Privatisation of Public Enterprises in Developing Countries: An Overview

Alfred G. Nhema
Dept. of Political and Administrative Studies
University of Zimbabwe

Abstract

The article examines the role that privatisation can play to overcome the problems associated with the operations of the public enterprises in developing countries. The paper is generally divided into three broad sections with the first part examining the emergence of privatization as a doctrine at the level of theory and praxis. The second part critically examines why public enterprises are created and highlights some of the problems associated with their operations. The final section explores privatisation techniques and problems of implementation. Country experiences will be used to illustrate and authenticate some assertions.

Key words: Public enterprises, privatisation, developing countries

1. Introduction

Privatisation has become a world-wide phenomenon. The privatisation doctrine is growing in its extent and impact. In the past three decades, several governments throughout the world have announced their intention to limit the role government should play in regulating the economy and the daily lives of citizens within their borders. An increasing number of countries have announced their intention to dispose of some of the enterprises they own, by selling them to private interests.

The paper examines the role that privatisation can play to overcome the problems associated with the operations of the public enterprises (PEs) in developing countries. The paper is generally divided into three broad sections. The first part examines the emergence of privatization as a doctrine at the levels of theory and praxis. The second part critically examines why public enterprises were created and highlights some of the problems associated with their operations. The final section explores privatisation techniques and problems of implementation. Country experiences will be used to illustrate and authenticate some assertions.

2.0 Public Enterprises and Privatisation

Privatisation is defined in more general terms 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, divesture 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 (Hemming, Richard and Mansoor M. Ali.1988)

The term public enterprise or state-owned enterprise refers in its broadest sense to all industrial and commercial firms, mines, utilities, transport companies and other concerns which are controlled by government and earn most of their revenue from the sale of goods and services. In the discourse on public enterprises and privatisation, various issues surrounding the efficiency, economy and effectiveness of public enterprises are major tenets of the privatisation debate. Given the fact that public enterprise have become a drain on the budgets of governments due to various operational challenges, issues of their nature and form of operations have become central in the privatisation lexicon.

Some studies highlight that worldwide, PEs were estimated to have accounted for an average of 10 per cent of Gross Domestic Product (GDP) at factor cost at the beginning of the 1980s (World Bank 1983; Nellis and Kikeri 1989:569).

The figures for Africa were double that. One study found out that the average for one group of thirteen African countries was 17.1 percent. It ranged from highs of 40 percent for Sudan to lows of 6.8 percent in the West African nation of Liberia (Thomas Callaghy and Ernest Wilson III, 1988). Between the countries are considerable variations, ranging from 3 per cent in Paraguay and Nepal to 38 per cent in Ghana and Zambia (Obadan 2008). In most developing countries, the share of public enterprise investment in total gross fixed capital formation exceeded 25 per cent (Todaro 1989:561) while in other instances it accounted for more than 60 per cent of total investment (Cook and Kirkpatrick 1988). By the early 1980s, PEs were reported to have accounted, on average, 17 per cent of GDP in SSA (in a thirteen-country sample), 12 per cent in Latin America and a modest 2 per cent in Asia (excluding China, India and Myanmar), compared with 10 per cent of GDP in mixed economies worldwide (Obadan 2008, Nellis and Shirley 1994).

Despite their `visible' growth over the years, by the end of the 1980s, public enterprises had become a drain on the economies of developing countries accounting for one-quarter to one half of outstanding domestic debt. In Latin America, the borrowing of public enterprises accounted for high percentages in some countries' external debt. When the economy of Brazil took a sharp downturn in the early 1980s, per capita GDP plunged and inflation reached triple digits. Capital flows to Brazil dried up and this put a strain on its foreign reserves. In 1982 when Brazil went to the International Monetary Fund to negotiate a $25 billion rescue package, it was estimated that public enterprises had contracted close to 23 percent of the country's external debt (Ethan B. Kapstein, 1988). Pressure from the IMF led to increased government support for the policy of `destatization'. Clearly these figures do show that rather than contributing to the growth of the Brazilian economy, public enterprises were depleting that country's national resources.

Privatisation began to gain popularity in both developed and developing countries following the rather ambitious programme of privatisation embarked upon by the conservative government, led by Margaret Thatcher, former Prime Minister of the United Kingdom from 1979 to 1990. Indeed, privatisation programmes began to replace the big and rapid expansion in state ownership and public sector activities of the 1960s and 1970s. During these earlier periods, international policy prescriptions were more directed in favour of state planning and state ownership of public enterprises as such statist policies were viewed as essential for economic development. From the early 1980s, sentiments and perceptions on the effective roles of state owned enterprises changed among international financial institutions, influential donor agencies and a number of governments in the face of changing development paradigms and mounting evidence of poor performances of state-owned enterprises (Hardin, Herschel 1989). As it became increasingly clear that state owned enterprises were becoming huge burdens on government budgets, measures to curtail the economic role of the state through privatisation, among others were implemented (Walle, 1989). In the 1980s and beyond, privatisation became an integral and very vital element of the policy package that was later christened the "Washington Consensus" model of development that stressed market forces, trade and financial liberalisation, deregulation and the limited role for government control measures at the macro and micro economic levels (Williamson 2000, 2003).

The privatisation doctrine emerged in policy discussions in the second half of the late 1970s and 1980s due to the convergence of a number of factors (Cook and Kirkpatrick 1988). First was the election of governments in a number of developed countries, most notably the United Kingdom and the United States in the late 1970 and early 1980s respectively that were ideologically committed to greater use of the markets in securing economic objectives. The second factor revolved around structural obstacles encountered by industrial countries in their efforts to achieve full employment and satisfactory economic growth. Deregulation and increased market competition were seen as the means of accelerating the process of structural adjustment (Mary Shirley 1983). Finally, the subsidization of poorly performing public enterprises by the state was perceived as a constraint and a drain on public sector resources.

Privatisation in various forms was therefore viewed as a panacea. The appeal of privatisation reflected both the ideological desire for smaller government and a belief in the superior economic performance of the private sector.
It is important that before we castigate public enterprises as `huge white elephants' voraciously consuming what has been produced by the productive sector, we need to look into some of the reasons why they were created.

3.0 Why Public Enterprises were created

The desire for the creation and proliferation of PEs after the post-war II period, particularly in developing countries were motivated by the need to achieve economic and social objectives (Obadan 2000). The PEs was seen as major contributors to economic growth and social political stability (Hemming and Mansoor 1988).

Fontaine (1993) states that PEs were created in Africa for much the same reasons as in most countries – to correct market failures, provide public goods, control natural monopolistic tendencies and seize the "commanding heights" of the economy. The paucity of African entrepreneurship and of local private investment capital, combined with the infant industry argument reinforced the need for the state to promote development through the establishment of specific agencies. Implied here is that government used PEs as instruments of social or industrial policy. In some countries, PEs came into being to bail out failed private sector firms. Vernon (1984) notes that some governments formed PEs to address socio-political objectives such as promoting industrialisation, creating jobs, defending national interest, reducing regional differences and saving moribund firms or industries.

In the context of a variety of economic, social and political objectives, the rationale for public ownership can be summarised as follows:

- Countering of monopoly powers in many sectors and the need to ensure that prices are not set above costs of producing the output;
- Freedom of government to pursue equity objectives: redistribution of income, job creation, regional development and access to essential goods and services at affordable price;
- Capital formation, infrastructure development and other lumpy investment, for example, steel, petrochemicals;
- Lack of private incentives to engage in promising economic activities and hence filling in for a deficient private sector;
- Taking over failed private enterprises;
- Presence of external costs and benefits and need to produce goods that have high social benefits but which the private sector has no incentives to produce; and
- Ideological motivations such as the desire of some governments to strengthen economic sovereignty and gain national control over strategic sectors or over foreign enterprises whose interests were not coinciding with those of the country (Hemming and Mansoor 1988, Todaro, 1989, Wall, 1989, Dijk, 1994).

In the case of developing countries, the markets were generally underdeveloped and uncompetitive. The private sector which was foreign owned consisted of players that were unable to act in ways that stimulated integrated, self sustaining economic growth. The indigenous firms were small in number, and lacked the expertise and experience to manage their own enterprises in an efficient and effective manner. The rural population (which constitutes about 75 percent of the population in most African countries) was involved mainly in subsistence farming and had no capacity to mobilize high volume of domestic savings. So, for these and other reasons, governments in most developing countries adopted policies that were statist in nature. Anxious to accelerate the rate of economic development, some governments in developing countries created state-owned enterprises as part of their national development agenda with a view to controlling major industries previously owned by foreign investors and create an indigenous infrastructure. In addition to creating local capital formations, they also used state-owned enterprises to influence output and pricing decisions in crucial sectors of the economy especially those that produced basic commodities. It was felt that basic essential commodities should be supplied at subsidized and affordable prices to assist low income consumers.

The foregoing points are important to note in the evaluation of the performance of PEs, particularly as social and political objectives are to a large extent at times incompatible with traditional conceptualizations of economic efficiency in the delivery of required goods and services. Most developing countries tended to be more concerned with increasing social welfare rather than being guided by the dictates of the market economy principles.

3.1 Public Enterprise Performance

Various explanations have been offered to explain why public enterprises are inefficient and prone to making losses. This paper views the nature of ownership, political interference; the easy recourse public enterprises have to government finance and the lack of competition as the most important factors that account for public sector inefficiency.

To some degree, the main reason why public enterprises often do less well financially than their private enterprise counterparts lies in the nature of ownership. The public enterprise directors do not have any personal financial stakes in the businesses they run and are therefore likely to be less interested in the success of these enterprises. In contrast to state enterprises, the owner of a private enterprise has a profit motive that acts as the overall guide in ensuring efficiency in the production of goods and services. To wit, the greater the personal financial interests of shareholders, the greater the financial interest in the operations and profit margin the shareholders have in the firm.

In the case of public enterprises, there is no direct link between the enterprise's economic performance and management's personal loss. This scenario has detrimental effects on the efficiency and operational effectiveness of public enterprises. In the private sector, non-profit maximizing behaviour can result in bankruptcy and this threat of insolvency exerts some pressure on the private enterprise to maximize profit. In the case of public enterprises, the easy recourse and access to public finance mutes the threat of bankruptcy and this encourages complacency.

Furthermore, the directors of public enterprises are to a large extent, political appointees. They are likely to be congenial gentlemen not dynamic enterprising businessmen familiar with competitive markets. Consequently, they lack the necessary information and enabling business perspectives to make the correct business decisions. In such an environment, employment, investment and pricing decisions are often made without due consideration for their financial consequences. Evidence from both industrial and developing countries suggest that public enterprises that operate in a more competitive environment and are cognizant of market forces perform better. Competitive markets ensure that the public enterprises respond to market demands. The Kenya Tea Development Authority (KDTA), privatized in the year 2000, and now renamed the Kenya Tea Development Agency Ltd, is generally regarded as one of the leading efficient and market oriented former state owned enterprise in Africa. The privatized enterprise, established in 1960 remains the world leader in the export of black tea. Its success was due mainly to three specific factors: autonomy, accountability and its ability to compete in international markets. From its inception, the government clearly defined the enterprise's objectives and proceeded to develop set standards against which the performance of the enterprise could be evaluated. The managers along with tea growers were represented on the KDTA board of governors. It was recognized that the tea growers would play an important role since their livelihood depended on the success of the company (D.K. Leornard, 1988).

It has also been suggested that competition can be enhanced by breaking large enterprises into smaller sectoral holding companies. In Sweden the breakup up of Statsforetag into smaller holding companies increased competition and made public enterprises more mindful of efficiency. It is however, interesting that the same policy was a failure in India. It has been argued that the breakup of the Fertilizer Corporation of India in the early 1970s into smaller holdings was not a success due to the fact that the regulatory and policy environment remained virtually unchanged (M. A. Ayub and Sven O. Hegstad, 1987).

To state that public enterprises have largely been failures is to state the obvious. A study by Luke (1988) serves as a good example of public enterprise failure. In 1960, the West African country of Senegal gained its independence. In line with the statist development theory that was sweeping many countries at that time, Senegal created a number of parastatals to provide an essential infrastructure and create employment opportunities for its citizens. During the 1960s and 1970s, Senegal had positive budgetary and fiscal balances so they could write off or underwrite enterprise failures with huge subsidies. By 1977, the number of public enterprises had increased from twenty one to eighty three in a mere fifteen years. What eventually transpired by the end of the 1970s can be viewed as disastrous. Declining commodity prices and a series of droughts caused public enterprises to become an overwhelming burden on state coffers. In about five years, government subsidies increased from CFAF 7 billion in 1977/78 financial year to CFAF 19 billion in 1981/82, close to 13 percent of the government operating budget and forty per cent of the public deficit in the 1981/82 financial year (David Luke, 1988). In general, public enterprises have become a burden on the public purse. This observation has led some to view public enterprises as flawed instruments of public policy. They interpret the failure of successive control measures over the years as evidence not of defective design and implementation, but of some insolubility which cannot be remedied by devising new systems of control. The ultimate remedy, they argue, is the abolition of the public enterprises themselves and their replacement with other instruments that are more responsive to market forces.

Privatisation is envisaged as a method of insulating enterprises from disastrous public policy interventions. This view is popularized by public choice theorists who challenge the legitimacy of the public policy objectives themselves (Buchanan, James M., and Gordon Tullock 1962; Mueller, Dennis C. 2003). They note that government interference in the operations of public enterprises has extended well beyond that necessary to ensure that they fulfill their economic, financial and social objectives. Public control is seen as illegitimate because political objectives are held to be less valid than market forces criteria. According to this perspective, if democracy is to be safeguarded then the economy must be shielded from inefficient public control considerations that are guided mainly by political imperatives. Public enterprise managers are seen as being motivated by power and, in coalition with politicians and bureaucrats will strive to fulfill their political objectives while commercial goals for which the enterprises were set up to pursue are sacrificed.

In an era of unstable economies, governments are intent on saving money. Governments all over the world are seeking ways of curbing spending and of making public enterprises more viable. Because administrative measures designed to make public enterprises more viable have for the most part failed, attention is now turning to the possibility of increasing private involvement in public enterprises. There are, of course, some public enterprises which are viable and performing well, but many need restructuring, rehabilitation and more efficient management. Studies have shown that too frequently, managers of state enterprises respond more to political concerns than to economic considerations. Short of skilled manpower and sometimes the victims of political patronage, many such entities are operating at a loss. They have become a drain on government resources that could be made available for other important development projects.

As the end of the 1970s came to a close, it was clear that state-owned enterprises had become a burden on state coffers. In comparison to the market enterprises, the public enterprises were seen as money losing ventures. The proponents of the privatisation ideology argued that denationalization would subject the enterprises to market discipline. Once the ownership changed hands, competition would `whip' the enterprises into shape. The change of ownership (from the public to private interests) was also expected to lessen the scope for political intervention in the day to day operations of the enterprise.

The point has been vehemently made that PEs have not lived up to the expectations of their creators and funders and that in country after country, unbridled state expansion has led to the following:

- Economic inefficiency in the production of goods and services by the public sector, with large costs of production, inability to innovate and costly delays in delivery of the goods produced;
- Ineffectiveness in the provision of goods and services such as failure to meet intended objectives and diversion of benefits to elite groups;
- Rapid expansion of the bureaucracy, severely straining the public budget with huge deficits of PEs becoming massive drains on government resources as well as resulting in inefficiency in government; and
- Poor financial performance of PEs reflecting a history of huge financial losses, overstaffing and the burden of excessive debts (Obadan 2008, Paul 1985, Samuel 1999).

It is clear from the above arguments that PEs in many developing countries have been attacked for being economically inefficient, wasteful of resources, making significant demands on government resources as well as on domestic and foreign credit, operating on deficits and failing to show profits.
Nellis (1986: 11) made an unfavourable verdict on PEs in SSA by noting that :

PE earnings are generally low, many run at losses, often these losses are of a large magnitude. Far from contributing to government revenues, African PEs have regularly become a heavy burden on already strained budgets. Few PEs generate revenues sufficient to cover operating costs, depreciation and financial charges; a good percentage does not cover operating cost alone. In many instances, where PEs are classified as profitable, closer examination reveals distorted prices, direct subsidies, hidden transfers, preferential interest rates and a host of other elements which - if properly accounted for – would reduce the paper profits of the PE in question. The conclusion is that African PEs presents a depressing picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of the non-commercial objectives so frequently used to excuse their poor performance. On the whole, PE sectors are not fulfilling the goals set for them by African planners and leaders.

The above observations notwithstanding, this paper contends that the assessment of PEs have tended to be based primarily on their financial performance without taking account of the important non-financial objectives pursued by such PEs. It is a fact that PEs is expected to pursue both commercial and social goals that make them different from private entity organisations. Evidently, in the course of meeting the social objectives, profitability is not the overriding concern.

On the other hand, the single-minded pursuit of private firms is profit and they can change their product or service line in order to achieve the profit objective. As Vernon-Wortzel and Wortzel (1989) correctly observe, private sector firms see means and ends differently from PEs. Underscored in this observation is the notion that where empirical research compares profit-based performance indicators, which is often the case, the public sector is being judged by the criterion that is largely applicable to the private sector. Accordingly, efficiency can only be fairly assessed relative to the goals being pursued and much of the perceived inefficiency of PEs results from judging them by the criteria that does not comprehensively correspond to their public policy objectives of which profit is a not a major overriding concern.

In general, privatisation measures are implemented through the following broad perspectives:

- Sale of a PE in full to private buyers or introduction of private capital into the PE either through a sale of some government equity or in the course of its expansion;
- Liquidation, which represents the ultimate step in the arsenal of the government. It may imply a sale of the assets to someone who use them in the same activity or moves them to another activity;
- Management buy-out which entails sale of the assets to the employees of the PE who take over the ownership;
- Privatising the management of state activities through contracts;
- Transferring of the provision of a good or service from the public to the private sector while the government retains the ultimate responsibility for supplying the service, for example, franchising or contracting out of public service and leasing of public assets;
- Build-operate-transfer (BOT) or build-own-operate system and
- Liberalisation or deregulation of entry into an activity previously restricted to PEs (Ramanadham 1992; Cook and Kirkpatrick 1988; Obadan 2008).

It is quite apparent that many of the features highlighted above reflect that PE reforms are guided by the application of efficiency enhancing techniques generally employed in the private sector. The question that requires an answer is: what are the objectives of privatisation? From policy statements and analyses across the range of developing countries, the following principal objectives of privatisation emerge:

- Public finance rationalization – reducing fiscal deficits through reducing net budgetary transfers and eliminating contingent external debt liabilities; increased tax revenues on enterprise out and receipts from privatisation sales;
- Improving economic efficiencies;
- Broadening ownership of businesses through wider shares and assets ownership, thus creating popular capitalism and fostering economic equity;
- Developing the capital market and deepening the financial systems;
- Generating new investment, including foreign investment and enabling enterprises to access markets, capital and technology, as well as expose them to market discipline;
- Reducing government involvement in the economy and shifting the balance between public and private sectors as well as developing the private sector and
- Providing the opportunity to introduce competition.
  (Adam *et al.* 1992, Parker and Kirkpatrick 2005, Nellis 1991).

In some instances, these objectives were at times reinforcing, conflicting and not necessarily mutually consistent (Heald 1990).The objectives of privatisation contain both economic and political dimensions. However, the international community, in trying to be politically neutral mainly employs the economic criteria yard stick as the key dimension when measuring the progress of privatisation (Dijk and Nordholt 1994).

4. Public Enterprises Reform

Privatisation has been stepped up significantly in almost all countries since the late 1980s. This has been done against the background of shifting ideologies, donor pressure and uninspiring performance of PEs and the resulting public dissatisfaction. Currently, many countries have some kind of privatisation programme in place. As part of their efforts to deepen economic reforms and increase private-sector involvement in economic activities, many countries have developed privatisation schemes aimed at increasing private investment in key PEs with mixed results.

The tempo of privatisation heightened in Sub-Saharan Africa (SSA) in the 1990s with the total number of transactions rising from 200 in 1990 to 3 486 in 2002 (World Bank 2004:261, Obadan 2008). The case of Zimbabwe discussed below highlights some of the public enterprises reform challenges faced by implementing countries.

Zimbabwe, a country located in Southern Africa has not been spared from the chill winds of privatisation that has swept across the world. Public enterprise reform measures were outlined in both the Zimbabwe Framework for Economic Reform (1991-95) and the Zimbabwe Programme for Economic and Social Transformation (1996-2000) (ZIMPREST). Under ZIMPREST, some government departments were commercialised such as the Customs and Excise Department which was reconstituted as the Zimbabwe Revenue Authority (ZIMRA), the Printing and Stationery Department which is now Printflow and the Department of Water now renamed the Zimbabwe National Water Authority (Chimhowu 2010).

The reforms were designed to remove restrictions within the policy environment and at enterprise levels (Zhou 2001); eliminate financial losses; make parastatals more efficient in their operations; promote foreign investment, technology and know-how, harness and encourage local entrepreneurial skills; and generate revenue from sales and leases (Chikozho 2013, GoZ 1991). The Government of Zimbabwe employed various reform models including outright privatisation, commercialisation, and leasing and management contracts and promoting voluntary retrenchments (Chikozho 2013). The PEs that was reformed were subjected to competition so that they could operate as commercial entities and set their own prices in order to be profitable (Keyter 2007). The idea was that the enterprises' balance sheets should be healthy in order to be attractive to private investors before they were privatised. The PEs that was restructured included the National Railways of Zimbabwe (NRZ) and the Zimbabwe Electricity Supply Authority (ZESA). NRZ's restructuring concentrated on its core business and shed non-core activities such as the Road Motor Services, now a private company (Chikozho 2013). Staff reduction strategies were mooted alongside the tightening of staff supervision, improvement of management information systems, filling crucial job vacancies and increasing security to reduce cases of theft (Ibid.).One observer argues that while the World Bank Report of 1995 was quick to declare the NRZ restructuring exercise a 'success story', the PE's performance in the ensuing years did not support this judgement (Zhou 2001). For instance, by 1998 the restructured NRZ was among state companies contributing most heavily to PE losses (GoZ. 1998). The Financial Gazette of 21 August 1997 notes that, in the 1995/96 financial year, the NRZ incurred a huge deficit.

ZESA was turned into a top-heavy holding with four subsidiaries: ZESA Enterprises, Zimbabwe Electricity Distribution Company, Powertel and Zimbabwe Power Company. A USD 6 billion agreement with a Malaysian company, YTL Corporation Berhad, was signed for a joint venture in which ZESA would have 49 per cent equity while the majority shareholding of 51 per cent would be held by the Malaysian company (Chikozho 2013, World Bank 1995). Other state owned enterprises that include the Cotton Marketing Board (CMB), Cold Storage Commission (CSC), Dairy Marketing Board (DMB) and Grain Marketing Board (GMB) were fast-tracked towards more profound reforms. They were converted from statutory corporations to private companies, although 100 per cent share capital was still owned by the government (GoZ 1998, Zhou 2001, Chikozho 2013). It is important to note that the restructuring and commercializing exercises did not significantly deal with the causes of PE inefficiency and ineffectiveness. The government continued to exercise direct controls on pricing, investment and the hiring and firing of top management. By the end of 1995, none of the PEs was ready for privatisation (Zhou 2000). Creating sound financial systems proved difficult and the PE sector's privileged access to government subsidies was not significantly curtailed (Keyter 2007). The legal framework around PE reforms remained largely unchanged. Most PEs continued to operate under their traditional pre-reform enabling acts, and parent ministries continued to view PEs as government departments to whom they could give directives (GoZ 1998, Chikozho 2013).

As the case study of Zimbabwe shows, a number of pertinent issues have to be comprehensively explored before enhanced privatisation measures are implemented. It is critical that various issues that encapsulate social, economic and legislative frameworks be systematically reviewed before embarking on outright privatisation in developing countries' markets.

4.1 Impact of Privatisation

The phenomenal increase in the number of privatisation programmes across the globe has generated a lot of research interest in the last two decades. Thus, there have been several studies on privatisation and economic performance, particularly on the relationship between ownership and efficiency. As highlighted by Megginson *et al* (1994), much of the empirical assessments have a micro-economic orientation focus. Hardly have any of the studies relating to the developing countries looked directly at the impact of privatisation on economic development and poverty reduction (Parker and Kirkpatrick 2005). This is perhaps due to the assumption that a more efficient use of resources must contribute to raising economic growth thereby reducing poverty.

Several assertions have been made that more recent evidence, which compares PEs performance before and after privatisation, illustrate that there are considerable economic benefits from privatisation efforts (Kikeri *et al*. 1994, Perevalow 1999, Megginson and Netter 2001, Obadan 2008). In summing up their survey of the empirical record on the financial and operating results of privatisations around the world, Megginson and Netter have stated unequivocally that:

..*The evidence is now conclusive that privately owned firms outperform SOEs…empirical evidence clearly shows that privatisation significantly improves the operating and financial performance of divested firms* (Megginson and Netter quoted in John Nellis, 1999:

While the evidence is broadly favourable to privatisation, in terms of discernible positive effect on the financial performance of companies, it is hardly conclusive, contrary to the claims of Megginson and Netter. The impact of privatisation has yet to be comprehensively assessed in many developing countries, particularly in Africa. Empirical knowledge of the impact of privatisation in Africa is very limited unlike other developing regions and the industrialized countries. Also, little evidence has yet been adduced on the broader effects of privatisation on macroeconomic performance. More, importantly, there are many cases where privatisation has not led to efficiency improvement. The failure of Russian privatisation, for example, is a case in point. Russia's privatisation experience has been variously described as a failure or economic disaster. The discontent about the privatisation is reported by Nellis (1999:15) as follows:

What was supposed to be a programme to distribute ownership and launch enterprises on a positive restructuring path became instead a transfer of productive resources from the state to a fortunate few who – unconstrained by transition, effective laws or countervailing powers – stripped the assets from the firms, and did not restore growth and create jobs; actions that might have justified such a transfer.

The slow pace of privatisation in some countries can be attributed to practical implementation problems, uncertainty as to the economic benefits of privatisation, and fear of the possible repercussions that could follow from massive denationalization schemes (Paul Cook and Colin Kirkpatrick, 1988).

5.0 Conclusion

The paper has managed to provide some insights into privatisation debates in developing countries. There is clear need for empirical analysis of the socio-economic impact of privatisation in developing countries. Privatisation of public enterprises is difficult to achieve as some developing societies are wary of repercussions that could follow from massive denationalization efforts. Public enterprises were created to meet distributional and other social objectives which could be sacrificed if they are transferred to private ownership.

These observations do not in any way suggest that developing countries must be saddled with inefficient money losing enterprises. There is, however, a need to embark on privatisation measures in a cautious and careful manner. Other privatisation forms that are less contentious among stakeholders can be instituted on a gradual basis. Governments have to be encouraged to cut back on the number of non performing state-owned enterprises and liquidate those that are not critical. In addition, other forms of privatisation like the contracting out of services, deregulation, leasing and the use of management contracts are likely to be more acceptable to developing countries' governments than the outright complete sale of assets.

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