

THE IMPACT OF PRIVATIZATION AND COMMERCIALIZATION ON AFRICA'S DEVELOPMENT

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Abstract

This paper examines the impact of privatization and commercialization on the development of Africa. It contends that privatization and commercialization are components of the liberal and neo-liberal ideology of capitalism. The paper posits that the origin of privatization and commercialization in Africa can be traced to the conditionalities of Structural Adjustment Programme (SAP) introduced to the continent following the challenges that trailed the nationalization of enterprises. The paper shows that prior to the introduction of privatization and commercialization, the economy of African states was almost a command one with a wide range of government control. However, following poor performance leading to low output, poor returns and an over-bloated workforce, as well as corruption, privatization and commercialization became the panacea to the challenges to these economies. The paper shows that to some extent, privatization and commercialization enhanced the output of some enterprises and promoted efficiency but overall, it failed to achieve the touted objectives. The paper shows that in spite of the theoretical arguments in favour of privatization and commercialization, the policy has not been able to impact significantly on development of African states due to major lapses in the implementation process. The paper therefore calls for more efforts to address corruption and increased prudence in the management of the Africa's resources.

Introduction

Soon after their independence, a large number of countries on the African continent ascribed a central role to public sector for economic development. Thus, the public sector continued to expand not only as a result of creation of new public enterprises but also due to large scale nationalization of private enterprises (indigenous, foreign and multinational) motivated by ideological, political or preferred development policy and development planning considerations. Towards

the end of the 20th Century as a result of continued poor performance of public enterprises, the collapse of communism, and advocacy of Structural Adjustment Programs by donor agencies, the state and the public sector agencies in these countries started rolling back and a shift of emphasis from public sector to private sector continued to unfold. A significantly different approach towards private sector was noticeable. The private sector earlier considered to be an instrument of exploitation and creator of disparities between rich and poor, was recognized as an engine of growth (Etukudo, 1997). Divestiture and privatization in different forms became common. The governments of different countries started encouraging private and even foreign investment. New forms of partnership between public and private sector also started developing (Jerome, 2008).

The idea that in order to be able transform into an industrialized economy, an underdeveloped economy had to be privately and commercially developed was mainly what led African countries to embrace privatization as a way of eliminating low performance and inefficiency in the public enterprise sector. This was because most government owned industries and establishments had become citadels of corruption, inefficiency and a heavy drain on the economy. As a means of combating this menace, the International Monetary Fund (IMF) and (World Bank) advocated the twin policies of privatization and commercialization. To this end, the privatization of state-owned enterprises (SOEs) became a key component of the structural reform process and globalization strategy in many economies including those in Africa.

It can therefore be observed that several developing and transition economies have embarked on extensive privatization programmes in the last one and a half decades or so, as a means of fostering economic growth, attaining macroeconomic stability, and reducing public sector borrowing requirements arising from corruption, subsidies and subventions to unprofitable SOEs. By the end of 1996, all but five countries in Africa had divested some public enterprises within the framework of macroeconomic reform and liberalization (Cowan, 1987). Sufficient time has elapsed since the start of reforms to warrant an assessment of the extent to which privatization and commercialization have realized the intended economic and financial benefits, especially with the fact that African countries have continued to remain within the bracket of Third World Economies. This paper therefore examines the impact of privatization and commercialization on development in Africa.

Conceptual Clarifications

Privatization can be defined in several ways depending on the form it takes. The World Bank defines the concept as “a transaction or transactions utilizing one or more of the methods resulting in either the sale to private parties of controlling interest in the share capital of public enterprises or of a substantial part of enterprises or of a substantial part of its assets”. Privatization has become an important instrument for streamlining the public sector and promoting economic development in countries all over the world. It is a strategy for reducing the size of government expenditure and transferring assets and service functions from public to private ownership and control. Indeed, there is a very wide range of initiatives usually discussed under the term privatization. Such initiatives include: the substitution of user charge for tax finance, the letting of management contracts while retaining ownership, and liberalization for the promoting of competition in markets previously reserved for statutory monopolies.

Etukudo (2007), defines privatization as the transfer of productive asset from public to private ownership and control. This means privatization can as well be considered as the transfer of ownership of public resources or assets to private individuals and firms through various options which include: sale of state-owned enterprises to the private sector through private placement, public offerings or competitive bidding by strategic investors, allowing private operators to compete in sectors that have been the exclusive domain of private enterprises, breaking up a monopoly into various branches of activities to stimulate competition and transferring the management of private enterprises from public to private through contracts, leases or concessions.

It has been argued that the concept of privatization is an emotive concept which is controversial and ambiguous. The Nigerian Privatization and Commercialization Act of 1988 and the Bureau of Enterprises Act of 1993 define privatization as the relinquishment of part or all of the equity and other interests held by the Federal Government or any of its agencies in enterprises whether wholly or partly owned by the federal government. This definition may be considered as lopsided because it tends to ignore the fact that other tiers of government like the state and local governments can also embark on privatization.

Iheme (2008), on his part defines privatization as; any of a variety measures adopted by government to expose a public enterprise to competition or to bring in private ownership or control or management into a public enterprise and accordingly to reduce the usual weight of public control or management. Starr

defines privatization as a shift from the public to the private sector, not shift within sector. According to him, the conversion of state agency into an autonomous public authority or state owned enterprise is not privatization, neither is conversion of private non-profit into a profit making firm. Privatisation can therefore be considered as the transfer of ownership and control from the public to the private sector. This can be executed in a number of different ways. In countries where capital markets are developed, privatisation is effected through the sale of the enterprise's equity to the public. In developing countries where capital markets are underdeveloped, divestiture is likely to involve the sale of the enterprise as a complete entity or through some form of a joint venture. In cases where the government fails to sell the state owned enterprise or enter into a joint venture agreement with private interests, liquidation measures can then be instituted (Etukudo, 2007).

Commercialization

Commercialization on the other hand constitutes an integral part of restructuring which takes the form of reorganization and restructuring of public enterprises under a management contract with a private sector company so as to turn such businesses into profit – making commercial ventures without government subsidy. The goal of commercialization is the promotion of greater efficiency and productivity even if government still retains ownership of the enterprise.

Development

Development as a concept also defies a universal definition. To some scholars like Walter Rodney, development is a normative concept which relates to time, place and circumstances hence it cannot be reduced to a universally accepted formula. Rodney (1972) therefore considers development as man's mastery of his environment as a result of the interactions which exist between humans and their social and physical environment. In his opinion, development is a universal phenomenon because the economic features leading to economic expansion were also universal. To this end development being the interplay between man and nature is not absent in any human society rather it has gradations as a result of the extent to which the various human societies have been able to master their environment. According to Rodney, certain human societies have been able to advance more than others due to their ability to exploit other parts of the world. To this end, development is considered as a relative concept because various societies across the world have varying levels of endowment.

Rodney also contends that development is multi-faceted and as such it has to be viewed at three levels which are namely; individual, group and societal levels. Rodney explains that at the level of individual, development refers to increased skills, creativity and capacity, greater freedom, self-discipline and responsibility as well as improved material well – being. According to Rodney, development at the group level implies a greater capacity to regulate internal and external relations while at the societal level, the concept implies the ability of a society to tap its natural resources for use by the people in that society.

The variations in the definitions of development seem to be representations of ideological inclinations. For instance, classical materialists conceive development as the accumulation of wealth. This school of thought interprets the concept as the ability of a state to generate wealth from the economic perspective in a manner which transforms the state from an agricultural or subsistence status to a point where the bulk of the state's wealth is obtained from the production of manufactured goods and services.

The most common definition of economic development is that it represents a growth in average income usually defined as per capita income. A closely related idea is that economic development occurs when output per worker increases (Goulet, 1971).

According to Goulet (1971):

Economic development must be conceived as a multi-dimensional process involving changes in structure, attitudes and institution as well as acceleration of economic growth, the reduction of inequality and eradication of absolute poverty.

There is often the tendency by people to interchange the concepts of growth and development as if they mean the same thing. This is probably because theoretically, having an increasing output should mean greater material welfare but this does not always translate into improved standards of living. Although economic growth and development tend to be similar in meaning, they have some essential differences. While economic growth refers to the increasing ability of a unit to produce more goods and services, economic development basically implies improved living conditions by taking into account changes in economic and social structures that will reduce or eliminate poverty.

This perhaps may be the reason why economic growth is sometimes considered as an indicator of development even as growth refers to quantitative improvement while development is a qualitative expression. Kindleberger however

acknowledges the entwined nature of the two concepts which warrants their being used in tandem but he goes further to explain that;

Growth without development leads nowhere, it is also impossible to contemplate development without growth because change in function requires change in size..... That is, until an economy can produce enough to feed its population ... self-sufficiency in food production through growth, it will be unable to allocate a portion of its resources to other types of activity in order to enhance development (Goulet, 1971).

Growth here can therefore be referred to as increased productivity or more output as a result of the increased efficiency or enhanced exploitation of the factors of production. By extension growth means quantitative increase in output which is proportional to the output within a given economy. Thus, it is an increase in capacity utilization especially of the factors of production. Development on the other hand refers to both increase in output and changes in the technical and institutional arrangement by which it is production takes place and this should lead to enhanced living conditions which should include improvements in human capacity.

Theoretical Framework

Privatization and commercialization are neo-liberal development strategies designed by the capitalist – backed international financial institutions to incorporate national economies into the global market. To this end, the theoretical foundation of privatization draws largely from the general equilibrium theory which among other things indicates the relevance of efficient pricing in ensuring optimal allocation of society's limited resources for efficient production of the various needs of society and efficient distribution of the commodities and services among various consumers (Kindleberger, 1965). Thus, the concept of perfect competition and free market imply that the general equilibrium analysis will tend to yield an optimal allocation of resources since competitive equilibrium prices ensures that supply and demand are equal and in the long-run, all firms which can produce profitably will enter the industry to ensure long-run stable and sustainable growth. It is obvious that such optimality results cannot be achieved under centralized planning or command economies which depend on elaborate control. This is because such system is hardly able to arrive at a set of efficient prices which will ensure that all firms maximize their profits by covering their costs and earning reasonable margins, while consumers maximize their utility. And even in recent times, there has been some ferment in economics about the role of the state in economic life (Killick, 1989). Government's argument on deregulation of the

downstream oil sector is premised on the expectation that it will improve the efficient use of scarce economic resources by subjecting decisions in the sector to the operations of the forces of demand and supply.

It has also been argued that privatization has several benefits such as reduced government bureaucracy, reduced state monopolies and financial structures, increased competitiveness, increase in quality of goods and services, reduced corruption and control by government, increased staff quality and supervision, improved market analysis, the freeing up of government funds for more pressing problems, creation of employment and the re-invigoration of the local economy as well as the expansion of local businesses. Others include the attraction of direct foreign investments, expanded capital market, redistribute wealth, improved technological transfer and enhanced trade regulations. To this end, it is argued that privatization is likely to instill accountability in the management of privatization enterprises. They are no longer dependent on the government for financial subvention, rather the shareholders look up to them for their dividends annually and this will make them to become more profit conscious in order to be able to satisfy the yearnings of their numerous shareholders.

Privatization is an instrument for economic mass mobilization and democratic control of the economy. This is because with privatization, shares of the enterprise will be sold to numerous investors across the whole country and the control of enterprise will now be in the hands of many owners rather than in the hands of the government appointed nominees into governing boards which is nothing more than state monopoly. The scheme is a means of encouraging productive efficiency. A number of factors can make this possible. First, the veil of state monopoly would have been lifted and competitive pressure would have set in. Secondly, the regular financial subvention from the government coffers would cease and the enterprises will have to provide for themselves alone without further assistance from the government. Thirdly, their activities will now become more open to public scrutiny and the culture of secrecy formerly enjoyed will be a thing of the past. This will stimulate innovation rather than apathy from the shareholders and consumers alike. This would make them to be more cost conscious and consumer oriented.

Privatization will lead to a positive enhancement of allocation efficiency in the economy. In the past when government was financially buoyant, it engaged itself in many businesses, a large number of which are quite inefficient and still the scarce resources of the economy were being allocated to maintain these ceiling enterprises on the premise that they performed some welfare functions. For the

citizens, privatization allows the allocation of government resources to efficient projects in the economy. The privatized enterprises if successful will be a source of revenue to the government when it pay taxes of various types to the government. At a time of declining government revenue and inadequate funding, these enterprises may not have the capability to expand. With privatization, however a new source of capital through shares subscription will enhance motives which in the long run will culminate into a vigorous drive for employment of more personnel.

It can therefore be argued that, privatization gives ownership to a large percentage of the population. Given the level of established property rights, individuals become more motivated and driven to work on and invest in their property since they are directly compensated for their efforts. Therefore, privatization will cause an increase in vest for yet another reason. Furthermore, state ownership leads to crowding out of investment from the private sector. In order to retain a monopoly in a particular industry, state enterprises prevent the private sector from getting to credit. Additionally, privatization leads to an increase in foreign direct investment which can potentially play a significant factor in the quest for growth. Foreign investment has “positive spillovers of proved technology, better management sills, and eases to international production networks” (World Bank, 2002). Easterly stresses the importance of the possible benefits from technological improvements as well as the spillover effect created from new innovations. In fact, easterly presents the theory and examples of how underdeveloped countries might have an advantage over developed countries have less invested in old technology, and are therefore, more willing to invest in new technology. Thus, foreign direct investment could potentially have multiple positive effects on the growth of underdeveloped countries.

The Origins of Privatization and Commercialization

Privatization as an economic policy is a product of neo-liberal economic reforms that became popularised and globalised through the World Bank and International Monetary Fund (I.M.F). The importance of establishing public enterprises or corporations began during the 19th century with the British Telecom in 1884 under the Telecommunication Act before it gained worldwide support. As an innovative economic policy, privatization started in Chile under the Military Government of General Augusto Pinochet in 1974 and was adopted in Britain between 1986 and 1987 as a central part of economic policy shift. Prior to the adoption of privatization and commercialization, public enterprises were considered as the engine of development and as such the establishment of

government corporations was considered as a basic responsibility of governments the world over. In Africa however, towards the end of the 1980s, public enterprises had grown too large and were suffering from the fundamental problems of defective capital structures, excessive bureaucratic control and intervention, inappropriate technologies, gross incompetence and corruption. With the deep internal crises that included the high rate of inflation and employment, external debt obligation and foreign exchange misalignment, many African countries were strongly advised by the World Bank and International Monetary Fund to divest (privatize) their public enterprises as conditions for economic assistance. Thus, by the end of 1996, all but five countries in Africa had divested some public enterprises within the framework of macroeconomic reform and liberalization.

In Nigeria, privatization and commercialization began in 1986 as an integral part of the Structural Adjustment Programme (SAP) which was part of the conditionalities prescribed for the country like other African countries before they could get the assistance they sought from the Bretton Woods institutions. Thus, privatization in Nigeria was formally introduced by the Privatization and Commercialization Decree of 1988 as part of the Structural Adjustment Programme (Zayyad, 1992). We have observed in our introduction that the Oil Glut had led to build up of large fiscal and external deficits and other macroeconomic imbalances in Nigeria. In order to address this problem, the government introduced several policy measures which started with the Stabilization Act of 1982, budget-tightening measure of 1984 and finally the 'Structural Adjustment Programme (SAP) of late 1986.

The challenge of mismanagement as outlined in Nigeria above led to the adoption of privatization and commercialization by African governments amid resistance from the citizens and labour unions who had become used to the nationalization of most enterprises. Thus by 1996, the countries in sub Saharan Africa could be divided into 2 groups, first according to the degree of privatization – major, modest as well as minimal privatizers – and secondly, according to when countries embarked on privatization programmes – early starters, not so early ones and late starters. Indeed major privatizers where majority of state enterprises have been divested include Benin, Guinea and Mali. Modest privatizers are those cases where less than 10 percent of the total value of the public assets has been sold: Burkina Faso, Cote d'Ivoire, Gambia, Ghana, Kenya, Madagascar, Mozambique, Niger, Nigeria, Senegal, the United Republic of Tanzania, Togo, Uganda and Zambia. The rest of sub-Saharan Africa therefore constitute minimal privatizers. Furthermore early privatizers started from the late 1970s up to the middle of the

1980s and include Benin, Guinea, Niger, Senegal and Togo. This group was followed by those whose privatization programmes took effect from the late 1980s and include Cote d'Ivoire, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Nigeria and Uganda. The late starters who did not privatise until the 1990s include Burkina Faso, Cameroon, Ethiopia, Sierra Leone, the United Republic of Tanzania and Zambia.

Impact of Privatization and Commercialization on Development in Africa

Theoretically, it is argued that privatization and commercialization can have a positive secondary effect on a country's fiscal situation more so as it can be used to finance new government expenditures and pay off future debts. It is also argued to enhance the efficiency and profitability of enterprises. Practically, the Nigerian breweries changed from the most inefficient and loss-making company before privatization to one of the most profitable businesses after it was privatized. In Zambia, it was reported that the country was for the first time exporting coffee and cotton as a result of privatization while the export of cut flowers had increased from \$5 million in 1991 to \$54 million in 1996.

In Uganda too, it has been noted that Ugandan companies were performing better under private sector management and were at the same time providing regular tax revenues. In referring to the Nigerian capital market after privatization and commercialization, Zayyad (1992), points out that there have been more offerings of primary issues in the last five years than in the previous thirty years of the existence of the stock exchange. To this end, the number of shareholders has rapidly increased and became more even spread across the country. Also, some enterprises such as Flour Mills, Africa Petroleum, National Oil and Chemical Company Limited (NOLCHEM) that were partially privatized began doing well in terms of production and profit making. Bala (2003), also observed that many of the privatized Ghanaian enterprises have been modernized and brought back into production. ABC Brewery for instance, increased its production between 1992 and 1995 while Ghana Agro Food Company (GAFCO) increased employment from 500 – 700 by July, 1996. In Zimbabwe the Grain Marketing Board came from a loss of more than \$100 million to a profit of \$21 million in 1995.

While it may be argued that privatization had improved the performance of some of the privatized companies (even though its production costs are lower than those in the public sector by 20 – 40 percent) especially in the efficiency of resource utilization hence, a higher profit to capital ratio was witnessed, employment levels tended to be adversely affected by privatization. In Nigeria, the

commercialization of enterprises such as National Electric Power Authority (NEPA) and Nigerian Telecommunications Company (NITEL) showed any significant improvement in their operational and economic performance in addition to several job losses. Between 1989 and 1993, the public sector accounted for a large number of job losses more than in private companies. This led to loss of income and decreased spending as well as purchasing power. The rise in commodity prices between 1992 and 1994 therefore did not create sufficient increase in gross earnings. Profits actually increased but the extent to which this increase can be attributed to a reduction in government involvement is not clear.

It is clear that privatization itself has complex problems with each country having its own peculiar solutions. For instance, private corporations are profit driven and as they find it difficult to render public services such as water, public health and transportation services at rates that are affordable hence privatization usually creates wealth for the rich while making the poor poorer while the process reduces public accountability as private companies replace public corruption with state corruption. To this end, the expected trajectory of the entire deregulation and privatization exercise in Nigeria immediately took a dangerous derailment after the first five years of implementation. Many Nigerians alleged that the privatization process was biased such that some companies were sold out to incompetent people for selfish gains or for patronage.

It had also been alleged that only 10% of 400 privatized firms in Nigeria were properly functioning a situation that can be attributed to several technical complications inherent in the gamut of the exercise. This can be attributed to the lopsided asset acquisition and share purchase agreements, non-enforceable clauses and breach of share purchase agreements. Some of the problems that characterized the privatization exercise were, government enterprise and the acquiring firm operating and competing in the same market, the lack of capacity of the acquiring private firm, lack of technical knowledge or experience of the particular industry by the acquiring firm, inability of the competing firms to meet the financial benchmarks, creation of an industrial monopoly, unnecessary retrenchment public officers by the acquiring firm inexplicable or unfair assignment of the properties of the state agencies or subsidiaries and favouritism. For instance, a labour strike was called to compel the government to reverse the sale of the nation's refineries which the labour union saw as a way of out of public assets to Obasanjo's friends under the guise of privatization. Obasanjo had earlier been accused of selling African petroleum, to his business stooge, Femi Otedola's Zenon Oil at a cost many considered as a giveaway price. This is because AP was first sold to Global Group

through a near due process at the cost of N17.5billion but Obasanjo is accused of having overruled the transaction and single handedly offered the prime shares of the federal government in AP to Zenon Oil at a value far below its actual value (Ayodele, 1994).

The privatization commercialization of the Nigerian economy reveals the capitalist undertone with the notion that capitalism produced colonialism and imperialism. Indeed, right from the time the Nigerian economy began to be privatised as part of SAP in 1986, it only succeeded in pauperizing a larger population of the country. This explains why the material condition of the citizens is yet to improve in spite of the process. The efficiency of the power sector has not improved in spite of rising tariffs. This goes to show that the privatization is based on maximization of profit and further opening the economy up to plunder. The whole process has been corruption – ridden and lacks transparency such that, majority of Nigerians who are also below the poverty line might not be able to afford those deregulated and privatized goods and services. Given the fact that the initial impetus for privatization in Africa came from creditor institutions especially the IMF and the World Bank, as part of the push for there is no surprise that deregulation and privatization in Nigeria process in Nigeria has neither been able to improve in terms of efficiency nor transform the economy of the country into a better one. . For

Conclusion

This discourse shows that the desire to meet the conditions for loan facilities from the Bretton Woods institutions had combined with the mismanagement and under-utilization of government - owned corporations leading to wastage of resources and manpower potential informed the decision by African States to embark on privatization and commercialization. Although, privatization and commercialization of other economies have been successful in developed countries, it has been a failure in Africa due mainly to differences in socio-political environment. This discourse shows that the process lacked credibility and transparency as it could not yield the touted benefits. If the policy had been implemented with sincerity, it would have worked as workers could have become shareholders. Consumers would have also been better off as a result of better services. Graduates and the unemployed would have also become employed due to expanded opportunities as government too would have been relieved of the burden of subsidies. Investors would have also gained in terms of increased investment opportunities. To this end, the process should be reviewed to make it more transparent and it should be based on competency rather than ethnicity and

patronage more so an economic system that cannot improve the material condition of the majority of the citizens does not deserve to endure for long.

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