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Privatization in Sub-Saharan Africa: Origins, Trends, and Influences on Development Strategies

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Abstract

For reasons tied largely to historical efforts to accelerate industrial development, Sub-Saharan African countries relied on extensive use of public enterprises as an investment strategy during the 1960's and 1970's. Now that many of these enterprises have accumulated a series of financial and economic losses, pressures to privatize state-owned enterprises have grown to relieve the burden imposed on central government finances. Given the weakness of domestic capital markets, countries engaged in privatization should consider as a first step the use of management performance contracting rather than outright sales. Where management contracting arrangements do not produce desirable results, then either firms should be closed down or sold directly to interested private investors.

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1. Introduction

Privatization, narrowly defined as the transfer of state owned and controlled enterprises and assets to private individuals, has become the most widely discussed subject in economic policy analysis in the last decade. It continues to be a central focus of debate in the 1990s as many countries move toward a market economy. The interest in privatization stems from the belief that private enterprises produce and deliver goods and services more efficiently than the public sector or state owned enterprises. Although the empirical evidence is mixed, the pace of privatization continues to accelerate everywhere.

The privatization movement began in the West in response to mounting budget deficits and growing skepticism about the ability of government to manage and operate enterprises efficiently. The privatization tide began in Great Britain with Margaret Thatcher's government wholesale transfer of publicly owned entities throughout the 1980s. In the United States, Canada, and elsewhere in the West privatization has become the elixir that inefficient public sector enterprises needed. With Peristroika, and later with the collapse of the Soviet Empire, Eastern Europe and socialist countries elsewhere have abandoned their long held philosophy of centralized planning in favor of a market economy. Countries such as Mexico and Chile have taken a leading role in privatization programs and the concept of privatization is spreading throughout Latin America. Many countries in Africa are following similar steps and the privatization process is well underway in countries such as Nigeria, Togo, Cote d'Ivoire, etc. In many others, plans for privatization are under discussions.

Although privatization has become a worldwide phenomenon, its essence and origins, as well as the strategies for privatizing, greatly vary from one country to another, depending on the underlying social, political and economic conditions. This paper is intended to discuss the sources and essence of privatization in sub-Saharan Africa (hereafter referred to just as Africa). It identifies the strategies and assesses their feasibility in the context of Africa and explores the implication of privatization on future development strategies. In conducting the study, the paper is divided into five sections. Section II discusses the historical conditions that led to the proliferation of state owned enterprises and traces the origin of privatization in Africa; Section III identifies and discusses the principal forms of privatization strategies and analyzes and evaluates their suitability to African conditions; Section IV explores the implication of privatization for future economic strategies of development; Section V presents the conclusion of the paper.

2. Origins of Privatization in Africa

Markets or private ownership of resources are not new in Africa. However, the role of the private sector in the national economy in many Sub-Saharan African countries has been limited by the deliberate choice of government in their quest to define the best avenue for economic growth and development. Africa's limited reliance on the private sector stems from its colonial experience and ideological stance after independence.

It is well known that African countries, with the exception of Ethiopia, all lived under the colonial rule of the West European Powers, mainly Great Britain, France and Portugal. The production and consumption structure of African economies were structured to fit the interest of the colonial powers. The Colonies exported raw materials to Europe where they were processed and converted into manufactured goods. Some of the manufactured goods would then be shipped back to Africa for sale. This pattern of trade exists in much of Africa today and continues to be a source of economic instability in the continent. In pointing out this fact, my interest in this paper is not to lay blame on the colonial powers for the economic woes of Africa but rather to place the conditions that contributed to the increased role of the state in proper historical perspective.

The colonial years had adversely affected the development of entrepreneurial talent in Africa. While indigenous labor was used extensively in the colonial establishments, potential entrepreneurs were not cultivated to learn the tools of the trade. For most part, the colonial powers used their own people for enterprise management and did not share their knowledge and skills of commerce and finance with native Africans. As a result, the indigenous entrepreneurial class was unable to learn the tools of the trade and compete with the colonial business establishment. This colonial trend of not cultivating and encouraging local entrepreneurs continued even after African nations got their independence.

The political and economic environment of the world at the time of independence played an important role in determining the development path many African countries chose. Africans entered a world community divided along competing ideological lines of capitalism and communism. The West, led by the United States, embracing the virtues of capitalism and free market economy and the former Soviet Union and Eastern Europe favoring the centralized government controlled command system. Indeed, the competition for sphere of influence by these two Super Powers shaped political and economic life in the rest of the world including Africa.

The new independent nations of Africa grew in a world polarized by East-West politics and played one against the other to exact whatever resources they, could in the form of foreign aid, usually military in nature. African leaders continued to play the political game until the collapse the Soviet Union changed the dynamics of international politics and created a new situation in which they could no longer use the same tactics.

With independence, Africans discovered the development gap between them and the industrialized world. Africa remained predominantly an agricultural society with little industrial development. It was the task of the post colonial leaders to design the development strategies and to set the course in motion. It was believed that in the early stages of development the State could direct the development process more reliably than markets. This belief was also shared and supported by the United Nations and its agencies, including the World Bank.

The State took it upon itself to assume the role of the entrepreneur and it was committed to play a leading role in setting national strategies for economic development. Domestic savings through high taxation, coupled with foreign aid and borrowing, provided the resources needed for capital formation and the massive creation of state-owned enterprises (SOEs). In socialist countries like Tanzania, Mozambique and Ethiopia, the State controlled virtually all aspect of economic life with little or no appreciable private initiatives. Military or rightwing governments also pursued similar strategies emphasizing greater reliance on the public sector. As a result, in many African countries, state-owned enterprises commonly known as parastatals proliferated after independence. The extent of SOEs and their economic importance in terms of investment is documented in Table 1 below:

Table1
Number, Output and Investment Shares
of Nonfinancial Public Enterprises (SOEs) in Africa

Country	Number of SOEs (Year)	Percent Share of GDP (Year)	Percent Share of Domestic Investment (Year)
Burkina Faso (1983)	NA	NA	
Burundi	64 (1986)	5.0	41.5
Cameroon	58 (1985)	NA	39.8 (1982)
Central African Republic	29 (1984)	4.5 (1986)	17.0
Congo	94 (1985)	11.3	NA
Cote d'Ivoire	150 (1986)	NA	20.4
Ethiopia	108 (1984)	4.6 (1981)	NA
Gambia	19 (1986)	NA	NA
Ghana	181 (1986)	NA	17.4 (1982)
Guinea	101 (1985)	25.0 (1980)	NA
Kenya	175 (1984)	NA	19.6
Madagascar	184(1986)	2.3(1984)	NA
Malawi	13 (1986)	6.8 (1983)	3.7
Mali	51 (1985)	12.1 (1980)	NA
Mauritania	112 (1983)	25.0	NA
Mauritius	23 (1986)	7.2 (1984)	NA
Niger	44(1985)	7.0(1986)	14.5
Nigeria	110(1983)	14.8(1986)	15.1
Senegal	50(1986)	7.0	24.0
Sierra Leone	22 (1986)	NA	1.0 (1984)
Sudan	200(1986)	NA	NA
Tanzania	420 (1985)	13.0	26.2 (1984)
Togo	65(1986)	NA	NA
Uganda	130 (1985)	NA	NA
Zaire	129 (1986)	22.8 (1983)	NA
Zambia	123 (1986)	35.0 (1985)	57.2 (1980)

Source: United Nations Development Programme, 1989. *African Economic Development and Financial Data*, UNDP: New York

A glance at Table 1 shows that Tanzania has the largest number of SOEs, 420 in all followed by Sudan with 200. In the remaining countries the number of SOEs varies greatly, ranging from 13 in Malawi to 184 in Madagascar. Though Tanzania has the largest number of SOEs, their 13 percent contribution to the country's GDP is relatively small in view of the relative share of domestic investment. In Zaire, while SOEs account for more than a third of its GDP, they absorbed more than 55 percent of domestic investment. Only in three other countries, Guinea, Mauritania and Zaire the does the share of GDP exceed 20 percent. In all others, the share of SOEs in GDP is relatively small compare to their share of domestic investment. This, in general, indicates poor productivity and performance by SOEs in Africa.

A 1986 World Bank study has also documented evidence of poor performance by African SOEs (Nellis, 1986). In some West African countries, for example, 60 percent of the SOEs posted net losses while some 36 percent showed negative net worth. Accumulated losses of SOEs have also risen steadily in countries like Benin, Mali, Mauritania, Nigeria, Senegal, Sierra Leone, Sudan and Zaire. Kenya was the only country that showed a positive rate of return which amounted to a meager 0.2 percent (Nellis, 1986).

With the expansion of SOEs, African entrepreneurs for the most part remain in the informal sector whose expansion and growth has attracted tremendous interest in recent years. Part of the challenge in the privatization movement in Africa is how to bring this entrepreneurial talent to the formal sector.

The challenges facing African countries today are not different from those immediately following independence, namely: how to develop their economies and improve the peoples' standard of living. The results of statism and socialist economic policies of the past twenty five years are now clear; they have failed to produce sustained economic growth and development. African economies have stagnated, posting minuscule growth rates, declining per capita incomes, increasing poverty, and a standard of living lower than what it was during the immediate post independence years. Indeed, according to a United Nations economic survey, a majority of the world's least -developed and poorest countries are in Sub-Saharan Africa. Ethnic unrest, civil strikes, and natural disasters have also contributed to the disappointing economic performance.

The late 1970s and 1980s were difficult years particularly for Africa. Global recession, rising oil prices, staggering amounts of debts and mounting balance of payments problems hindered their ability to grow and develop economically. For most countries in Africa the situation was so critical that there was no way they could endure the economic crisis without the help of international agencies such as the World Bank and International Monetary Fund (11vIF). These two agencies, along with the United

States Agency for International Development (USAID), have been instrumental in the initiation of economic reform and privatization in Africa.

The World Bank, through its structural adjustment policies has continued to emphasize growth through improved allocation efficiency and greater reliance on markets. The IMF also, through its "conditionality program", has brought pressure to bear upon African governments to reduce the role of the public sector. Under the conditionality program, a quid pro quo for borrowing from RAF often included eliminating price controls, reliance on market clearing prices, liberalizing trade, and restraining public sector growth. Though it is not explicitly stated by the RAF, in many instances, countries with privatization programs have often been considered to have met the IMF conditionality. The USAID has also sought to promote privatization in many African countries where it has financed development projects. Thus the privatization movement in Africa originated from the explicit and implicit conditions imposed by the West and its institutions for receiving aid rather than from the realization of basic weaknesses in the approaches of the past.

The essence of privatization in Africa is different from that of the West. To understand the distinction one needs to examine the mix between the public and the private sector in Africa visa-a-vis the West. While the Western industrial economies recognize the primacy of markets and rely primarily on the private sector, they have also legitimized government intervention when markets do not work well or they fail to produce optimum outcomes either because of externalities or the existence of public goods. Privatization in the West is both an ideological and economic response aimed to curb the growth of government by transferring the delivery goods and services traditionally provided by the public sector to private firms or contractors. It reinforces and rationalizes the belief that the private sector is more efficient than the public sector. The privatization issue in the west thus is centered on the efficient delivery of services typically provided by the public sector.

In contrast to the West, the mix between the public and the private sectors in Africa is on a different order of magnitude. There is a heavy reliance on the public sector; the government intervenes extensively in making production and consumption decisions. The public sector produces and delivers even those goods and services typically provided by the private sector in the West. In the countries that adopted socialism, such as Tanzania and Ethiopia, the state has taken responsibility for virtually every aspect of economic life leaving very little for private individuals. However, the heavy-handed state directed and state controlled approaches have failed to produce the desired results in terms of growth and development. This realization coupled with external pressure from the IMF and the World Bank has forced Africa to re-examine its past policies and change its attitude towards the private sector and markets. The pendulum has swung in favor markets and privatization, but how far will it go?

As argued in the foregoing discussion, economic reform and privatization have been initiated as the result of external pressure by the West and its agencies. This nature of the reform process has generated some suspicion and resistance on the part of many Africans. First of all, many Africans view the situation as another move by the

West to recolonize Africa. Secondly, complete privatization and hence a transition to market based development strategy requires changes in attitude and values which are usually slow in coming. Until political environment and institutional characters fully embrace and cultivate democratic values, resistance to change is inevitable. In spite of opposition, privatization is well underway in many countries in Africa. In some countries, the issue is no longer whether or not to privatize but how to privatize. A review and examination of the strategies that are being employed for privatization in various countries are discussed below.

3. Privatization Strategies

The first order of privatization in Africa, particularly in those countries where the government controls all aspects of its economy, would be to relinquish those activities commonly considered to occur within the domain of the private sector. Such a move would encourage local entrepreneurs, provide incentives for private domestic investment, and enable government to focus on the traditional areas of public concerns commonly seen in the West.

Each country must analyze every SOE carefully to determine whether privatization can improve efficiency and increase benefits. Decisions should be based on an objective evaluation of the cost and benefits of privatization. Failure to do so is tantamount to disregarding the historical precedent that brought SOEs into existence in the first place. Thus criteria should be established and suitable strategies must be selected.

Once a country makes the decision to privatize then it must determine the method by which the process to be carried out. There are principally three broad strategies for privatizing some or all aspects of the public sector production and delivery of goods and services. These are: (i) Sale of assets; (ii) Contracting; and (iii) Voucher system.

The choice among these strategies and their variants depend upon the particular need and conditions of the country in question. Let us now briefly examine each strategy and assess its suitability in Africa.

3.1 Sale of Assets

This strategy calls for the sale of all or part of the public enterprise to private investors. The sale of the asset can be carried out through a public stock offering. If this strategy is successful, there will be a short term immediate benefit to the government in the form of increased revenues which it can use the finance expenditures, repay loans, or defer tax increases (Veljanovski,1990). The long-term benefits stem from reduced burden of government, the cessation of subsidies and the efficient provision of services or goods by the private sector.

If complete sell offs are not possible, the government could also explore partial sales by turning over controlling interest to private investors with the sale of at least 51% of the shares or it can sell the assets on a piecemeal basis. Another alternative would be to sell the enterprise to the current employees or management.

There are a few notable problems with this strategy that programs of privatization in Africa must take into account. First, if asset sale replaced public or state monopoly with private monopoly, without liberalizing whatever legal restrictions that prevent entry and competition, the efficiency argument for privatization would be meaningless. Second, there is nothing inherent in the behavior of the private sector that prevents it from seeking subsidy or eliciting support from the government and thus there is no guarantee the government will stand strong against the newly organized private interests (Staff, 1990). Third, privatization affects employment levels; if the private sector efficiency considerations mean loss of jobs, then unemployment and dislocation problems will add to the social problems the government must deal with. In such situations, the government is likely to respond by increasing social spending thereby negating whatever short-term benefits were created.

Fourth, assets sale strategy requires the existence of well developed financial or capital markets. In countries with the most extensive privatization programs, e.g. Great Britain, Japan, France, and Canada, this condition is met (Veljanovski,1990). Fifth, the sale of SOEs through public offerings has serious valuation problems. It means that assets of SOEs would be disposed off at prices below their book values thereby creating a windfall profits for a few investors as they turn around sell off their shares. This would create serious distributional issues similar to those observed in Great Britain, France and in other Western Countries. Distributional issues would also arise in the employee ownership scheme because the opportunity to invest in the enterprise is not open to non-employees. Another risk, often expressed with these mode of privatization, is the tendency of management to distribute all profits to workers, retaining very little for investment, research and development, and expansion of the firm.

In the context of Africa, the asset sale strategy will be of limited use. For one thing, many African countries do not have well developed capital markets and sufficient entrepreneurial talent well versed in finance and commerce. Secondly, since domestic capital in the form of private sector savings is scarce, foreign investors must be encouraged to fill the gap. Many Africans do not support sale of SOEs to foreign investors because they view it as another attempt by the West to recolonize Africa. Of course, one might argue that those who oppose privatization by appealing to economic nationalism are merely protecting their own interests at the expense of the rest of society (Hanke and Walters,1990). Perhaps, but then again, there is no evidence to show that private ownership, domestic or foreign, has produced significant efficiency gains in Africa. Another characteristic of asset sale strategy that would make it less suitable is that equity valuation is a complex and time consuming process and it is virtually impossible to make adequate estimates of firms' current and expected values in a nonmarket environment.

3.2. Contracting and Leasing

Contracting is a less visible form of privatization than asset sale. In contracting, the government uses private firms for the provision of goods and services. The private contractors will deliver goods and services to the government or to the public according to the terms and conditions specified in the contract. Contracts are usually awarded on the basis of competitive tendering. Private firms compete against one another to win the right to provide services offered by government. If the low cost providers win the bid, as should be the case , contracting will result in cost saving to the government. Indeed, it is the one form of privatization that is feasible and has proved effective in Africa.

An interesting feature of contracting that has worked well in the context of Africa is management contracting. In this arrangement, enterprises remain in the hands of governments but their operations are privatized via management contract. The state contracts out the management of SOEs to private management firms. To ensure greater internal efficiency, retention and continuity of private management should be predicated upon performance . This strategy is less visible, avoids suspicions often associated with foreign ownership of African assets, and diffuses the recolonization issue.

A country with a notable success in using management contracts and leasing is Togo. When the staggering amount of accumulated losses threatened closure and liquidation of the national steel mill company, in just less than five years after commencing its operation, the Togolese government was able to save it by opting to lease the management to private contractors (Bergeron, 1992). In 1984 the government concluded a lengthy negotiation that awarded a five year renewable lease and a ten year renewable management contract to the American entrepreneur's company, Ibcon S. A. According to some particular details of the agreement, Ibcon would initially subscribe the entire capital gradually reducing its holding to 70 percent by selling 30 percent of the shares to Togolese investors of its choice. Ibcon would also provide all new investment including working capital. In return, the Togolese government made several commitments and guarantees to keep import duties and taxes on competing finished products at favorable levels for five years with no restriction on the repatriation of profits (Bergeron, 1992). The new management team armed with such favorable arrangements turned the enterprise into a profitable operation in just a year. Encouraged by the success of this progress, the Togolese government extended management and lease arrangements to several other SOEs

Other variants of contracting include franchising, which is commonly used for public utilities, the government grants an exclusive right to a private firm to produce and deliver the service. Franchises are awarded because such industries are characterized by significant economies of scale that one producer can provide the service at a lower cost than a number of small entities each producing a fraction of the market. If franchising is chosen, it must be followed with deregulation and liberalization to create competitive market environment. In order to ensure efficiency franchises should also be awarded through competitive bidding.

A form of contracting which does not required privatization per se that has gained increasing acceptance in the management of SOEs particularly in West Africa is "Contract Plan" (Nellis, 1989). The State retains ownership but the relationship between the State and the management of the enterprise would be redefined in a contract. Specifically, a contract plan is a negotiated performance agreement between government, and the managers or directors of the enterprise itself (Nellis, 1989). This concept was first introduced to Senegal in 1989 as part of a World Bank technical assistance project and has reportedly produced some positive and beneficial results (Nellis, 1989). Initiated by the World Bank technical assistance program a number of contract plans are now in place or in preparation in Benin, Burundi Congo, Cote d'Ivoire, Gambia, Kenya, Madagascar, Mali, Niger, Nigeria, and Senegal (Nellis, 1989). This development widens the options of governments and to some extent it could retard the adoption of the more market based forms privatization in Africa.

Nevertheless, leasing and management contracting is the most suitable strategy for Africa rather than outright sales or liquidations of SOEs. As the Togo experience demonstrated contracting could offer a viable avenue for transferring both human and financial capital to Africa where these resources are relatively scarce. Even when governments' original intentions are to pursue complete privatization, such leasing and contracting options should be explored first and be given sufficient time to succeed. Once the enterprise is turned around the government could change its mind and keep the enterprise or it could sell it for much higher price than what would have been if it sold the enterprise when it was in deep financial difficulties. Another advantage of leasing is that the government can minimize unemployment and dislocation problems through negotiation with the new management. Furthermore, a government can avoid the huge write-offs often associated with outright privatization and liquidation. It is the strategy that African countries should explore as a first step toward privatization.

3.3. Voucher Systems

Voucher Systems are mechanisms designed to increase the purchasing power of selected group of consumers. Under this scheme, the government distributes vouchers to eligible consumers so that they can purchase goods and services from private suppliers. Vouchers have existed in the U.S. more than anywhere in the West. For example, housing vouchers enable low income families to find better housing in the rental market. Another area where vouchers are being promoted as viable way of privatizing is in education. However, here in both of the above cases, the vouchers do not have monetary value and are not tradable between individuals.

In the context of privatization, the government distributes vouchers to the entire population or to a community on an equal basis to be used solely for the purchase of shares in a particular enterprise. The scheme envisions the achievement of complete privatization within a relatively short period of time and avoid the difficult, costly and time consuming process that is associated with public offerings. The vouchers could either have monetary value and be tradable as has been done in Romania or they could be denominated in points as has been done in Czechoslovakia and used only to bid for shares in a particular state enterprise (Borenzstein and Kumar, 1991). A somewhat different scheme designed for the former Soviet Union under Peristroika is based in a composite shares of industrial enterprises known as citizen shares. Under this scheme, 50 per cent of the shares would be distributed equally to every citizen through vouchers, the central government and individual republics would retain 30 per cent of the shares and the rest would go to private investors (Feige, 1990; cited in Borenzstein and Kumar).

A number of weaknesses can be identified with the voucher scheme. It dilutes the ownership structure, which limits the ability of shareholders to exercise effective control over the management of the enterprise. Vouchers could also create macroeconomic problems if allowed to have monetary value and permitted to be traded among individuals. This could lead to a rapid expansion of the money supply thereby creating inflationary threat as people spend their newfound wealth on scarce consumer goods.

Vouchers, also tend to increase the public budget, which could further heighten inflationary threats (Staff, 1990). In addition, vouchers are prone to result in fraudulent schemes ranging from theft and illegal redemption to counterfeiting. The government must continually monitor voucher programs to prevent corruption.

The voucher system, although simple in concept, may not be a suitable strategy for Africa. Governments in many African countries are often in such serious fiscal distress that they could not raise sufficient resources to implement the voucher system without risking inflation. Even if sufficient resources could be mobilized, the people, in general, lack the know-how to monitor and control management. Currently, there is no evidence indicating their use by African countries.

3.4. Privatization Trends

In spite of their misgivings about the austerity programs of RAF and the World Bank, many African countries have embraced privatization programs in various sectors of their economies. Aside from what has been undertaken to satisfy these two agencies does the trend and pace of privatization show a strong commitment to the process? Unfortunately, there is no sufficient or comprehensive statistical data to assess the extent of commitment to privatization in Africa. As Table 2 below indicates, the available data is incomplete and fragmentary. Nevertheless, it can shade some light on the privatization process in Africa.

Table 2
Privatization of Wholly-Owned SOEs By Type of Strategy in Africa in the Post-1980 Period

Country	No. of Liquidations	No.of Closures	Sales of SOEs		Management	
			Targeted	Actual	Leases	Contract
Cameroon	NA	5	12	NA	NA	6-10
Cote d'ivoire	NA	20	NA	NA	NA	3
Ghana	NA	NA	NA	NA	NA	NA
Guinea	NA	16	43	NA	1	NA
Kenya	5	NA	NA	NA	NA	NA
Liberia	NA	NA	7	NA	1	NA
Madagascar	NA	5	15	NA	5	NA
Mali	NA	9	11	2	NA	1
Mauritania	NA	4	10	1	NA	NA
Niger	3	NA	24	NA	NA	NA
Senegal	NA	25	10	NA	NA	NA
Sierra Leone	NA	1	10	NA	4	NA
Somalia	3	NA	NA	NA	NA	NA
Sudan	NA	10	NA	7	NA	NA
Togo	NA	9	40	NA	3	4
Uganda	NA	NA	67	NA	NA	NA
Zaire	3	37	11	NA	3	NA

Source: Berg, E., and M. Shirlley, 1987. *Divestiture in Developing Countries*, Tables 1-3

A total of some 449 SOEs have been targeted for privatization in the 17 countries listed in Table-2. While 14 enterprises have been liquidated in 4 countries, 94 closures are reported in 10 other countries, perhaps awaiting liquidation. With respect to leasing and management contracts, in spite of this paper's argument in favor its adoption in Africa, it is not the most common method of privatization. The number of leases and management contracts amounted to only 25. This may be because negotiating the arrangement is a lengthy, complicated procedure and when agreements are reached they often tend to be more favorable to the private party than to the State. When one observes the number of SOEs targeted for sale it appears that Africa has embarked on ambitious privatization programs. But a closer examination negates this perceptions; of the 306 enterprises targeted for sale only 30 have been privatized.

It is clear that programs of privatization are not being implemented at the same pace as their initiation. The slow pace of privatization is probably due to the involuntary nature of the program and the lack of real desire on the part of African leaders and elites to relinquish state ownership. Another reason could be the introduction of contract plans which are gaining increasing acceptance, particularly in West Africa. Under contract plans, as explained earlier, the State still retains SOEs in its domain.

4. Implication for Future Development Strategies

How does privatization influence policy and future development strategies? Privatization essentially increases the role of the private sector in the national economy and induces changes in basic values and attitudes in a society. The common characteristic features of countries which rely primarily on the private sector and free markets are freedom, basic human rights and democracy. These values are important to the development of the private sector and the acceptance of privatization would initiate a fundamental shift toward democratic values.

Although privatization programs are widespread in Africa, political changes are lagging behind economic initiatives. For the process to be successful, both political and economic changes must occur as a mutually reinforcing process. A transition to a market oriented economic strategy cannot succeed without a fundamental shift toward the basic values which are necessary for a market economy. There is every reason, however, to believe that the private sector will be an integral part of the new thinking in development strategy in Africa.

The privatization process can also be a significant positive influence in the development of African entrepreneurial talent. In the statist development strategy of the past, indigenous entrepreneurial talent had neither been solicited nor its role recognized and encouraged. As the result, local entrepreneurs moved to where domestic opportunities were open to them, the informal sector. Indeed, the activities of the informal sector has been so important that it has attracted significant research interest in recent years.

The scarcity of entrepreneurial talent is often presented as being the principal reason for the state dominated and stated directed development strategies of many African countries. This argument, though it has some merit, seems dubious. If the absence of entrepreneurial talent was so crucial why then did the state fail to initiate policies and programs to cultivate and nurture local entrepreneurs? Nevertheless, the failure of past strategies has helped to highlight the neglect of local entrepreneurs. The new spirit toward privatization and market oriented policies is likely to bring entrepreneurs into the formal sector where they can learn and be trained in the tools of modern finance, commerce, and management. As they become more skilled and educated in an environment of freedom and private enterprise they are bound to make significant contribution to economic progress of their nations.

Note, however, in discussing the positive aspects of privatization and its influence on future development strategies, this paper does not suggest that African countries should engage in a wholesale transfer of SOEs to the private sector. What should be privatized, why and how are questions that must be examined in relation to the social, political and economic conditions of each particular country. Criteria for privatizing need to be established and the benefits and costs of privatization must be explored case by case.

5. Conclusion

It is clear that Africa cannot continue with the failed policies and strategies of the past. The future of Africa's development is, in part, shaped by external forces and to a greater extent by its ability to change and create an environment for people to take charge of their economic life. Privatization is one avenue for moving toward greater changes in the theory and practice of development strategy.

Privatization is an idea whose time has come and it should be an integral part of the new thinking in the design of development strategy for Africa. It is a viable instrument for introducing change and modifying future development strategies. It is a powerful economic force for unleashing the entrepreneurial talent which has been thriving in the informal sector. It is this aspect of privatization that is important to the long-term prospects for African economic development. The African entrepreneur must be an integral part of the future development strategies.

There are historical conditions and specific purposes for the widespread creation of SOEs in Africa. No single privatization strategy will be equally suitable to all. In privatizing SOEs, criteria should be established and the benefit and cost of privatization must be explored case by case. In many instances, the problem may not be with ownership but with operational efficiency. In such cases, for reasons noted in this paper, management contracting should be considered as the first step of privatization. Indeed, the evidence presented in this paper shows that management contracting and leasing are more effective suitable strategies for privatization in many African countries.

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