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## **The Tortuous Road to Privatisation and Restructuring of State Assets in South Africa: Lessons from African Privatisation Experience**

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### **1. Introduction**

Privatisation of state-owned enterprises (SOEs) has become a key component of the structural reform process and globalization strategy in many economies. Several developing and transition economies have embarked upon extensive privatisation programmes in the last decade or more as a means of fostering economic growth, attaining macroeconomic stability and reducing public sector borrowing requirements arising from corruption, subsidies and subventions attributable to unprofitable SOEs. At the beginning of 1990, about a dozen African countries had undertaken some form of privatisation. By 1993 that number had doubled and by the end of 1996 all but five countries had divested some public enterprises within the framework of macroeconomic reform and liberalization (White and Bhatia, 1998). Currently, only nine countries in Africa are yet to initiate a privatisation programme. Even war-torn countries such as Liberia, Rwanda and Sierra Leone have begun to privatise some enterprises. Rwanda, still recovering from the genocide of 1994, has a very active privatisation programme. Namibia is perhaps one of the very few with no plans to privatise, largely because its state enterprises are generally well run (Ariyo and Jerome, 2003).

In line with the trend worldwide, the spate of empirical research on privatisation has also increased, albeit with a microeconomic orientation that emphasizes efficiency gains (La Porta and Lopez-de-Silanes, 1999; D'Souza and Megginson, 1999; Boubakri and Cosset, 1998; and Dewenter and Malatesta, 1998). However, despite the upsurge in research, our empirical knowledge of the privatisation programme in Africa is limited. Aside from theoretical prescriptions, not much is known about the process and outcome of privatisation exercises in Africa in spite of the impressive level of activism in its implementation. In particular, current research is yet to provide useful insights into the peculiar circumstances of Africa and the manner in which they influence the outcome of privatisation efforts. However, objective observers agree that the high expectations of the 1980s about the "magical power" of privatisation bailing Africa out of its quagmire remain unrealized (World Bank, 1995; Ariyo and Jerome, 1999 and 2003; White, 2000 and Nellis, 2003).

The post apartheid government in South Africa inherited well over 300 state-owned enterprises. Back in 1995, President Thabo Mbeki then Deputy President announced

plans for wide-sweeping privatization programme which eventually got underway in 1996. Its implementation has been rather slow. It has largely focused on divestiture of “non-core business” such as broadcasting stations, resorts, and related services in the transport sector as well as selling minority stakes in utilities to so-called strategic equity partners and Black Economic Empowerment groups. In August 2000, in what amounted to a renewed commitment to the privatization programme, South Africa launched a programme to accelerate the restructuring of state-owned enterprises (SOEs). The programme aims at increasing SOE efficiency through improved governance and competition, while seeking to attract foreign investment, technology, and expertise through full or partial privatization. New guidelines were also put forward with regard to five key areas, namely the economic and social effects of restructuring; the development of appropriate regulatory and competitive frameworks; promoting empowerment; corporate governance; and improving the restructuring process. While the Policy Framework provides greater clarity about government policy on restructuring with regard to these important areas, there are a number of unresolved issues that require further investigation. There are lessons to be learnt as well as errors to be corrected.

Against this background, the overriding objective of this study is thus to evaluate South Africa’s privatization programme. It seeks to appraise the pace and sequencing of privatisation, the extent to which the critical successful factors for privatization are met, and on the basis of African privatization experience, draw useful lessons for South Africa.

## **2. Theoretical Framework**

The vast literature on privatisation reveals a wide array of definitions and lack of precise meaning. Privatisation has become a generic term often employed to describe a wide range of policy initiatives designed to alter the mix in ownership and management of enterprises away from government in favour of the private sector. It covers a wide continuum of possibilities, from decentralisation to market discipline. Narrowly defined, privatisation implies permanent transfer of control, as a consequence of transfer of ownership rights from the public to the private sector. This definition is perhaps the most

common usage of the term. A broader definition entails any measure that results in temporary transfer to the private sector of activities exercised hitherto by a public agency. This may be accompanied by a radical relocation of available productive resources, restructuring of the existing institutional setting in which production takes place, and the introduction of new forms of corporate governance devoid of political interference (Shirley and Nellis, 1991; Jerome, 2002).

Privatisation can also entail a transfer of the provision of a good or service from public to private sector, with the government retaining the ultimate responsibility for providing the service. The prime examples of this type of privatisation are subcontracting, management contracts, lease, and concessions as well as build, operate and transfer schemes. It is however possible to envisage privatisation taking place without a transfer of ownership of assets. For example, liberalisation or deregulation is regarded as the abolition of restriction on entry, prices, output, market, profits etc. The public enterprise remains in existence, but it is required to adopt a more commercial approach. The preoccupation of this study is however the narrow definition.

Much of the faith in the salutary effects of privatisation derives from a belief that private ownership of assets and the removal of government from business decision-making results in efficiency gains. Since government is more likely to pursue multiple objectives in its management of a firm (such as employment creation and provision of services to areas that are not commercially profitable), it creates a series of disincentives that educe the efficiency and, therefore, the profitability, of the firm (Birch, 2000). In its generally critical review of public enterprise performance in developing countries, the World Bank observed that, "Bureaucrats typically perform poorly in business not because they are incompetent (they aren't), but because they face contradictory goals and perverse incentives that can distract and discourage even very able and dedicated public servants" (World Bank 1995:3).

While theoretical studies are ambiguous concerning ownership, the weight of empirical research is now decidedly in favour of the proposition that privately owned firms are

more efficient than state-owned firms. A recent comprehensive review of 65 empirical studies ranging from single case studies in one country to multi-country studies by Megginson and Netter (2001) concludes that privately owned firms are more efficient and more profitable than otherwise comparable state-owned firms.

Despite the extensive adoption of privatisation, it has from the outset been highly controversial and politically charged. This relates to the agency and credibility problems that are unleashed by the exercise as well as its income distribution implications. At the heart of much of the criticism is the perception that privatisation has been unfair, hurting the poor, the disenfranchised and in some cases beleaguered workers (Birdsall and Nellis, 2002). In spite of the fact that there is no universally applicable approach to privatisation, and given that the attempt to apply a “one size fits all” approach has proven ineffective and counterproductive, the literature has identified the necessary features of a legitimate and acceptable national policy. This constitutes a universal benchmark for evaluating the design, implementation process and outcome of national (privatisation) policies and programmes. These include broad-based participation, political commitment, competition and transparency among others.

Privatisation requires strong political commitment. It is intensely political since most transactions produce winners as well as losers and the gains are usually diffused and in the longer-term while the costs are short-term and borne by vulnerable but vocal groups, such as labour. It thus requires careful handling by the political and administrative leadership to explain alternatives, build coalitions for change, and deal with the disaffected. Top-level political commitment is a necessary but not sufficient condition for successful privatisation efforts. Public perceptions of success are important for the privatisation process. The building of widespread public understanding among a larger group of stakeholders is very essential. In this regard, the availability of information is key. Many countries have found public information campaigns to be helpful. Such campaigns are particularly effective when combined with mechanisms to ensure broad-based participation and mitigate political and social costs (e.g. procedures for transparency, labour programmes, and share ownership schemes in firms being sold).

The difficulties of SOE reform and the substantial empirical evidence on privatisation strongly support the importance of ownership. Contract theory notes, however, that ownership structure matters only if complete contracts cannot be written (Grossman and Hart 1986). Indeed, a handful of empirical studies ascribe performance improvements after sales to competition rather than a change in ownership. Sachs, Zinnes and Eilat (2000), for example, examine the empirical evidence across 24 transition economies and conclude that ownership alone is not enough to generate economic performance improvements. It is when ownership change is combined with institutional reforms aimed at removal of barriers to entry and exit, improving prudential regulation and corporate governance, hardening budget constraints, and developing capital markets that one sees large and enduring progress. Galal et al (1994) also demonstrates that while ownership matters, competitive markets reinforce the benefits of private ownership. Maximum impact is produced when market competitiveness, hardened budget constraints, and improved regulatory frameworks coincide with privatisation. The higher the level of institutional reforms, the more positive the economic performance impact from a change of ownership. At the same time, institutional reforms do not guarantee performance improvements unless there is a minimum level of ownership change. Thus, while ownership matters, policies and institutions matter just as much.

Rapid and extensive divestment without a proper framework can lead to disastrous results as the experience of Eastern Europe has demonstrated (Nellis, 1999, 16-19). For each transaction, proper planning, execution, monitoring, and assessment are necessary. Transparency is an integral part of the privatisation. It includes timely access to relevant information, respect for rules of the game and procedures, as well as control. Lack of transparency often leads to allegations of corruption and provides ammunition to political and other opponents of privatisation. It often creates backlash from investors and the public at large, and threatens to halt the process. In Russia, the mass privatisation program permitted insiders to engage in extensive “self-dealing”, while the subsequent privatisation “auctions” were a massive giveaway of the most important assets at bargain prices to a handful of well-connected oligarchs, who, in the absence of adequate legal and

institutional arrangements, continued to act that way (Black, KraaKman and Tarassova, 2000). As a result, the public came to oppose privatisation, associating it with corruption and wealth transfers to a chosen few.

### **3. The Privatisation and Restructuring Programme in South Africa**

The white apartheid regime, in spite of its anti-socialist stance, surprisingly created a seemingly large public enterprise sector, beginning in the 1920s with the establishment of Electricity Supply Commission (Eskom) and the South African Iron and Steel Corporation (Iskor). In 1940, the Industrial Development Corporation (IDC) was established to support other new industries. The IDC helped to establish many other state corporations, including the Phosphate Development Corporation (Foskor); the South African Coal, Oil, and Gas Corporation (Sasol); and the Southern Oil Exploration Corporation (Soekor). In addition, many state corporations also founded subsidiary companies in partnership with private firms, and many held controlling shares of stock in private firms. These enterprises were established primarily to strengthen import-substitution industries, which had started to grow during World War I, by providing infrastructure improvements and basic materials. Eventually, these enterprises were used as platform for "white" employment and social benefits as well as creating a support base among the white working class and Afrikaner business owners.

The post apartheid government inherited well over 300 state-owned enterprises. A startling 50 percent of South African fixed capital assets were in state hands when the Mandela government took office in 1994 while the private sector was dominated by a handful of closely-held conglomerates operating in a loosely-regulated and inherently anti-competitive setting. The apartheid government owned the electric company, the telephone company, the national airline, the arms industry, the railroads, buses, ports, hospitals and television stations as shown in Box 1. These enterprises were incurring losses and the low efficiency of some of them was a source of continued criticism of the government.

In February 1988, President P. W. Botha announced plans to privatize several state-controlled industries, including Eskom, Foskor, and Iscor, as well as state-operated transport, postal, and telecommunications services following dwindling resources as a result of economic sanctions and the global economic depression. State corporations had been the major recipients of large foreign loans that were called in and cut off in 1985, leaving them with serious capital shortages. It was envisaged that sales of the corporations' assets could both ease the debt burden and provide the government with new revenue for much-needed social programmes

### **BOX 1: Major State –Owned Enterprises in South Africa**

- Eskom: Electrical power production and distribution established in the 1920s.
- Iscor: (Iron and Steel Corporation): Iron and steel production established in the 1920s.
- Foskor (Phosphate Development Corporation): Mining and processing of phosphate minerals for fertilizers and other uses.
- Sasol (South African Coal, Oil and Gas Corporation): Primarily involved in the production of coal and its use for synthesizing gasoline. The motivation for the synthesis of gasoline from coal was the petroleum embargo imposed on South Africa.
- Soekor (Southern Oil Exploration Corporation): FOSKOR, SASOL and SOEKOR were created by the Industrial Development Corporation (IDC) which was established in 1940 to build domestic industries which would supply goods likely to be unavailable from foreign sources as a result of the Second World War.
- The Postal Service: which in addition to providing postal services operated a subsidiary parastatal (TELKOM) which provided telephone services.
- SABC (South African Broadcasting Corporation): For television in South Africa there was one channel that alternated English-language and Afrikaans programming and another for the other languages of South Africa.
- ARMSCOR (initially Armaments Development and Production Corporation and later Armaments Corporation of South Africa): Agency with responsibility for managing the research, development of small arms, ammunition, military vehicles and military optical devices. This included operation of the state-owned enterprises such as the rifle factory of Lyttleton Engineering Works and supervision of government contracts with private suppliers.
- SAA (South African Airways): The State airline of South Africa.

The acronym for an enterprise was based upon either its name in English or Afrikaans.

Source: Author's Compilation

As a preliminary to privatisation, the National Party government reorganized some of these enterprises including the Ministry of Transport, Posts and Telecommunications, the South African Railways and Harbours Administration. ISCOR was sold in 1989 for 3 billion Rand<sup>1</sup>. However, the programme suffered two major setbacks. First, many multinational enterprises were reluctant to buy South African enterprises because of international sanctions. More fundamentally, it met with stiff opposition from anti-apartheid organisations and trade unions led by COSATU. The African National Congress which was expected to come to power in the near future perceived it as a ploy to deny them control over the economic resources of South Africa even after they achieve majority rule.

For many years prior to the democratic elections in 1994, there had been a heated debate in the ANC and other political organisations about the future of the economy and privatisation was a key issue in this debate (ILRIG, 1999). The position of the ANC has been anti-privatisation deriving from the freedom charter. The first economic blueprint of the new democratic government outlined in the Reconstruction and Development Programme (RDP) was published just before the 1994 elections. It opted for a development state in a mixed economy and an expansive role for the state. On privatization, the RPD was ambivalent and stated that:

“There must be significant role for public sector investment to complement private sector and community participation in stimulating reconstruction and development. The primary question in this regard is not the legal form that government involvement in activity might take at a given point, but whether such actions strengthen the ability of the economy to respond to the inequalities in the country, relieve the material hardship of the majority of the people, and stimulate economic growth and competitiveness.”

In the various debates on economic policy by labour, business and government, there was an agreement that the state needed to be restructured. The disagreement borders more on the nature of the restructuring. While labour opted for a developmental state with increased service provision to redress the backlogs of apartheid, Business preferred a

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<sup>1</sup> There had been an attempt to sell ISCOR in 1929 just a few years after its creation but there were no buyers.

leaner and more efficient state. COSATU held demonstrations in response to privatisation proposals by the newly elected government.

The conflict between government, business and labour on privatisation appeared resolved in the National framework Agreement (NFA) signed through the National Development and Labour Council (NEDLAC) in 1995 by COSATU, the Federation of Unions of South Africa (FEDUSA), the national Council of Trade Unions (NACTU) and the government of National Unity. The National framework Agreement (NFA) was the first occasion on which the government and organised labour successfully negotiated around the policy of privatisation. It marked a change in the policy stance of COSATU. Prior to NFA, COSATU had rejected privatisation but in the NFA it accepted that privatisation could take place in certain instances.

On NFA and workers, the Framework Agreement stated inter alia:

“The ultimate aim of restructuring is to improve the quality of life for all South Africans. Therefore, the underlying approach is that restructuring should not occur at the expense of workers in state enterprises. Every effort must be made to retain employment. Where restructuring potentially has negative effects on workers, a social plan must be negotiated with the relevant unions at the enterprise level which takes account of the workers’ interest.”

The NFA outlined the goals of restructuring of certain state assets and the steps that were to be followed in the process. It set up a number of joint structures of government and labour to discuss plans for restructuring.

In June 1996, the government released its macroeconomic strategy tagged ‘Growth, Employment and Redistribution’ (GEAR) which envision a broad based privatisation programme although the term privatisation was not used in the document. It outlined the process of restructuring of state owned assets, the need for appropriate regulatory policies and the creation of public private partnerships (PPPs) in recognition of the limited capacity of fiscus. According to the document:

“The nature of restructuring, as outlined in the framework agreement, may involve the total sale of the asset, a partial sale to strategic equity partners or the sale of the asset with government retaining a strategic interest. Work is in progress to address the outstanding issues on the restructuring of the remaining state enterprises. The restructuring will take place in a phased manner so as to ensure maximum value and adequate regulatory frameworks. Specific policy issues and further elaboration will be dealt with by the responsible Ministers”.

Once GEAR became the economic policy of the government, restructuring was conducted in a number of state enterprises. Thabo Mbeki, then Deputy President announced plans for wide-sweeping privatization programme in late 1995 and this provoked strong protests from labour unions over the threat of job losses and labour's exclusion from the policy decision.

The privatisation or restructuring programme eventually got underway in 1996 though the sales of enterprises actually commenced in 1997. Six radio stations owned by the South African Broadcasting Corporation were sold. 30% stake in Telkom was sold to a consortium of United States based SBS Communications (18 %) and Telkom Malaysia Benald (12%) at a value of R750 Million. The interests are held via an investment holding company, *Thintana Communications LLC*. Sun Air was sold for R97 million to a Black Empowerment: The new stakeholders were Rethabile Group (35%), co-ordinated network instruments (19%) and the National Empowerment Fund (15%) and staff (5%). By August 1999, the company ceased operation. This was followed by the sales of 20 % stake in South African Airways (SAA) in 1999 to Swissair for R1.4 billion but repurchased subsequently by Transnet in 2002 due to problems in Swissair. A 20 % stake in the Airports Company of South Africa (ACSA) which controls all major airports in South Africa was sold to Italy's *Aeroporti Di Roma* and a further "Initial Public Offering" of shares is planned. Strategic management partners were appointed for the Aventura Leisure Group, the Alexkor Diamond Mine and the South African Post Office although the management contract with the New Zealand Post Office was terminated in 2001. About R2.5 billion was also raised from partial sales of Transnet's holdings in cellular telephone operator MTN. Denel, the Defence firm was partially privatised and foreign strategic partners BAE systems and Turbomecca have been introduced. Some of the nation's forest and Mossgas were also sold.

The programme, however, suffered from policy credibility. Both the business community in South Africa and organised labour criticised the privatisation process and the attitude of the government. Criticism from the business community (*Business Times*, 25 April 1999) centres on the perceived slowness of the government in implementing GEAR and

especially the delay in privatising state assets. Business South Africa argues that the government is sending the wrong signals to the investor community and delaying much-needed investment (Pape, 1998). Labour's criticism, especially that of COSATU and its affiliates, is based on its analysis that GEAR contradicts and abandons the RDP, and that privatisation of state assets endangers the delivery of basic social needs and leads to loss of employment. Labour also believes that the economy can be kick-started by heavy investment that would lead to consumption and growth (Pape, 1998 and Mostert, 2002).

At a Lekgotla on 29 November 1999, the Interministerial Cabinet Committee on the Restructuring of State Assets (IMCC) directed that a more comprehensive policy framework be prepared to guide the restructuring process into the 21st century. This policy framework would ensure a consistent approach to restructuring across government and address perceived market uncertainties about government's restructuring priorities.

In August 2000, in what amounted to a renewed commitment to the privatization programme, The Department of Public Enterprises published the Policy Framework for an accelerated agenda for the restructuring of State Owned Enterprises. The document endorsed NFA's objectives and aims at increasing SOE efficiency through improved governance and competition, while seeking to attract foreign investment, technology, and expertise through full or partial privatization. It anticipates that at least R 40 billion, representing about 5% of GDP would be generated over the period 2002-2004. It targeted the four key enterprises: Telkom (telecommunications), Transnet (transport), Eskom (electricity), and Denel (defence) collectively described in the government's policy framework as 'key enterprises'. They account for the 86 % of the sector's aggregate turnover, 94 % of total income, 77 % of all employment in the top SOEs and 91 % of total assets (Mostert, 2003). Completion of the restructuring programme was scheduled for the end of 2004.

New guidelines were also put forward with regard to five key areas, namely the economic and social effects of restructuring; the development of appropriate regulatory and

competitive frameworks; promoting empowerment; corporate governance; and improving the restructuring process.

In April 2001, a further 3 per cent of Telkom, South Africa's only fixed line telecom operator was sold to *Ucingo*, a BEE grouping. A public listing of the second tranche of 20 % of Telkom shares was due in 2000/2001 but this was delayed due to adverse market conditions. Major privatisations in the year 2002 include the sales of Aventura resorts in January for R29 million, 51 % of Denel's Altimotiv division in July 2002 for R50 million, 20 % stake in cell phone group M-Cell in August and 51 % stake in Apron Services in October for R117 million.

**Table 1: Restructured Enterprises in South Africa (1997 – 2002)**

	Date of transaction	Stake sold %	Total proceeds R million	Proceeds paid to exchequer R Million
SABC radio station	March 1997	100	510	510
Telkom	May 1997	30	5631	1165
Sun Air	November 1997	100	42	21
Airports Company	June 1998	25	1035	1035
South African Airways	July 1999	20	1400	611
Connex Travel	August 1999	100	15	0
Sasria	February 2000	SRD <sup>1</sup>	7100	7100
Telkom: Ucingo	March 2000	..	690	0
MTN	June 2000	6	2400	2000
Transwerk Perway	September 2000	65	19	0
SAFCOL: KwaZulu-Natal	October 2000	75	100	75
SAFCOL: Eastern Cape	October 2000	75	45	0
North Sasria	April 2001	SRD <sup>1</sup>	3200	2200
M-Cell	January 2002	20	5300	2000
Total			27 487	16 717

<sup>1</sup> Special restructuring dividend

Source: Toit (2002) and National Treasury

On 14 April 2003, the Minister of Public Enterprises while presenting the DPE Budget Vote to the National Assembly highlighted the major developments in the restructuring of SOEs. According to the Minister, government conducted 11 transactions in 2002 to bring the total number of transactions since 1997 to 27. These included outright disposals, equity sales, participation of BEE groups, dividend payments, proceeds from the rationalisation of interests across SOEs, and the Telkom IPO. Total privatisation proceeds

have been estimated at R35.5 billion, with the National Revenue fund absorbing just under R22,5 billion (Jeff Radebe, 2003). Table 1 presents some of the privatization transactions between 1997 and 2002.

#### 4. African Privatisation Experience

Privatisation activity has grown in the past decade, both in terms of number and value of transactions. In spite of the fact that accurate statistics on privatisation activity in Africa are lacking, the number of sales in Africa has risen greatly over the past ten years. By June 2000, a total of 3,387 transactions were reported to have been completed, with a sales value over \$7.14 billion as shown in Tables 2 and 3. Since data are incomplete for many countries, White (2000) estimated that privatisation activity in Africa is more likely to have been in the order of 4,000 finalised deals with a total sale value of some \$8 billion.

**Table 2: Privatisation Transactions in Africa**

	Number	Sale Value \$M
1979-1984	10	1.0
1985	10	.7
1986	18	1.8
1987	20	10.2
1988	60	14.5
1989	220	685.1
1990	171	71.3
1991	168	155.5
1992	265	216.1
1993	230	131.7
1994	365	537.6
1995	482	423.3
1996	426	757.9
1997	241	2248.6
1998	126	1194.0
1999	82	311.6
2000 (6 months)	33	354.2
Year not reported	460	27.2
<b>Total</b>	<b>3387</b>	<b>7142.1</b>

Sources: World Bank Africa Privatisation Database, World Bank (2003), and Campbell White and Bhatia, (1998), White, (2000) and Nellis (2003).

**Table 3: Reported Privatisation Activity in Africa**

	Last year for which Data Reported	Number of Transactions Reported	Total Reported Sale Values (US\$m)
Angola	1996	331	25.1*
Benin	1996	46	63.5
Botswana	-	-	-
Burkina Faso	1999	40	23.7
Burundi	1997	42	10.8*
Cameroon	1998	48	72.0*
Cape Verde	2000	46	171.8*
Central African Republic	1993	35	n.r
Chad	1996	31	6.5*
Comoros	1995	4	0.2*
Congo (Brazzaville)	1996	61	50.0
Congo(Kinshasa)	1996	21	n.r
Cote d' Ivoire	2000	105	601.7
Djibouti	-	-	-
Equatorial Guinea	1995	3	0.2
Eritrea	-	-	-
Ethiopia	1998	125	203.3*
Gabon	1997	26	n.r
Gambia	2000	34	9.9*
Ghana	2000	233	673.7
Guinea	1998	117	8.9*
Guinea-Bissau	1995	29	1.3*
Kenya	1998	188	248.4
Lesotho	2000	21	23.9*
Liberia	-	-	-
Madagascar	2000	86	42.8
Malawi	2000	68	56.9
Mali	1994	65	31.8*
Mauritania	2000	56	9.9*
Mauritius	-	-	-
Mozambique	1997	579	217.0
Namibia	-	-	-
Niger	1995	34	3.5*
Nigeria (federal government only)	1994	81	206.9*
Rwanda	1996	2	n.r
Soa tome & Principe	1995	9	n.r
Senegal	1999	61	412.4
Seychelles	-	-	-
Sierra Leone	1997	10	n.r
Somalia	-	-	-
South Africa	1999	13	2,460.5
Sudan	1994	32	n.r.
Swaziland	-	-	-
Tanzania	2000	283	246.3*
Togo	2000	57	38.7*
Uganda	2000	91	149.2*
Zambia	2000	268	905.6
Zimbabwe	1999	6	165.9
<b>TOTAL</b>		<b>3,387</b>	<b>7,142.1</b>

n.r. = no sale values reported \* Sale values not reported for all transactions

Sources: World Bank Africa Privatisation Database, World Bank (2003), and Campbell White and Bhatia, (1998), White, (2000) and Nellis (2003).

The relatively small size of the divested firms limited the financial impact. Sales in Africa accounted for only 3 percent of total developing country proceeds between 1990 and 1999. A cursory examination of the Table indicates that privatisation activity peaked during 1994 – 1998, while the number of reported divestiture transactions has fallen steadily since 1995, a reflection of the maturity of the programme in several countries. Most of the firms listed for privatisation in Ghana, Guinea, Mozambique and Zambia have been divested while the agencies are shifting attention to utilities and private participation in infrastructure.

In recent years, however, privatisation programmes have accelerated in Ethiopia, South Africa and Nigeria where the programme was recently rejuvenated. While foreign inflows have typically been focused on the primary extractive sectors especially mining and oil, the trend has recently been broadening to include telecommunications, transport, utilities, financial and manufacturing sectors (which have also attracted significant inward portfolio and direct investment and contributed to the development of the region's stock markets).

Table 4 presents the privatisation outcome for eight African countries between 1987 and 1997. The sample was selected principally to exemplify the different range of political and economic experiences in Africa. Tanzania and Mozambique have in the past pursued a socialist approach to development, Zambia and Nigeria were led at some stage by the military while the rest had practiced varying forms of state control. As indicated in the Table, transactions were concentrated in Mozambique, Zambia, Ghana Kenya and Tanzania. However, the sales value is not correlated with the number of transactions. For example, Mozambique, with 549, had the greatest number of privatisations up to 1996 but the total value of the transactions was just \$139.7 million. In contrast, Nigeria we sold only 60 enterprises for \$763.4 million each.

**Table 4**  
**Privatisation outcome for a sample of African countries during 1987-97**

Country	Sample Period	Peak year	Peak Sales (no.)	Total sales (no.)	Services %	Industry %	Finance %	Agriculture %	Total sales US\$mn*	Sales to Foreigners as % of Total
Côte d'Ivoire	1990-6	1995	17	45	17	23	2	24	477	70
Ghana	1989-96	1994	82	193	12	52	1.5	9	800	71
Kenya	1992-7	1995	65	153	13	61	5	11	170	15
Mozambique	1987-96	1994	136	549	21	36	-	6	139.7	43
Nigeria	1989-4	1990	36	60	4	20	30	27	763.4	65
Tanzania	1992-6	1996	34	123	5	45	-	31	133.9	79
Uganda	1991-7	1995	35	85	24	30	3.5	5	151.4	56
Zambia	1993-7	1996	107	213	22	30	2	19	417	93

\*Total sales value refers to the amount agreed at the time of sale. In many countries payment has been tardy, with some buyers even asking for renegotiation of contract.

Sources: Kayizzi-Mugerwa, 2002 and Ariyo and Jerome, 2003.

So far, about 15 different methods of privatisation had been employed in Africa as shown in Table 5. The most widely used methods have been shares sold by competitive tender (912 transactions), liquidation (552 transactions) and sale of assets (539 transactions). Despite the rhetoric of broad ownership as a major objective of privatisation in several African countries, methods that broaden ownership such as management employee buyouts are hardly used. Less than 1 per cent of total number of transactions has been effected through management/employee buyouts.

**Table 5**  
**Privatisation Methods used in Africa**

Method	Number of Transactions
Sale of Shares	1,286
Public Flotation	91
Competitive Tender	912
Existing Shareholders	157
Non-competitive	85
Management/Employee Buyouts	34
Sales by Open Auction	7
Share Dilutions	6
Debt/Equity Swaps	10
Joint Ventures	39
Sales of Assets	539
Competitive Basis	501
Non Competitive	38
Liquidations	552
Transfer at Nil Value	12
Transfers to Trustees for follow-on divestiture	19
Restitutions	48
Leases	126
Concessions	4
Management Contracts	53
Mergers	2
Methods Not Reported	450
<b>TOTAL</b>	<b>3,146</b>

*Source:* World Bank Africa Region Privatisation Database (24 August, 2000), Also in White (2000).

Privatisation in Africa has been progressing slowly due to several obstacles and pitfalls in the privatisation process. Up to 1996, emphasis was mainly on divesting small, relatively insignificant enterprises rather than on larger economically more important enterprises that have been the biggest drain on these economies. Table 6 presents the top twenty transactions in Africa, the highest single transaction being Telkom South Africa, which netted US\$703.87million. Ashanti Goldfields however represents one of the few enterprises whose shares were floated internationally.

**Table 6: Top Twenty Privatisation Transactions in Sub-Saharan Africa**

<b>Name of Enterprise</b>	<b>Country</b>	<b>Sector</b>	<b>Year Of Sale</b>	<b>Stake Sold %</b>	<b>Total Sales Value US\$ Million</b>	<b>Method of Sale</b>
Telkom	South Africa	Telecom	1997	30	703.87	Asset (Competitive)
Ashanti Goldfields	Ghana	Mining	1994	100	316.00	Public flotation
MTN	South Africa	Telecom	2000	6	300.00	Shares (Competitive)
South African Airways	South Africa	Aviation	1999	20	175.00	Shares (Competitive)
Airport Company	South Africa	Aviation	1998	25	129.39	Shares (Competitive)
Kenya Airways	Kenya	Aviation	1996	100	74.07	Shares (Competitive)
SABC Radio Stations	South Africa	Telecom	1997	100	63.73	Asset (Competitive)
NOLCHEM	Nigeria	Oil Marketing	2001	80	59.30	Asset (Competitive)
Tanzania Cigarette Co.	Tanzania	Agroindustry	1995	100	55.00	Shares (Competitive)
SOCOCIM	Senegal	Industry	1991	100	39.20	Shares (Competitive)
Zambia Sugar Plc	Zambia	Agroindustry	1995	100	36.80	Shares (direct)
La Béninoise	Benin	Industry	1992	100	28.37	Asset (Competitive)
Nile Hotel Complex	Uganda	Service	1995	100	26.90	Joint Venture
Tourist Co. of Nigeria	Nigeria	Service	1992	100	25.10	Shares (direct)
Tanzania Breweries	Tanzania	Industry	1993	100	22.50	Shares (Competitive)
African Petroleum	Nigeria	Oil Marketing	2000	60	22.47	Asset (Competitive)
SOGB	Cote d Ivoire	Agroindustry	1995	100	22.21	Public flotation
Hima Cement	Uganda	Industry	1994	100	20.50	Asset ( competitive)
Cimentos de Mozambique	Mozambique	Industry	1994	100	20.00	Shares (Competitive)
Cabo Verde Telecom	Cape Verde	Telecom	1995	100	18.18	Shares (Competitive)

Source: Authors Compilation.

Many privatisation programmes have suffered from poor design, inadequate preparation, and weak or fragmented implementation. This is clearly portrayed by the long average time to complete transactions, by the number of incomplete transactions, many of which has been under way for several years and apparently lack transparency.

Fragmented institutional arrangements are common. Most privatisation agencies are poorly staffed and they are not empowered. Agencies in Ghana, Madagascar, Nigeria and Togo were set up or given a legal mandate after the programme had commenced. Sometimes, transactions are handled outside the Central Agency such as Ashanti Goldfields, Africa's largest transaction. Only in Zambia does the privatisation agency have the authority to conclude deals.

## **5. Conclusion**

Nine years after the fall of apartheid and the installation of a democratic government, South Africa has made remarkable progress closing the gap between historically privileged and disadvantaged groups. Major transformations of the judiciary, education, health, housing and governance sectors have facilitated this progress yet much remains to be done. South Africa still faces the daunting challenges of reducing unemployment and inequality and enhancing growth performance.

A review of the South African privatisation and restructuring experience indicates that it has been very imperfectly implemented and it generated so much opprobrium from labour. Its implementation has been rather slow. Owing to the slow pace of the exercise, the government has not generated as much revenue as envisaged. For instance, the 2001 budget targeted R18 billion from privatisation but raised only an estimated R2.3 billion. In the main, the programme has largely focused on divestiture of “non-core business” such as broadcasting stations, resorts, and related services in the transport sector as well as selling minority stakes in utilities to so-called strategic equity partners and Black Economic Empowerment groups. The government is generally not in favour of full privatisation. Rather it has pursued partial privatisation by selling equity to strategic partners and Black Empowerment Groups. What then is the missing link?

South Africa has the most sophisticated free market economy on the African continent. With only 3 per cent of the surface area, she accounts for 25 per cent of the continent’s gross domestic product and approximately 40 per cent of industrial output. She has developed institutions comparable to those in any part of the world with regard to regulatory law and commercial practice. Property rights are generally well defined. The country’s well developed legal culture combines elements of several traditions. Much of the law about property, sales and contract can be traced to the Dutch-Roman law that the early European settlers brought with them in the seventeenth century. Company financial and intellectual property derives from English sources, a connection with the 19<sup>th</sup> Century

development of large scale undertakings related to mining (OECD, 2003). The financial, communications and transport infrastructure is well developed and modern. The stock exchange is among the world's ten largest. South African entrepreneurs and business professionals are generally highly educated, skilled and competitive. These are all essential features for privatisation.

The missing link appears to be the institutional framework. Privatisation or restructuring got under way with no clearly defined 'frames' or 'waves'. Various government departments were involved depending on the industry concerned. The lack of clarity about the different roles both within government and between government and SOEs and other stakeholders has created significant bottlenecks.

An insight on the institutional framework is necessary with a view to refocusing the restructuring process. Nelson Mandela appointed Stella Sigcau, a Xhosa lady of Royal lineage as Minister of Privatisation and she served for about five years, albeit with minimal results. Jeff Radebe, a prominent member of the Communist Party replaced her when Thabo Mbeki took over as President in June 1999. Thereafter, the programme picked up speed. Within the Department of Public Enterprises, Malixole Gantsho, a lawyer by training is currently the Head of Restructuring. He was promoted internally from the position of Director of Performance Monitoring. He has held positions as a state prosecutor and Chief Executive of the Eastern Cape Gambling and Betting Board. He took over from Leslie Maasdrop- from the private sector who was a key figure in planning the sales of Telkom and the power utility Eskom. While there is nothing seemingly wrong with the headship, perhaps there is the need to return to the NFA agreement by constituting a Privatisation or Restructuring Agency which is all embracing. There are potential lessons for South Africa from African Privatisation experience especially Zambia, the difficulty in privatising Zambia Consolidated Copper Mines notwithstanding.

Unlike several countries where privatisation was undertaken after pressure from multilateral and donor agencies, Zambia privatisation programme was part of the ruling

MMD elections manifesto. On ascending power in 1991, the MMD embarked on a rapid process of enacting laws and institutions to enable the process to go ahead. Parliament passed the privatisation act in July 1992 while the Zambia privatisation agency was established two months later. The agencies board included 12 members, nine of whom were appointed by the President from the private sector, but subject to scrutiny by a select committee of the national assembly as well as the assembly's ratification thus providing a high degree of independence from government. The members of the board were drawn from many interest groups including churches, labour unions hence the apparent success in the initial phases of its privatisation programme.

South Africa has some unique features- redressing economic imbalances corresponding to a racial division as a result of the apartheid legacy. Restructuring must thus include objectives other than economic efficiency. However, the issue of black empowerment must not be overplayed in the privatisation process. The negative consequences is aptly demonstrated by Sun Air which was liquidated soon after it was sold to a black empowerment consortium.

Finally, the commitment to privatisation in particular and to private sector development in general should be based on pragmatic consideration and the demonstrated benefits associated with such a commitment. A more rapid and wider privatisation programme especially in infrastructure will stimulate competition, allay investors' confidence and encourage private investment and capital inflows.

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