assets”. An examination of the different forms of privatization makes it easier to comprehend the above definitions. It is worthy of mention that the particular form adopted depends on the circumstances and the objectives of the privatization.

Forms of privatization

Privatization can take many different forms, all of which entail some form of private sector participation in product or service delivery. The most common forms are:

1. Management contract: Here, responsibility for the provision of services that were hitherto provided by a state-owned firm is passed on to a private provider. Ownership however, remains with the state and all required capital investments continue to be provided by the state. Usually, a performance contract is signed with outsourced management. Government tends to benefit because management contracts have the tendency to bring market discipline and technical know-how to a state-owned firm and hence, all the efficiency gains that are typical
to market-oriented firms are likely to be realized. An example is the Gambia where government issued a management contract to SOGEA to manage Gambia Utilities Corporation.

2. **Lease:** In a lease arrangement, a private firm takes the responsibility of operating and maintaining the assets of a hitherto publicly owned firm. Government retains ownership as well as responsibility for financing capital investments, usually through a special vehicle established for the purpose. Because the new operator has strong incentive to reduce cost and improve efficiency, government will benefit from the efficiency gains that arise as a result as well as dividends where relevant. It is usually of fairly long-term nature, for example 12 years. For example in 1989, the Government of Guinea entered into a lease arrangement for private sector operation of water services in the capital city, Conakry, and sixteen other cities and towns. In the Gambia, a Lease contract was issued for the operation of Marine Dockyard.

3. **Concession:** This takes the form of a private firm taking over responsibility for operating and managing the assets of a public enterprise, as in the case of a lease arrangement. However, unlike in the case of a lease, the private firm takes on the further responsibility of financing long-term capital investment of the firm. It also provides incentives for the private operator to minimize cost and increase efficiency. It is usually of very long-term nature, for example 30 years. This form is very common in the utilities sector. Government benefits directly from the improved level of efficiency as well as the reduced burden to undertake long term capital investments, given that such responsibility is shifted to the private sector operator. In situations where government is faced with resource constraints, this could be an attractive option. Nigeria is an example of a country where concessions were issued for the operation of many ports.

4. **Divestiture:** In divestiture, publicly owned assets are sold to a private sector actor. This means, the management as well as all future capital investment requirements become the responsibility of the new private sector owners. It can be done
by auction (where the firm is sold through a bidding process to the highest bidder); private placement (where the shares of a company are sold through direct negotiation); or initial public offering (where shares are sold through a public offering on a local stock exchange). Divestiture can be either partial (e.g. sale of 49% of shares) or full scale, which entails total transfer to the private sector. Given that public enterprises are usually a drain on government’s operating budget, divestiture is desirable because of its potential to stop the negative flow.

An example of a successful divestiture exercise is the sale of 33.3% shares of the Societe nationale des telecommunications (Sonatel) of Senegal in 1997 to a subsidiary of France Telecom which also took over the management of the company (Harsch, April 2000).

Depending on the objective of the divestiture exercise, government may implement an Employee Stock Option Programme. Here, a predetermined proportion of shares on offer are reserved for the employees of the public enterprise. This has the effect of creating a wide dispersion of equity ownership. It is attractive to governments as a result of its effects on public opinion and the support for the privatization programme. It’s drawback is that it can lead to a situation where no one party has sufficient stake in the enterprise to be in a position to influence the board and to press for effective management for the achievement of profit-oriented results. In the example of Senegal’s Sonatel above, at the time of the original sale, 10% of the shares were sold to Sonatel employees at a highly discounted rate, easing some of the workers’ earlier anxieties about privatization (Harsch, April 2000).

5. **Joint venture:** This can take the form of a partnership between an existing public enterprise and a private investor (public-private partnership). It can be an acceptable solution in a situation where full-scale privatization faces much resistance. Risks are generally shared and the struggle for control can be an impediment to success. However, economies of scale and access to new technologies and management expertise can be
positive outcomes of joint ventures. An example is Debswana Diamonds, a joint venture between the government of Botswana and De Beers.

6. **Asset sale:** This is the process of selling off the assets of an enterprise, probably following the cessation of operations. It is usually less complex than other forms of privatization. However, the possibility of a number of assets being left over without a buyer is there. Given its nature, this method tends to create much negative public perception. Governments generally tend to be accused of selling off public assets at give away prices in this form of privatization. Such sales are usually inevitable and are usually effected by auction.

II. **Privatization trends**

In 2004-2005, Sub-Saharan Africa generated US$975 million from 23 transactions, representing just 1% of total global privatization transaction value of developing countries. This is down from 3% in 2000-2003. Nigeria alone accounted for 70%, the bulk of which is due to a 25-year port concession. Tanzania and Ghana together accounted for another 12%, dominated by telecommunications. The rest is accounted for by Sudan, Kenya, Rwanda, South Africa and Madagascar, mainly through telecommunications transactions (Kikeri, Burman, 2007)

An analysis of sector trends for developing countries in general shows that three sectors accounted for about 90% of total transaction value, namely infrastructure (telecoms, electricity and natural gas, transport, water), finance (banks, insurance, other financial services), and energy (exploration and production of oil and gas, other hydrocarbons). Between 2000-2003 and 2004-2005, infrastructure’s share of total value declined from 55% to 42%, the financial sector’s share grew from 19% to 30% while the energy sector remained at about 15% (Kikeri, Burman, 2007)

During the period 2000-2005, Sub-Saharan Africa raised US$ 11 billion in privatization proceeds, representing 3% of the global total for developing countries. A total of 960 transactions were conducted in 37 countries of the region, and this represents the third highest number of transactions, behind Europe and Central Asia and Latin America. However, 70% of the transactions were low-value firms in competitive sectors. Four countries, namely South Africa, Nigeria, Ghana, and
Zambia were the largest contributors. South Africa alone has accounted for up to 40% of the region’s proceeds in recent years (Privatization Database, World Bank).

III. The effects of privatization

In 1998, Peter Young of The Adam Smith Institute, in an article entitled “The Lessons of Privatization” summarized the findings of an earlier study conducted by the Institute with the objective of identifying “The Impact of Privatization in Post-Communist and Developing Countries”. The article summarized the findings of the study which reviewed the impact of privatization in these countries by pulling together synthesis of existing research. Conclusions were drawn about the overall impact of privatization, the success of different approaches to privatization, the importance of the policy environment, among others. Below is an overview of the key findings elaborated in the article.

Improving enterprise performance

In almost all cases studied, company performance improved after privatization. A World Bank study by Galal et al. (1994) discovered a performance improvement in eight out of nine developing country cases studied. A sample of sixty company cases studied by Megginson et al. (1994) revealed a substantially improved performance in 75% of the cases. Generally, company profitability surged in a majority of cases and privatization removed existing constraints on new investment and access to capital. Also, through output growth outpacing the growth of labour and other inputs, privatization has the effect of raising productivity and efficiency. This is the situation in a number of cases such as Togo, where performance was observed to have dramatically improved following privatization. In situations like this, enterprises were able to adapt their production to meet real demand.

However, cases in other countries such as Mali did not yield similar results. The lack of improvement in efficiency and productivity was explained by the poor handling of the privatization process itself. Companies were sold to buyers who lacked the ability to run such enterprises or the ability to pay the purchase price, payable in
installments. Another source of difficulty in some countries was continued government interference in the aftermath of privatization.

**Reducing government debt**

A number of governments have been able to raise huge sums of money from privatization transactions. These financial resources have enabled the governments to sustain macroeconomic stability and repay huge portions of government debts. As a result of privatization, many governments have also reduced the need for huge subsidies to public enterprises with the consequent impact of strengthening their fiscal positions. In some countries, privatization of unprofitable public enterprises did not only lead to the receipt of large amounts of cash from transactions but also increased government revenues through the cancellation of income tax concessions to those enterprises.

In situations where public enterprises had ceased to operate prior to privatization, or were performing poorly, governments benefited fiscally by removing such enterprises from their books. As a result of the sale, the liabilities that existed in the name of these enterprises at the time of privatization were written off and potential future losses were prevented from growing larger.

**Consumers benefit**

The majority of cases studied show that consumers benefit from privatization. This is as a result of lower prices emanating from the efficiency improvements following privatization. For example, privatized energy firms were able to reduce prices sharply as a result of their ability to limit the amount of stolen or unbilled electricity. Also, because investment constraints were removed, privatized firms were in a better position to avail their products to the public. Evidence suggests that privatized firms seek more aggressively to improve quality and introduce new products to satisfy the consumer.

**Employing workers**

Evidence suggests that privatization is in the interest of employees, although there are a few exceptions to this. Such benefits take three forms: (a) employment levels tended to increase after privatization; (b) remuneration packages tended to improve after privatization, and; (c) many employees bought shares at discounted prices in the privatized firms and these benefited when share prices eventually rose. In cases
where employees lost their jobs as a result of privatization, such employees tended to receive generous severance packages. Severance and retirement incentives buy labour support and allow privatization and its benefits to happen and, where unemployment insurance systems are not in place, mitigate the social impact of layoffs (Kikeri, 1999). It should be noted that in some cases, the reduction in the level of employment took place prior to privatization and as such, could be attributed to the need for greater efficiency, and not just privatization. In cases where shut down enterprises were re-opened by private investors, employees benefited directly.

1. Strengthening capital markets and broader ownership of capital

Depending on the type of privatization method used by countries, privatization has led to the strengthening of capital markets and the widening of ownership of capital. Many developing countries have devised schemes for selling shares to employees and these yielded immense benefits. In many cases, shares would be reserved for citizens of the country, with the objective of widening local ownership of the capital.

In the privatization of Senegal’s Sonatel, for example, two-thirds of the total shares were reserved for Senegalese nationals and institutions. All of these shares were quickly bought up. In Nigeria, flotation of shares on the local stock markets was seen as an effective tool for greater local ownership of privatized firms. Regional quotas achieved an equitable geographic distribution of shares. Usually, part of a large enterprise is sold to an external strategic investor while a certain percentage of shares is floated through the stock market. The same process was used in the case of Kenya Airways as well as Ashanti Goldfields in Ghana. This exercise is constrained by the fact that many of Africa’s stock markets are weak and most people are too poor to afford such shares. However, where such flotation takes place, it tends to have a huge impact on capitalization of the stock exchange.

More competition

Privatization encourages competition and hence leads to all the benefits associated with it such as improved customer service and reduced prices. In practice, privatization is accompanied by competition and in some cases, privatized firms are given a period of protection while competition is introduced afterwards. Privatization has given impetus to market
reforms in many countries. To have an impact, it is important to coordinate the activities of the bodies responsible for privatization and those responsible for competition.

**Increasing investment**

Through privatization, many countries have been able to attract significant amounts of foreign investment. This is the case in many Latin American countries. In some African countries, however, privatization accounts for a minimal share of foreign investment due to restrictions placed on such investments.

An indirect benefit is that privatization signals the level of a government’s commitment to freer markets and as such, encourages greater greenfield investment and other forms of investment not directly related to privatization. A World Bank study by Frank Sader (1993) suggests that privatization has a huge impact on investment decisions and further states that an extra 38 cents in new investments is generated for every dollar of privatization revenue. It further documents that financial and infrastructure privatizations have the greatest impact on foreign direct investment.

The findings of the study by Adam Smith Institute support privatization efforts and emphasize the need to pursue privatization more rigorously in the years ahead.

**IV. Hostility to privatization**

Why is there so much hostility to privatization in spite of all the potential benefits? Privatization is generally viewed with much skepticism across Africa by all segments of society. African intellectuals and officials have the tendency to view the public sector as the promoter and defender of indigenous interests and to believe that privatization will empower and enrich foreigners at the expense of indigenous people.

African trade unions and workers’ representatives equally despise privatization, citing the possibility of job losses or worsening terms of service. A case in point was the protest marches organized by the Zambian Congress of Trade Unions calling on government to rescind its decision to privatize the Zambian National Commercial Bank. In Senegal, the government announced in 1997 its plans to sell majority of shares in Société nationale sénégalaise d’électricité (Senelec), the state electricity company. The company’s unions strongly denounced the move and
launched a series of strikes and go slow actions which contributed to severe power blackouts country-wide. As a result of such resistance, many governments are now paying more attention to job concerns. Usually, in the process of sale, retention of existing staff is either an explicit criterion or a major consideration. In Burkina Faso, for example, the government received four offers for its sugar complex in Banfora in 1998. It sold the complex to the bidder that offered the lowest price but pledged to maintain the entire workforce while making significant new investments (Harsch, 2000).

Many African politicians and public officials derive huge material and prestige benefits from public enterprises, in the form of loans, gifts, housing, board memberships, future jobs for themselves, procurement kick-backs and so on. All these may no longer be within reach following privatization, hence the resistance.

Domestic private sector also usually have cozy supply relationships with public enterprises. These tend to be threatened by privatization, given the more aggressive, quality-conscious, cost-cutting tendencies of private owners.

What all the above mean is that, in African countries, several powerful groups exist that have material reasons to delay, dilute or sabotage public enterprise reform in general and privatization in particular (Nellis, 2003). They put forward their case by pointing to perceived economic, financial and social shortcomings. In the case of Zambia, a country which ran a privatization programme described by the World Bank in 1998 as the most successful in Africa, many Zambians perceived privatizations as very negative, hence putting pressure on the government to rethink its policy. The case against privatization was based on the following perceptions:

- The programme had been imposed and micromanaged by international financial institutions, without sufficient attention to requisite policy and regulatory frameworks and without adequate involvement of Zambian citizens;
- It would result in the closure of many firms previously run by Zambians;
- It would exacerbate the problem of unemployment;
- It would increase the incidence of corruption; and
It would benefit the rich, foreigners and those politically well connected.

Do these arguments have merit? In 2001, the Zambian Privatization Agency commissioned a study to assess the impact of privatization. The study showed that 235 of the 254 firms privatized over the period 1991-2001 had continued in operation; 57% of buyers were Zambians and an additional 13% were joint ventures between Zambians and foreigners; post-privatization capital expenditures in the non-mining sector totaled $400 million; 19 firms closed following privatization but 7 of them resumed operations after being resold and efforts were underway to resell an additional 5 at the time of the study; employment declined in the privatized non-mining sector from 28,000 at the time of privatization to 20,000 in 2001 but the workforce expanded in several firms (Nellis, 2003).

Is the situation the same in other parts of Africa? A study in 1998 by Jones, Jamal and Gokgur (1998) reviewed 81 privatizations in electricity, agriculture, agro-business and service sectors in Cote d'Ivoire. Their findings were that: firms performed better after privatization; they performed better than they would have had they not been privatized, and; privatization contributed positively to economic welfare.

Another study in 2001 by Appiah-Kubi (2001) reviewed 212 privatizations in Ghana. The study showed that privatization had the effect of easing pressure on balance of payments, increasing efficiency, stimulating local capital markets, enhancing the inflow of FDI, creating quality gains for consumers and increasing employment and remuneration post-privatization.

A study in 1998 by Andreasson (1998) assessed the impact of privatization in Mozambique and Tanzania and revealed positive changes in operating and financial performance of the divested firms: three-quarters of firms which had ceased operations before divestiture was contemplated, resumed productive operations following privatization, and; investment, production, sales and value-added increased significantly following privatization.

Based on the findings of the above studies across Africa, it is evident that privatization of public enterprises yields positive benefits. However, in terms of specific sectors, the limited evidence available suggests that firms producing tradeables do much better in private hands.
than in state control. The process of privatizing such firms is relatively less complex.

On the other hand, successful privatization of utilities and other infrastructure are much more complex. Privatization of water companies has faced problems in several countries in Africa, including Guinea and Ghana. To achieve success in the privatization of utility and infrastructure firms, there is strong need to create and reinforce the institutional mechanisms that guide and regulate market operations. Some key steps to be undertaken include the enactment of policy framework for and building of implementation capacity in regulatory and competition promotion agencies; capacity building of officials in charge of divestiture and regulation; strengthening of governance and judicial systems; reduction of political interference on enforcement agencies and taking adequate steps to render contracts enforceable.

V. The potential effects of privatization on poverty

Poverty eradication has become an overriding goal for countries across Sub-Saharan Africa. Based on the potential impacts of well-managed privatizations, significant inroads can be made into the fight against poverty. This is possible due to the following factors:

1. Greater operational efficiency

In this age of globalization, organizations and nations outperform each other when they are able to provide goods and services more efficiently. Such efficiency implies greater competitiveness than rivals. Given the potential efficiency impacts of privatization, it can be safely argued that Sub-Saharan countries stand to become globally more competitive in the world market.

President Olusegun Obasanjo of Nigeria, in a statement delivered on the occasion of the inauguration of the National Council on Privatization in July 1999 said “it is conservatively estimated that the nation may have lost about 800 million US dollars due to unreliable power supply by NEPA (the national electricity company), and another 440 million US dollars through inadequate and inefficient fuel distribution. And figures like these do not even tell the whole story. They cannot, for example, capture the scope of human suffering and even loss of lives caused by shortage of petroleum products. That is not to mention the frustration and debilitation of the informal sector where business centers, repair
The implementation of the Nigerian privatization programme led to positive results in many areas. A study by Elias (2001) shows that a number of firms (for example Okomu oil, Aba textiles, Flour mills and Niycom) recorded improvements in output in the post privatization years. Such evidence is confirmation that President Obasanjo was right in resorting to privatization to improve enterprise performance.

To demonstrate that privatization can increase the level of a nation’s competitiveness, take the example of an electricity company that is able to produce more efficiently following privatization. This means, it is able to reduce its tariff and as a result, processing or manufacturing companies that depend heavily on electricity are able to produce at much lower cost and consequently, are able to reduce the final prices of their products for export markets. According to the law of demand and supply, such lower prices result in higher demand, all other things remaining equal. Since export levels are expected to increase as a result of such efficiency, we would expect higher growth rates, higher levels of employment and subsequently, a positive impact on poverty.

2. **Reduced government spending on public enterprises**

As already mentioned, privatization implies that governments no longer spend public finances on supporting poor performing public enterprises. Such savings, coupled with the cash inflows in respect of privatization proceeds provide opportunities for governments to spend adequately towards education and health as well as other development and job-creating investment areas. All other things remaining equal, Sub-Saharan African countries are able to reduce poverty as a result of the privatization-related savings in public expenditures.
3. Greater inflows of foreign direct investment

As has already been described, privatized firms benefit from massive investments by the new owners in the aftermath of privatization. In addition to this, the result of the “signaling effect” of a government’s privatization policy is to create more confidence in the economy. This is likely to lead to higher inflows of foreign direct investment. As these investments come, jobs are created, the economy grows and the higher incomes mean reduced levels of poverty in the country. For example, in Ghana, privatization has attracted substantial foreign direct investment. The World Bank’s Global Development Finance (1997) puts net FDI for 1995 and 1996 at $233 and $230 million, respectively (Katsouris, 1998).

4. Strengthened capital markets

In many countries, the implementation of privatization programmes led to the strengthening of capital markets as well as increased financial sector activity. The natural consequence of such strengthening is the greater availability of financing for major projects such as infrastructure. Given that poor infrastructure is one of the greatest challenges Sub-Saharan Africa faces today, the creation of avenues for developing these through such capital market strengthening will surely have a more or less direct impact on creating jobs, increasing growth and reducing poverty.

For example in 1994, the government of Ghana offered shares in Ashanti Goldfields Corporation for sale. It offered 30% of its 55% stake in the Corporation on the Ghana and London Stock Exchanges. This deal transformed the Ghana Stock Exchange overnight in that the corporation’s $1.8 billion accounted for 90% of total capitalization, making it Africa’s third biggest stock market (Souris, 1998).

5. Technology and skills transfer

Through privatization, especially in the case of sale to foreign investors, hitherto publicly owned firms benefit from the much needed technologies and skills of more competitive entities abroad. Many countries such as Nigeria, embrace the “core investor” concept whereby at least 51% of the shares are sold to a core investor who must meet certain minimum requirements, among them, the ability to bring in advanced technological and managerial know-how. This leads to better performance in the form of greater productivity which eventually means more job creation, higher individual incomes and reduced poverty.
VI. Lessons of privatization

What all of the above mean is that the effective implementation of privatization programmes in Sub-Saharan Africa could be key to increasing the region’s competitiveness, increased growth, higher income levels and hence, reduced poverty. Therefore, the ongoing efforts to fight poverty and to meet the other Millennium Development Goals across the region, must consider the privatization option as a complementary activity to other efforts. This requires an integrated approach, with all the various efforts inter-linked to reach the final goal of poverty alleviation.

Efforts to reduce problems encountered in the process of privatization and increase the benefits have led many to focus on some key issues: These include:

- 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

It is also important to note that privatization must not be done in an ill-prepared and hasty manner. Many a time, donors have exerted pressure on African governments to privatize without adequate assessment of the information needs, constraints, resources and time required to carry out effective transactions. They often put too much emphasis on numerical targets, hence creating a situation where the quantity of public enterprises privatized has greater priority over the quality with which a privatization is conducted. In December 1997, the IMF suspended lending to Niger under an enhanced structural adjustment facility (ESAF) when the government failed to implement the privatization of 12 enterprises. Lending resumed the next year following the government’s promise to push ahead with the privatization (Harsch, 2000).
What do these lessons mean for privatization programmes? Given that the wrong approach to privatization can lead to overall performance levels worse than pre-privatization, the issue of overall design and implementation of privatization programmes is vital. Hence, it is important that critical success factors are identified and an ideal programme be designed to achieve the potential positive benefits of privatization, particularly within the context of poverty alleviation. These critical success factors include:

1. **Commitment (political will)**

   Given the amount of resistance privatization tends to face, there has to be great commitment/political will if the programme is to succeed in any country. Through such commitment, political leaders will be prepared to defend their position on the need to privatize, irrespective of the amount of criticism they face from the different stakeholders. Nigeria, for example, has placed its privatization programme under the office of the vice president, which in some way is an indication of the importance the government attaches to the programme.

2. **Clear objectives**

   Privatization can be done for different reasons. The benefits that could be attained in the short term could be quite different from the long term potential benefits. This means governments must be very clear on the objectives of privatization in order to be able to put in place the necessary conditions for their successful achievement.

3. **Solid institutional and regulatory framework**

   Many privatizations fail to achieve their objectives, not because they were improperly executed, but because the institutional and regulatory framework is lacking. Privatizing a hitherto public monopoly could change the status of a firm to a private monopoly. Without the introduction of a regulatory framework to enhance competition, consumers could be in a worse off situation than prior to the privatization. As such, putting in place an appropriate institutional and regulatory framework is vital to the success of any privatization, more so for areas such as telecommunication and air transport.

   Mrs. Isatou Njie Saidy, Vice President of The Gambia, in her keynote address delivered at a validation workshop on private sector participation and regulatory framework for The Gambia in March 2004
said “Government understands and appreciates the virtues of a good regulatory framework for Utilities. An effective regulatory framework, which is pro-competition, is essential as it serves as a signal and assurance to prospective and existing investors and firms about Government’s commitment to encourage market entry into a monopolistic market, by providing a level playing field. It deters both public and private monopolies from abusing their dominance at the detriment of new firms and eventually consumer welfare. Apart from its deterrent role, the regulatory framework mandates services providers to provide acceptable levels and quality of service through a performance incentive regime. It also gives them an incentive to deploy innovative and cost effective technologies to meet their license obligations”.

The above summarises the reasons why an effective regulatory framework is vital to the success of privatization, particularly in the case of utilities.

4. Transparency

Many privatizations face difficulties due to the lack of transparency in the whole process. Many see such transactions as a way of making money for a few government and other powerful officials and hence, making the process more transparent ensures that it is more or less acceptable to the general public. This implies that a framework must be put in place with a view to ensuring that the principles of good governance and accountability guide the entire process. The decision to pay more attention to garnering information on stakeholders’ views and getting them to participate in policy formulation may slow down the process. However, it is worth the while in the end, given that the chances of success are much higher, following such a participatory approach.

5. Stakeholder consultation

Stakeholders of privatization include trade unions, employees, consumers, managers and employees of public enterprises, government ministers and so on. Each of these groups has a different interest in public enterprises and their privatization is, therefore, of concern to all. Given the influence of these different groups and their capability to disrupt any proposed privatization, it is of paramount importance that they are adequately consulted prior to and during the entire process of implementing privatization transactions.

6. Social safety net issues
Usual, privatizations will involve some form of retrenchment or layoff of employees. It is therefore important to put in place adequate safety net measures to reduce the potential impact of any negative social impacts. Labour fears can be overcome by a variety of measures and incentives such as outplacement assistance, transitional training and educational programmes, earmarked unemployment benefits. These can help raise the level of acceptability of privatizations.

Given the importance of each of the above issues in ensuring the success of any privatization, it is necessary to seriously consider them at the planning stage of any privatization programme and adequate measures put in place to address them.

Conclusion

As has already been argued, privatization has a potentially high impact on poverty alleviation. In light of this potential link, privatization should be adequately integrated as a core part of any poverty alleviation strategy. This has implications for the design of the privatization programme. Whatever the objective of the programme, it is important to take note of the concerns of the poor and, where necessary, adequate measures be put in place to guarantee that in the end, the benefits of privatization will reach the poor. Only then can privatization be seen to have a human face.

In addition to its potential impact on poverty alleviation, it must be noted that privatization can also have a considerable impact on the ongoing efforts towards regional integration on the continent. Given the strong possibilities of cross-border linkages and capital movements emanating from privatization transactions, there is a tendency to enhance the integration process in Africa. The acquisition of shares in a Ghanaian firm by a company based in Kenya is likely to bring about closer working relationships between these two companies, leading to sharing of expertise and technology and greater level of financial dealings. Consequently, the more of such transactions there are, the faster the pace of the integration process, particularly in respect of capital movements. Hence, to facilitate such interactions at the desired pace, issues of financial sector development are vital. Basic prerequisites are strong and effective financial systems as well as open and transparent financial sectors.
Finally, it is worthy of mention that there is much room for research on privatization in Africa, particularly with respect to understanding its link to poverty alleviation. Given the efforts across the continent to eradicate poverty and the potential impact privatization can have on the economies of African countries and on poverty alleviation, as we tried to communicate in this paper, focused studies aimed at quantifying the impacts of privatization in Africa will be very much beneficial in guiding African governments and policy makers as they work towards improving the well being of their people.

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