Post-Privatization Challenges

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African countries have engaged in privatization for more than ten years. This involves the transfer of public assets to the private sector or asset divestiture; awarding managing contracts to private firms as management and/or technical consultants to run state enterprises; contracting private firms to provide services hitherto supplied by state monopolies; commercialization or de-monopolization; increasing or where it did not exist, introducing competition within the former state enterprise sector and between the sector and private enterprises.

Before and during all this time, much ink and paper has been used to point out the pitfalls of privatization. These include: lack of buyers, especially indigenous ones; the possibility of the process being monopolized by non-nationals and/or one ethnic group with easy access to capital; ideological opposition from economic nationalists; corruption and nepotism in the evaluation of assets and their sale; lay-offs and increased unemployment; and class differentiation and inequality.

While most if not all of the above dangers have come to pass, they have not stopped the movement. Privatization continues, though not at a pace that its major sponsors the Western powers and the International Financial Institutions they dominate prefer. Given the fact that privatization is here to stay and will run its course, the time has come for a shift in attention or focus, away from its desirability, practicality, mechanisms of its implementation and its impact, towards its aftermath. It is not that the debate is closed on these issues because satisfactory answers have been found. It is because enough attention has been drawn to the issues in question, and if nothing or little is being done about them, it is not because the problems or dangers that they pose are not known. It is high time we paid attention to post-privatization issues.

The formation of the State enterprise sector was a solution to a set of problems. Green (1977) attempted to summarize these and came up with: economic nationalism, filling structural gaps, transition to socialism, plums for the elite, crumbs for the clients, "modernization" of "development administration" (whether Lichmanite or Marxian), security and capital cost minimization for Multinational Corporations (MNCs); institutional instincts for self preservation ...etc. Some of these issues are no longer on the current agenda of African states e.g. transition to socialism. Also, self-preservation for state enterprises is obviously now untenable. However, many of these concerns are still as relevant today as they were three decades ago. Economic nationalism is still an objective and a strategy, even in the face of the strong forces of globalization. The pressure for primitive accumulation on the part of the elite and for patronage is still as strong, though the push for accountability and transparency is supposed to reduce it if not eliminate it altogether. The search for the most efficacious and effective state administration continues even within the current administrative reforms. The pressure for profits and cost minimization by International capital is now even stronger, now

aided by bilateral and multilateral conditionalities. It is also true that Africa's poverty, low-productivity, ignorance and disease, inequalities and exploitation will still be with us in the post-privatization phase. A search must therefore continue for a solution to these problems, but now without the state enterprise weapon.

The solution to these problems and others call for a strong, effective and efficient state response. Not only is the market alone incapable of solving these problems, but at times it is also part of or a source of the problem.

Agricultural marketing is a case in point. It may be recalled that the impetus towards the birth of the cooperative movement in Africa was irritation with middlemen/women in agricultural marketing. The Victoria Federation which was once the largest cooperative in Africa was born out of a desire by cotton growers in Tanzania's Lake Victoria regions to route out the Asian middleman who monopolized cotton purchase. They used their position to cheat the largely illiterate African farmers out of what was rightfully theirs. They used such methods as under-weighing the cotton, offering very low prices, and 'borrowing" peasants cotton and refusing to pay. The cooperative movement at its most effective and efficient, put an end to such practices and benefited peasant cotton growers throughout the area.

Agricultural marketing was one of the sectors that were liberalized very early in the 1980's. The state/ cooperative monopoly in crop purchase was removed. Private companies started buying crops and in some cases supplying basic agricultural inputs like fertilizer insecticides, seeds and farm implements. The record so far is not promising. There has not been a dramatic increase in prices offered to peasants as people were led to believe.

Private buyers set their own prices and have engaged in monopolistic practices reminiscent of the colonial period. Also they have picked and chosen where to buy in terms-of profit calculation taking into account such factors as ease of communication and transport, and the quantity and quality of produce. Inevitably some areas have been left unattended. Many have also successfully evaded paying taxes. There has not been any marked increase in agricultural productivity. The need for the visible hand of the state to step in and assist the invisible hand of the market has become very obvious. There is need for democratic regulation.

Privatization was rationalized and introduced as a solution to a state that had became too big, in terms of its functions; too heavy in terms of its cost; and very ineffective in terms of its performance. All this had been at the expense of the private sector. Moves to privatize therefore have been aimed at reducing the size of the public sector, its functions, and cost. Hand in hand with this have been moves to create what is popularly known as the "enabling environment" for the private sector. This has involved revision or scrapping off al-together of rules and procedures that are thought to hinder investors especially foreign investors, setting up on investment centers to provide various incentive packages to investors, creating specific

for a like chambers of commerce and industry to give "voice" to private capital etc. In such an atmosphere, the word regulation is not welcome. It is seen and presented as anti-investor. It is not seen as investor friendly.

Yet private capital when left alone can cause havoc to the economy and society. Banks that are not properly set up and regulated will more often than not fold after a while, bringing untold suffering and loss of lives savings for millions of small depositors. Unregulated food importers will sell anything carrying the label of food even if it endangers the health of the population. Drug companies will sell expired medicine even if it is an ineffective cure and the patient may die. Private Airlines will put planes into the air that are only fit to stay put in hangers. And the list goes on and on. All of the above and more have already happened in Tanzania and other parts of Africa. The private sector can self-regulate only up to a point. The need for state regulation cannot therefore be over-emphasized. Countries like Russia that ignored this critical function are now paying a very high price for the omission.

Secondly and equally importantly, the end of the State owned enterprise does not mean the end of the State's interest in national economic development. The "invisible hand" left on its own will not direct investments into nationally desired areas either sectorally or geographically. There is now ample evidence that the investment that has been attracted has tended to go into tourism, commerce, transport, mining and the like. Investors are attracted into areas with low capital demand and specificity, and high short-term profit margins. Little capital has gone into directly productive areas with long gestation periods like manufacturing, agriculture, and high technology industries. There is, therefore, a need for the State to de-vise and selectively apply incentives to guide investments into identified areas that are determine to be critical.

A third related function concerns welfare. Structural Adjustment polices have put an end to most welfare services and subsidies offered to citizens. This has happened at a time when the same citizens are subject to rising un- employment, higher prices and increased calls for cost sharing and cost bearing. The majority of the states, if left at the mercy of the market, will go without adequate diet, medicine, and education for their children. There is need therefore for the state to imaginatively figure out ways of assisting citizens cope with the post-privatization realities.

Successful pursuit of the objectives or regulation, motivated, and welfare identified above is not an easy task. Several preconditions needs to be met if African States are to effectively regulate and imaginatively assist private capital move into certain critical domains while also helping the most vulnerable members of society. The first and foremost prerequisite is knowledge: African states need to have verified information in order to regulate selectively apply incentives and assist the poor. There is need for thorough knowledge in the various fields including banking, pharmaceutical, transport and communication, agriculture, education, industry etc. You cannot regulate what you don't know or understand, for example.

Knowledge is therefore of prime importance. Second, and related, is the need for a comprehensive database. African states must set up and operate modern up-to-date databases, that are part of global information network. They must have at their fingertips accurate current information that is accessed easily. This calls for substantial investments in hardware and software, personnel, and other infrastructure.

Third, there is need for a highly qualified and skilled labour force. The civil servant must be highly trained, killed and experienced. He or she must be able to hold his or her own position against colleagues from the private sector. He or she must understand their technical/professional language, share their insights, anticipate their thoughts and moves.

Fourthly, the public service personnel need to be highly motivated. This in turn calls for adequate economic and other incentives. Half-starving civil servants will be no match for the agents of the private sector. Under paid agents will find it very hard to resist the various kinds of "offers" made by the "princes" of the private sector. Concentration becomes very difficult on an empty stomach. Task implementation will also be easier if there is a national vision that is dynamic and convincing. National goals that are shared as well as strategies to get there are always important in the life and work of state agents.

The need for information and knowledge cannot be over-emphasized. Consider the issue of contracting. Contract, most people would agree lies at the core of economics, public administration, business, and law. Contracts are complex because of what is variously called their incompleteness, voluntaries, or imperfect nature. Legally, and as Guest explains, "The law of contract unlike other branches of law does not lay down a number of rights and duties which the law will enforce; it consists rather of a number of limiting principles, subject to which the parties may create rights and duties for themselves which the law will uphold. The parties to a contract in a sense, make the law for themselves." The onus is therefore on the parties that wish to enter into a contract to determine the key parameters and hammer out details of their agreement. Contract Definition is therefore one of the main issues in contracting and it relies very heavily on the availability of information which is costly, and lies at the core of transaction costs.

For this reason a contract is essentially a continuous process of objective setting, means selection, monitoring, evaluation enforcement etc. The whole process is highly dependent on availability of complete information to bidders and perfect information to sellers.

Finally, the above calls for a political leadership that is able and willing to tackle the post-privatization challenges. Leadership must be focused with a national vision. They must be committed to the public good. This may not be as easy as it sound in this era of multipartism where politicians need businessmen and women to raise campaign funds.

Reference

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