European Parliament

Impact of privatisation of the public sector on developing countries

Benefits and problems

CIRAD

European Parliament

Impact of privatisation of the public sector on developing countries

Benefits and problems

A study prepared for European Parliament
February 2001

February 2001
2e ed. June 2002
Cirad - Tera n° 107/00

This study, based on literature review and case studies emphasizing diverse privatisation contexts, was carried out between July and November 2000 by a team of researchers of different programmes of the Cirad (Centre de Coopération Internationale en Recherche Agronomique pour le Développement).

Team members

CASE STUDIES

Michel Fok (Cotton)

Hélène David-Benz (Rice)

François Ruf (Cocoa)

Betty Wampfler (Rural Credit)

Alain Le Masson (Veterinary services in Central African Republic)

Pascal Bonnet (Veterinary services in Ethiopia and Kenya)

Cécile Lapenu (Health, education, infrastructures and mines outline)

LITERATURE REVIEW

Cécile Lapenu, Sharifa Djedje

FINAL REPORT

Jacques Marzin, Tancrède Voituriez, Bruno Losch

GENERAL COORDINATION

Bruno Losch, Daniel Deybe

Marzin J., Voituriez T., Losch B., 2002 (2[e] ed.). Impact of privatisation of the public sector on developing countries: benefits and problems. A study prepared for European Parliament Février 2001. Montpellier, France, Cirad, 154 p.

Résumé — Impact de la privatisation du secteur public dans les pays en développement, réussites et difficultés. Jusqu'aux années 80, il était généralement admis que le développement économique et la réduction de la pauvreté devaient passer par la construction des marchés intérieurs grâce à une participation active de l'Etat et à la protection des industries nationales. L'échec de ces politiques de développement et la nécessité de se tourner davantage vers les marchés internationaux pour soutenir la croissance ont conduit les Etats, appuyés par les bailleurs de fonds, à mettre en œuvre des politiques de libéralisation. Dans les pays en développement, ces politiques ont pris la forme de plans d'ajustement structurel avec l'objectif d'améliorer l'efficacité et la compétitivité. Les privatisations en sont l'un des éléments avec les réformes fiscales et commerciales. L'étude a pour but d'analyser les processus de privatisation et de proposer des recommandations permettant d'améliorer leur mise en œuvre. L'identification des réussites et difficultés des privatisations est obtenue grâce à une analyse des écarts par objectifs entre résultats espérés et résultats observés. D'une façon générale, l'étude démontre que les résultats des privatisations ont été plutôt décevants en Afrique sub-saharienne. Les contraintes majeures identifiées portent sur les déficiences du marché, le manque de biens publics et d'accumulation et la faible prise en compte des contextes locaux dans l'élaboration des politiques. Les recommandations insistent sur l'importance des dispositifs d'information et du cadre légal afin de sécuriser et d'améliorer le fonctionnement des marchés, sur le développement des infrastructures et sur le nécessaire renforcement des capacités des agents afin de favoriser leur implication dans la définition des politiques.

Abstract — Until the 1980s, it was generally accepted that economic development and poverty alleviation should be achieved through active state-led/inward looking policies and protection of national industries. The failure of these policies, associated with the need to enhance exports to sustain growth, forced states—with the support of donors—to implement liberalisation policies. Consequently in developing countries, structural adjustment programs, which include privatisation and fiscal and trade reforms, were implemented to attain efficiency and competitivity. The objectives of the study are to analyse the privatisation process and to provide recommendations to enhance its impacts and to avoid drawbacks. The benefits and problems of privatisation are presented through a thorough analysis of the identified objectives and discrepancies between expected and actual results. The results show that the privatisation process has not attained the expected goals in Sub-Saharan Africa. The major constraints identified point out market deficiencies, lack of provision of necessary public goods and capital accumulation, as well as the lack of consideration of the local conditions when designing and implementing the process. Recommendations advocate for improving this process, as well as for better market information mechanisms, human capacity building, investment in infrastructure, legal framework for market transactions, better governance and enhancement of stakeholders participation in the decision making process.

CONTENTS

EXECUTIVE SUMMARY

Frame of reference

1. At the present time, privatisation concerns all countries, regimes and situations throughout the world. It affects both small and large companies, the production and management of goods and services. The objective of state withdrawal from economic activities is to ensure strict separation of market and state, whose action must be recentred on its primary governmental functions, in order to guarantee greater efficiency in the use of production factors.
2. Privatisation makes it possible, in the short term, to limit public deficits through the sale of assets and ending of balancing subsidies to state companies. In the medium term, it should lead to the development of competition, which stimulates innovation, labour productivity and competitiveness. It should favour growth, which itself creates jobs, income and well-being, and greater tax revenues.
3. The results of privatisation in developing countries has proven very disappointing *vis-à-vis* these different objectives. Many obstacles which have appeared are related both to the characteristics of the economic, social and institutional environment and to the practical conditions of their implementation. The analysis conducted by the consultant based on case studies of privatisation of agricultural sectors and services makes it possible to present a nuanced evaluation, to highlight several recurrent characteristics of ongoing reforms and to propose a series of general and operational recommendations.

Context, motives and objectives of privatisation in developing countries

4. Privatisation is one of the attributes of the general liberalisation process which characterises the present phase of economic globalisation. With the dismantlement of protections and subsidies, it has become an integral part of a movement that marks a major change in the functioning of economies, societies and international relations.
5. Beginning in the 1950s and 1960s, the developing countries adopted economic policies that conferred upon the state a major role in the management of growth and development. In accordance with the orientations retained by the industrialised countries since the crisis of the 1930s, governments have been present in the orientation of long-term activities (planning), in production (nationalisation of strategic industries), in responsibility for social services, regulation, and even control of markets. With the direct help of international agencies, this concept of development was particularly marked in countries that had just attained independence, where the needs of the new political powers for legitimacy and the need to "build" domestic markets were justifying public intervention.
6. This conception of development was challenged at the beginning of the 1980s, firstly due to pressure from the developed countries whose growth was slowing down: liberalisation led to greater competition and enabled growth through the conquest of new external markets. At the same time, in the developing countries, the debt crisis generated by hazardous credit policies (often encouraged by the industrialised countries), the fall in the

prices of basic products and through internal management failures, led to economic and governmental paralysis. This highlighted the limits of import-substitution policies (related to the narrowness of domestic markets), the lack of investment and supervisory capacities and the need for reform.

7. The extent of the economic imbalances in the developing countries subsequently led to growing intervention of the Bretton Woods institutions. After having supported national development projects and the role of the state during the preceding period, these institutions played a determining role in the adoption of liberal policies in the form of structural adjustment programmes. The proposals of the World Bank and International Monetary Fund, and those of the European Union, were based on two wide categories of objectives, i.e., state withdrawal and the adoption of good management practices.

8. These new orientations were implemented through a reform "package" in which all of the international agencies were associated (thus, the name "Washington consensus"), which included mainly fiscal discipline, redirection of public expenditure priorities, tax reform, interest rates and trade liberalisation, competitive exchange rates, security of property rights, deregulation and *privatisation*. The analysis of privatisation in the developing countries and its results can thus only be carried out if these different interventions become an integral part of it.

Principal results of privatisation

9. During the first years of reform (beginning of the 1980s), the main objectives of privatisation were greater efficiency and greater competitiveness. The results of this first period have proven mixed for several reasons which are related, on the one hand, to the existence of market failures, to the opportunistic behaviour of the agents, the insufficient supply of public goods, and on the other hand, to the observed impacts of deregulation and the end of protection concerning income redistribution and the use of natural resources. These observations have led the international agencies to turn their efforts, in a second phase, to new objectives directed towards poverty alleviation (end of the 1980s), then the sustainability of the processes (economic, institutional and ecological sustainability), and to complementing their interventions with actions in favour of capacity building and the promotion of public goods (1990s).

PRIVATISATION, EFFICIENCY AND COMPETITIVENESS

10. In this first category of objectives, the cases studied revealed that the impacts of privatisation on international competitiveness of the agricultural sectors are complex, and thus difficult to analyse, due to the diversity of the situations in developing countries. Liberalisation and privatisation have led to an unequal increase in production volumes, but it is not possible to affirm tangible superiority in liberalised sectors compared to sectors which are still under public control (case of the cotton sector). On the other hand, the effect of privatisation on the adaptation of supply to market demand is more sensitive and is accompanied by greater flexibility and better response in terms of quality (case of the cocoa sector). The trend towards reduction in costs offered by the requirements of competition is frequently offset by the increase in input prices related to the absence of local production.

11. Deficiencies in government policies are frequently due to an insufficiency and poor quality in planning and management capacities. They can also be explained by the persistence of poor practices, reinforced by resistance to change, i.e. the refusal of

dominant players in the economic and political game to rethink their positions. This can be seen in the difficulty found in proposing new rules that are needed for healthy competition, which has led to market distortions related to asymmetries between economic agents (for example, between small cocoa producers and global grinding firms).

12. These asymmetries, reinforced by a lack of local capital has also frequently led to a control take-over by foreign investors whose opportunism and market power can be a serious obstacle to economic development. The rigidities of the labour market, the weakness of national savings, the lack of competition and the low solvability of consumers are recurrent obstacles to the efficiency of privatisation, improvement in competitiveness and growth. They highlights the fact that it is necessary to provide an accompaniment for these reforms.

PRIVATISATION AND POVERTY ALLEVIATION

13. The increase in agricultural income has played a major role in the objective of poverty alleviation which has characterised the second phase of the reforms. This goal was justified by the central role agriculture occupies in the domestic economies of the developing countries. The efforts furnished in the framework of economic liberalisation and privatisation have often been aimed at improving purchasing prices for agricultural products, through the suppression of marketing monopolies and indirect or direct taxes on exports (case of stabilisation funds). For export products, the objective was to increase the share of the international price received by the agricultural producer. Even if this object was attained, the impact on agricultural income and poverty alleviation proved much smaller than hoped for due to the increase in the relative prices related, for example, to variations in exchange rates and increased input costs. In the case of domestic markets, the decrease in prices following the liberalisation of imports had a negative impact on producers, and the improvement of the consumers' situation was often compensated by inflation.

14. The confrontation of the producers with international markets has created a need for competitiveness in order to resist external competition. However, this has resulted in an increased risk related to a tendency towards instability of agricultural markets in a deregulated context (end of international agreements and support mechanisms). The increased risk in a situation of inequality of information constitutes an obstacle to investment. The decrease in prices, directly suffered by the producers, has reinforced their precarious situation and can be seen in an increase of poverty.

15. This precariousness can also be reinforced over the long term by the up and down effect of prices (increase in production costs and tendency towards lower prices), which implying an increase in labour productivity, results in leaving the agricultural sector for many rural workers whose incomes then have to be ensured by other sectors of activity. The specialisation of economies in the developing countries based on the exports of agricultural products, brought on by trade liberalisation on a world-wide scale, risks making this situation even worse.

16. Lastly, it is imperative to take into account overall net income as the situation of the agents has generally been worsened by the monetarisation of services that were guaranteed freely before privatisation. This is particularly true for health and education, expenditures that weigh heavily in the household budgets. Difficulty of access to social services constitutes a factor of precariousness and the worsening of poverty. This can be clearly seen in the deterioration of the well-being of these populations.

PRIVATISATION AND SUSTAINABLE DEVELOPMENT

17. Externalities constitute one of the main market failures. Thus, privatisation presents no direct advantages compared to public management concerning the negative externalities of economic activities on the environment. Implementation of environmental management measures are even more difficult to set up in developing countries as they are confronted with difficult choices in the allocation of resources between immediate and future goods and public services. This observation was the reason that the accent was put on sustainability in the recent phase of reform.

18. At the present time, observed effects of privatisation on the environment appear to be more negative than positive. The increase in input costs has been followed by lower use, or by purchasing of products of doubtful quality, for reasons of cost or due to the absence of control mechanisms. As a result, we observe a trend toward lower chemical soil fertility and/or an increase in pest resistance, with the risks this implies for animal or human health (case of the cotton zones). The response to the risks related to price instability can be a headlong rush towards extensive cultivation practices which are harmful for the environment, such as forest clearing (case of the cocoa zone).

19. Nonetheless, the sustainability of development policies cannot be reduced to the strictly environmental dimension. It is also important that the reforms implemented result in political and social stability favourable to the development of market forces. We are forced to observe that, in this field, structural adjustment policies - including privatisation - have led to crisis situations related, in particular, to the absence of negotiated management for reforms (between the different players), which has compromised, in a lasting way, prospects for economic and social development (case of Côte d'Ivoire).

Conditions for successful privatisation

20. Privatisation cannot succeed independently from all of the reforms undertaken. It is an integral part of a larger process which disrupts the references and practices of the private economic agents and the public authorities. Its success depends directly upon the management capacities of the different economic players and their ability to adapt to change. It also depends upon each national situation, which in turn depends upon its endowment in production factors and its institutional richness resulting from its local history.

THE NEED OF REINFORCED MARKETS

21. The operational conditions of the markets are not satisfactory; their numerous failures make it impossible to reach the objectives of reinforcing competitiveness, poverty alleviation and preservation of the environment. To "make the market work better for the poor" (as the World Bank affirms in its latest development report) - and work better for the environment and competitiveness - it is necessary to unite several conditions that must concentrate all the efforts of the authorities, the international agencies and private funds.

22. The success of privatisation programmes implies the existence of a good economic and institutional environment. Rules of law are required to guarantee the correct functioning of the markets (property rights, authorised forms of competition and co-operation between the economic agents); a minimal provision of public goods must be ensured in the field of security of goods and persons, communication infrastructures, the fight against endemic diseases, research and economic information.

23. All these recommendations are particularly important to ensure that liberalisation and privatisation make a positive contribution to the achievement of social, developmental and environmental goals. For the European Union this implies concentrating its efforts on:
– (i) reinforcing the state of law and public management capacities;
– (ii) providing good information for economic agents on markets conditions and requirements (information on prices, quality standards, development prospects, etc.);
– (iii) easing market access through increased investments in physical infrastructures;
– (iv) building trust through the development of a legal infrastructure for market transactions.

THE NEED TO DEFINE NEGOTIATED OBJECTIVES

24. Improving the functioning of the markets constitutes an initial approach to intervention. To draw an analogy with archery, this would correspond to an improvement in the archer's performance due to better training, better equipment and eliminating disturbances that might interfere with his shot. Another approach consists in adjusting and negotiating the objectives (the target): performance can thus be improved by moving the target closer (making it more accessible) or by inciting all of the archers in competition to work together on the definition of a negotiated target (size of the centre and distance of the target). This example enables us to illustrate the interest of an action based on negotiated objectives. This is neither idealistic nor demagogic; it corresponds, on the contrary, to needs expressed by the different players in concrete situations that have been observed. This ground-level or concerted approach is also currently used in other fields as, for example, in international negotiations on the climate.

25. Thus, privatisation is not an end in itself, but one of the means for reaching the objectives of economic and social development chosen by each community (on the local, regional or national level). Performance is greatly strengthened when these development objectives are clearly formulated and are prepared through a process of negotiation. This observation makes it possible to underline the stakes constituted by the formulation of development strategies.

26. Sustainable reforms can only become anchored in the reality of each situation on the basis of the appropriation by the local players of their motives and their objectives, and by adapting, case by case, practical conditions for their implementation. This conclusion signifies, on the part of the international agencies, a comprehensive attitude towards the specificity of each situation and the adaptation to each context of the general principles of reform. Ready-to-use recipes must be banished.

27. Local opportunities and constraints must be taken into consideration in the joint elaboration of operational programmes. For European Union this implies concentrating its efforts on:
– (i) reinforcing the capacities of the players through the creation of adapted measures for information and training;
– (ii) helping communication by developing a context of discussion and negotiation which would make possible the elaboration of negotiated solutions and local and sectorial development strategies.

28. This type of approach takes time and must take time. It includes critical evaluation mechanisms that make it possible to adjust these interventions and support programmes, individually. The European Union must, in particular, be very careful to avoid the risks related to the implementation of reforms, notably concerning market and government failures (such as infrastructure disruption, market power and rent-seeking activities, decline or disruption in the provision of collective goods, etc.).

29. A progressive, comprehensive and iterative approach to the processes of reform and privatisation, taking into account local characteristics and the objectives of the players, reinforcing the construction of development policies and strategies, constitutes an original approach for the European partners in their support for the creation of an environment favourable to the development of private initiative. It offers a major opportunity for developing the attainments and the originality of the European approach to consultation, negotiation and the elaboration of collective projects.

SYNTHESE et CONCLUSIONS

Cadre de référence

1. Les privatisations concernent aujourd'hui l'ensemble des pays, régimes et situations de la planète. Elles touchent à la fois les petites et les grandes entreprises, la production et la gestion des biens et des services. Le désengagement de l'Etat des activités économiques a pour objectif d'assurer une stricte séparation du marché et de l'Etat, dont l'action doit être recentrée sur ses fonctions régaliennes, afin de garantir une plus grande efficacité dans l'utilisation des facteurs de production.
2. Les privatisations permettent à court terme de réduire les déficits publics par la cession d'actifs et la fin des subventions d'équilibre aux sociétés d'Etat. A moyen terme, elles devraient permettre le développement de la concurrence, qui stimule l'innovation, la productivité du travail et la compétitivité ; elles devraient également favoriser la croissance, elle-même génératrice d'emplois, de revenus et de bien-être et d'un meilleur rendement de la fiscalité.
3. Les résultats des privatisations dans les pays en développement se sont avérés très en deçà de ces différents objectifs. De nombreux obstacles sont apparus qui sont liés tout aussi bien aux caractéristiques de l'environnement économique, social et institutionnel qu'aux conditions pratiques des programmes mis en œuvre. L'analyse conduite par le consultant à partir du cas de la privatisation des secteurs et des services agricoles permet d'en dresser un bilan contrasté et de mettre en évidence quelques traits caractéristiques des réformes engagées. Elle débouche sur une série de recommandations générales et opérationnelles.

Contexte, justifications et objectifs des privatisations dans les pays en développement

4. Les privatisations dans les pays en développement font partie du mouvement général de libéralisation qui caractérise la phase actuelle de mondialisation des économies. Avec le démantèlement des protections et des subventions, elles font partie intégrante du processus de désengagement des Etats qui marque un changement majeur dans le fonctionnement des économies, des sociétés et des relations internationales.
5. A compter des années 50 et 60, les pays en développement avaient adopté des politiques économiques qui conféraient à l'Etat un rôle moteur dans la gestion de la croissance et du développement. Conformément aux orientations retenues par les pays industrialisés depuis la crise des années 30, l'Etat était présent dans l'orientation des activités à long terme (planification), dans la production (nationalisation des secteurs stratégiques), dans la prise en charge des services sociaux, dans la régulation voire le contrôle des marchés. Avec l'aide directe des agences internationales, cette conception du développement a été particulièrement affirmée dans les pays qui venaient d'accéder à l'indépendance, où les besoins de légitimité des nouveaux pouvoirs politiques et la nécessité de « construire » les marchés intérieurs justifiaient un rôle majeur pour l'intervention publique.
6. Cette conception du développement a été remise en cause au tournant des années 80 en conséquence de deux phénomènes. Il s'agissait tout d'abord de la crise de croissance des

pays développés à l'origine d'un besoin de libéralisation destiné à favoriser la concurrence et une relance par la conquête de marchés extérieurs. Parallèlement, dans les pays en développement, la crise de la dette générée par des politiques d'emprunt hasardeuses (souvent encouragées par les pays industrialisés), par la chute des prix des produits de base et par les défaillances de gestion internes conduisait à une paralysie des économies et des Etats. Elle mettait en évidence les limites des politiques de substitution aux importations (liées à l'étroitesse des marchés intérieurs), le manque de capacités d'investissement et d'encadrement et le besoin de réformes.

7. L'ampleur des déséquilibres économiques dans les pays en développement a dès lors débouché sur une intervention croissante des institutions de Bretton-Woods. Après avoir appuyé les projets de développement nationaux et le rôle de l'Etat dans la période précédente, elles ont joué un rôle déterminant dans l'adoption des politiques libérales qui ont pris la forme des programmes d'ajustement structurel. Les propositions d'intervention de la Banque mondiale et du Fonds monétaire international, rejoints par l'Union européenne, correspondaient à deux grandes catégories d'objectifs : le désengagement de l'Etat et l'adoption de bonnes pratiques de gestion.

8. Ces nouvelles orientations se sont traduites par la mise en œuvre d'un « paquet » de réformes, auquel ont adhéré les différentes agences d'aide (d'où l'appellation de « Washington consensus »), qui comprenait principalement : la rigueur budgétaire, une réorientation des priorités des dépenses publiques, une réforme de la fiscalité et des taux d'intérêts, la libéralisation des échanges, le recours aux taux de change compétitifs, la sécurisation des droits de propriété, la dérégulation - et - les *privatisations*. L'analyse du processus de privatisation dans les pays en développement et de ses résultats ne peut ainsi s'effectuer que par une prise en compte de l'ensemble du processus de réforme.

Principaux résultats des privatisations

9. Dans les premières années des réformes (début des années 80), les privatisations ont eu comme principaux objectifs la recherche d'une meilleure efficacité et d'une plus grande compétitivité par la mise en concurrence. Les résultats de cette première période se sont avérés mitigés pour plusieurs raisons qui sont liées : d'une part, à l'existence de défaillances de marché, de comportements opportunistes des agents et à l'insuffisante fourniture de biens publics ; d'autre part, aux impacts concrets de la dérégulation et de la fin des protections sur la répartition des revenus et l'utilisation des ressources naturelles. Ces constats ont conduit les agences d'aide à porter leurs efforts, dans une seconde phase, sur de nouveaux objectifs concernant d'abord la lutte contre la pauvreté (fin des années 80) puis la durabilité des processus (durabilité économique, institutionnelle et écologique) et à compléter leurs interventions par des actions en faveur du renforcement des capacités et la promotion des biens publics (années 90).

PRIVATISATION, EFFICIENCE ET COMPETITIVITE

10. Concernant cette première catégorie d'objectifs, les cas étudiés révèlent que les impacts des privatisations sur la compétitivité internationale des filières agricoles sont difficiles à analyser du fait de la diversité des situations des pays en développement. La libéralisation et la privatisation ont permis une augmentation inégale des volumes de production sans qu'il soit possible d'affirmer une supériorité tangible des secteurs libéralisés par rapport aux secteurs toujours soumis à l'intervention publique (cas du secteur cotonnier). Par contre, l'effet des privatisations sur l'adaptation de l'offre à la demande des marchés est

plus sensible et s'est accompagnée d'une plus grande flexibilité et d'une meilleure réponse en termes de qualité (cas du secteur cacaoyer). La réduction des coûts induite par les impératifs de la concurrence est en revanche fréquemment contrariée par la hausse du prix des intrants liée à l'absence de leur production locale.

11. Les déficiences en matière de politiques publiques sont fréquentes du fait de l'insuffisance des capacités de programmation et de gestion. Elles s'expliquent aussi par la permanence de mauvaises pratiques renforcées par la résistance au changement, à savoir le refus des acteurs politiques et économiques dominants de remettre en cause leurs positions. Ces contraintes se traduisent par la difficulté à proposer de nouvelles règles du jeu nécessaires à une saine concurrence, avec comme conséquences des distorsions de marché liées aux asymétries entre agents économiques (par exemple entre les petits producteurs de cacao et les entreprises mondiales de transformation).

12. Ces asymétries, renforcées par l'insuffisance des capitaux locaux, se traduisent fréquemment par une prise de contrôle par des investisseurs extérieurs dont la volatilité et le pouvoir de marché peuvent être un obstacle sérieux au développement économique. Les rigidités du marché du travail, la faiblesse de l'épargne nationale, le manque de concurrence, la faible solvabilité des consommateurs sont des obstacles récurrents à l'efficacité des privatisations, ainsi qu'à l'amélioration de la compétitivité et de la croissance. Elles révèlent un besoin d'accompagnement des réformes.

PRIVATISATION ET REDUCTION DE LA PAUVRETE

13. Dans les pays en développement, l'agriculture joue un rôle central dans les économies nationales et dans la distribution des revenus. L'augmentation des revenus agricoles a ainsi occupé une place majeure dans l'objectif de lutte contre la pauvreté qui a caractérisé la seconde phase des réformes. Les efforts déployés dans le cadre des programmes de libéralisation économique et de privatisation ont souvent visé à améliorer les prix d'achat des produits agricoles par la suppression des monopoles de commercialisation et la suppression des taxes directes ou indirectes sur les exportations (cas des prélèvements de stabilisation). Pour les produits d'exportation, l'objectif était d'augmenter la part du prix international reçue par le producteur agricole. Si cet objectif a bien été atteint, l'impact sur les revenus agricoles et la lutte contre la pauvreté s'avère beaucoup plus mitigé du fait de l'évolution des prix relatifs liée par exemple aux variations du taux de change et à la hausse du prix des intrants. Dans le cas des marchés intérieurs, la baisse des prix consécutive à la libéralisation des importations a eu un impact négatif pour les producteurs et l'amélioration de la situation des consommateurs a souvent été compensée par les phénomènes d'inflation.

14. La confrontation des producteurs aux marchés internationaux a entraîné une exigence de compétitivité pour résister à la concurrence extérieure. Mais elle a aussi eu comme conséquence une croissance du risque liée à l'instabilité tendancielle des marchés agricoles dans un contexte dérégulé (fin des accords internationaux et des mécanismes de soutien). Cette croissance du risque dans une situation d'asymétrie d'information constitue un obstacle à l'investissement. La baisse des cours, directement subie par les producteurs, a renforcé la précarité et se traduit par une augmentation des situations de pauvreté.

15. Cette précarité peut encore se trouver renforcée sur le long terme par l'effet de ciseaux des prix (augmentation des coûts de production et baisse tendancielle des prix) qui, en impliquant une augmentation de la productivité du travail, a pour conséquence une sortie du secteur agricole pour de nombreux travailleurs ruraux dont les revenus devront alors être assurés par d'autres secteurs d'activités. La spécialisation des économies du Sud dans

les exportations de produits agricoles, renforcée par la libéralisation des échanges à l'échelle mondiale, risque d'aggraver l'importance de ce phénomène.

16. Enfin il est impératif de prendre en compte les revenus globaux nets car la situation des agents s'est généralement trouvé dégradée par la monétarisation de services qui étaient assurés gratuitement avant la privatisation. C'est en particulier le cas de la santé et de l'éducation qui grèvent lourdement le budget des ménages. La difficulté d'accès aux services sociaux constitue un facteur de précarisation et d'aggravation de la pauvreté. Elle s'est traduite par une dégradation du bien-être des populations.

PRIVATISATION ET DEVELOPPEMENT DURABLE

17. Les externalités constituent l'une des principales défaillances de marché. Ainsi, la privatisation n'apporte aucun avantage direct par rapport à une gestion publique en ce qui concerne les externalités négatives des activités économiques sur l'environnement. La mise en place de mesures de gestion environnementale est d'autant plus difficile dans les pays en développement qu'ils sont confrontés au difficile arbitrage de l'allocation des ressources entre des biens et services publics immédiats ou futurs. Ce constat a motivé l'attention portée à la durabilité dans la phase récente des réformes.

18. A ce jour, les effets constatés des privatisations sur l'environnement semblent plutôt négatifs. L'augmentation des coûts des intrants se traduit par leur plus faible utilisation ou par l'achat de produits de qualité douteuse (pour des raisons de coût ou par l'absence de dispositifs de contrôle). Il en résulte une baisse tendancielle de la fertilité chimique des sols et/ou une augmentation des problèmes phyto-sanitaires, avec des risques qui peuvent être importants sur la santé animale ou humaine (cas des zones cotonnières). La réponse aux risques liés à l'instabilité des cours peuvent s'avérer préoccupante pour l'environnement lorsqu'il s'agit d'une fuite en avant dans les pratiques extensives, comme le défrichage dans les zones forestières (cas des zones cacaoyères)

19. Mais la durabilité des politiques de développement ne saurait être réduite à la stricte dimension environnementale. Il est important en effet que les réformes mises en place se traduisent par une stabilité politique et sociale favorable au développement du marché. Force est de constater que, dans ce domaine, les politiques d'ajustement structurel - dont les privatisations - ont pu se traduire par des situations de crise liées en particulier à l'absence de gestion négociée des réformes (entre les différents acteurs) qui compromettent durablement les perspectives de développement économique et social (cas de la Côte d'Ivoire).

Conditions de réussite des privatisations

20. Les privatisations ne peuvent réussir indépendamment d'une démarche d'ensemble. Elles sont partie prenante d'un large processus qui bouleverse les référentiels et les pratiques des agents économiques privés et des pouvoirs publics. Leur réussite dépend directement des capacités de gestion et d'adaptation au changement des différents acteurs économiques. Elle dépend aussi des caractéristiques de chaque situation nationale, qui découlent de la dotation en facteurs de production et de la richesse institutionnelle issue de l'histoire locale.

LE BESOIN DE RENFORCEMENT DES MARCHES

21. Les conditions réelles de fonctionnement des marchés ne sont pas satisfaisantes. Les nombreuses défaillances du marché rendent impossible d'atteindre les objectifs d'amélioration de la compétitivité, de réduction de la pauvreté et de préservation de l'environnement. Pour que « le marché fonctionne mieux pour les pauvres » (comme l'affirme la Banque mondiale dans son dernier rapport sur le développement dans le monde) – mais aussi pour l'environnement et la compétitivité - il est nécessaire de rassembler plusieurs conditions qui doivent focaliser tous les efforts des gouvernements, des agences d'aide internationale et des investisseurs privés.

22. La réussite des programmes de privatisation implique l'existence d'un environnement économique et institutionnel de qualité. Des règles de droit sont nécessaires pour garantir le bon fonctionnement des marchés (droits de propriété, règles de la concurrence et coopération entre les agents économiques) ; une fourniture minimale de biens publics doit être assurée dans les domaines de la sécurité des biens et des personnes, des infrastructures de communication, de lutte contre les endémies, de la recherche et de l'information économique.

23. Toutes ces recommandations sont particulièrement importantes pour permettre à la libéralisation et aux privatisations d'apporter une contribution positive aux finalités sociales, économiques et environnementales des réformes. Pour l'Union européenne cela implique de concentrer les efforts sur :
    – (i) le renforcement de l'Etat de droit et des capacités de gestion publique ;
    – (ii) la mise en place d'une bonne information pour les agents économiques sur les conditions et les exigences des marchés (information sur les prix, les standards de qualité, les perspectives d'évolution, etc.) ;
    – (iii) l'amélioration de l'accès au marché par une augmentation des investissements dans les infrastructures ;
    – (iv) la mise en œuvre d'un climat de confiance par le développement d'un cadre légal garantissant le bon déroulement des transactions et des activités économiques

LE BESOIN DE DEFINIR DES OBJECTIFS NEGOCIES

24. Améliorer le fonctionnement des marchés constitue une base préalable de l'intervention. Pour faire une analogie avec le tir à l'arc, cela correspondrait à une amélioration de la performance de l'archer par l'entraînement, un meilleur équipement et l'élimination des perturbations qui pourraient gêner le tir. Une autre approche consiste cependant à négocier et à ajuster les objectifs (la cible) : les performances pourraient alors être améliorées en rapprochant la cible (la rendant plus accessible) ou en incitant les archers à négocier entre eux ses caractéristiques (taille du centre et distance de la cible). Cette métaphore nous permet d'illustrer l'intérêt d'une action basée sur des objectifs négociés. Elle n'est ni idéaliste ni démagogique et correspond au contraire aux besoins exprimés par les différents acteurs dans les situations concrètes qui ont été observées. Cette approche par la base, ou concertée, est couramment utilisée dans d'autres champs de négociations, comme celles qui se déroulent aujourd'hui sur le climat.

25. Ainsi, les privatisations ne sont pas une fin en soi mais l'un des moyens disponibles pour atteindre les objectifs de développement économique et social retenus par chaque collectivité (aux niveaux local, régional ou national). Leur performance se trouve renforcée lorsque ces objectifs de développement sont clairement formulés et issus d'un processus de négociation. Ce constat permet de souligner l'enjeu que constitue la formulation de stratégies de développement.

26. Les réformes ne peuvent s'ancrer durablement dans la réalité de chaque situation que sur la base d'une appropriation par les acteurs locaux de leurs motifs et de leurs objectifs et par une adaptation, au cas par cas, des conditions pratiques de leur mise en œuvre. Pour les agences d'aide, cette conclusion signifie l'adoption d'une attitude compréhensive quant à la spécificité de chaque situation. Elle implique en conséquence l'adaptation des principes généraux des réformes à chaque contexte et un bannissement du recours aux recettes prêtes à l'emploi. Elle requiert de prendre en compte les opportunités et les contraintes locales dans l'élaboration commune des programmes opérationnels.

27. Les opportunités et les contraintes locales doivent être prises en considération dans l'élaboration concertée de programmes opérationnels grâce :
– (i) au renforcement des capacités des acteurs par la création de dispositifs d'information et de formation adaptés ;
– (ii) à l'aide à la concertation par l'appui à la mise en œuvre de cadres de discussion et de négociation permettant d'élaborer des solutions négociées et des stratégies de développement local et sectoriel.

28. Une telle démarche prend (et doit prendre) du temps. Elle doit inclure des mécanismes d'évaluation permettant d'ajuster au cas par cas les interventions et les programmes d'appui. L'Union européenne devra en particulier s'efforcer de prévenir les risques inhérents à la mise en place des réformes, notamment en ce qui concerne les défaillances des marchés et des Etats. Une telle approche signifie une vigilance accrue sur des thèmes comme les risques de dégradation des infrastructures, l'apparition de positions dominantes et de comportements rentiers ou encore la détérioration ou la rupture dans la fourniture des biens collectifs, etc.

29. Dans son appui à l'élaboration d'un environnement propice au développement de l'initiative privée, la coopération européenne a l'opportunité de promouvoir une approche originale, progressive, compréhensive et itérative des processus de réformes et de privatisation. Cette approche, basée sur les caractéristiques et les objectifs des acteurs locaux, permet de renforcer la construction des politiques et des stratégies de développement. Elle apparaît comme une réelle opportunité de valoriser les acquis et l'originalité de la construction européenne en matière de concertation, de négociation et d'élaboration de projets collectifs.

PART ONE – REPORT

INTRODUCTION

Privatisation is a critical component of structural adjustment programs carried out since the early 1980's in developing countries. Whereas donors argue that 'by and large, privatisation has been really a great success. But unfortunately, people don't know enough about it'[1], it remains in many countries, and particularly in Africa, highly controversial and socially risky. Population strikes have opposed, and still do, sell-off of state enterprises because of fear of unemployment and reduced benefits; some scientists have condemned both the theory and practice of privatisation; even high-level government officials have denounced privatisation as a new form of 'economic colonisation'. Also in a few countries opposition to privatisation has been quoted as one factor in the ouster of incumbent governments, either through election or military coup (Harsch, 1999). Although an abundant literature has flourished on this topic, the impacts of privatisation remained entangled.

This study aims at isolating, in a comparative framework derived from political analysis and economic theory, the impacts of privatisation on developing countries economies by distinguishing the benefits provided from the problems generated. However the scope of the topic is large and it appeared clearly that it was necessary to understand both privatisation process and privatisation context, general justifications and real cases. In consequence of this point of note, the main report (part one) includes three chapters:

- chapter one is dedicated to the definition of terms, recalling the historical process as well as the economic background of privatisation in developing countries over the last decades. From the literature review and the first conclusions proposed by the international institutions, it shows an assessment of the main impacts and reviews the constraints faced by the privatisation process in developing countries;
- chapter two focuses on the methodology used for the analysis and the main results obtained. It defines a theoretical and operational framework taking into account the general objectives fixed to privatisation (competitiveness, poverty alleviation and sustainability) articulated around a set of specific objectives attributed to the privatisation programs. This framework is then applied to a number of African case studies with some comparisons with other countries focusing on agriculture and more specifically to the privatisation of commodity-chains and agricultural services;
- chapter three presents the main lessons to be drawn from the privatisation process in the developing countries and recommendations for donors.

The annexes (part two) includes: (i) the case studies with a complete application of the analytical framework to the 'cotton case' (annex I) and a summary of the others case studies (annex II); (ii) the general review of literature (annex III); (iii) and some datas and results summaries (annex IV and V).

1. O. Campbell White, senior public enterprise specialist at the World Bank, quoted in E. Harsch (1999).

CHAPTER I

FROM STATE-LED DEVELOPMENT TO PRIVATISATION

Privatisation occurred during the last twenty years in very different countries from the cultural, demographic and economic points of view. Of course, the results of privatisation results are quite different, and have been widely discussed. Nonetheless, a general consensus exists that results have not been as good as expected. In order to understand and discuss them, it is necessary to better the define context and conditions of privatisation processes.

Firstly, we will describe the economic and political context, focusing specifically on developing countries. Secondly, because of the failures of state-led policies, we will explain how an international consensus has been developed, based on liberalisation (and globalisation). The results of privatisation, part of this consensus, have been widely discussed, and we will summarise the main debates in a third point. In the fourth section, we will try to explain the discrepancy between what was expected and what actually happened.

National development projects

After the economic recession of the 1930s, caused by the failure of liberal economic policies (Boyer, 1999) and the Second World War, with huge requirements for reconstruction, most governments believed that economic development and poverty reduction required the active participation of the state and the protection of local industry. Economic development was considered strictly on a national level. Firstly, growth had to be conducted in the conditions of domestic markets. Secondly, national self-sufficiency was the main objective, leading to strong import-substitution policies. Thirdly, positive inter-sectorials effects were sought, in order to create a balanced and growth-friendly economy with development in agriculture, industry and services.

This national development project (McMichael, 1996) was automatically adopted. In the 1950s and 1960s, most of them were structuralist and technicist. Left-wing governments thought that state intervention would correct market failures, that mass mobilisation toward a collectivist organisation would lead to poverty alleviation, generalised education and international solidarity. Right-wing governments were convinced that it was possible to accelerate the stages to capitalism, in order to enable developing countries to attain a mass consumption model more rapidly than Northern countries. Both types of economic intervention gave the state a central role.

Following a Keynesian approach, an inward-looking, state-led development path was adopted, leading many countries to implement protectionism, government control of investment, and state monopolies in key sectors. For developing countries, public investment was also presented as a way to compensate for the lack of domestic capital for production of private or public goods. In some developing countries, nationalism and crony capitalism led to nationalisation of failed private firms in order to avoid unemployment or foreign investments which limited sovereignty (Bouin, 1992). To these economic reasons for national-centred development were added political ones. Nonetheless, new states were to be built, both from a material point of view as well as a symbolic one. Legitimacy had to be demonstrated, in a short-term race. These political reasons explain why the national level was selected as the right level to promote development, even if regional levels could have been chosen to compensate for the structural weaknesses in the developing countries' national economies.

These facts explain why developing countries tried to finance their growth by tapping financial resources from agriculture and directing them towards industry and services, following the so-called 'import-substitution' strategy. For Cornia and Helleiner (1994), there was general agreement among donors and policy makers for building the development strategy basically on agriculture, and even more, on smallholder agriculture.

From national development to globalisation

Historical background and previous structural constraints are not sufficient to understand the failure of state-led development policies. Internal and external shocks may have contributed too.

FAILURE OF STATE INTERVENTION

In the first years of independence, some structural reasons can explain the particular situation of in the developing countries:
– weakness of national markets: building a national industry within a reduced market limits competition and technologic improvement, as it is quite impossible to export ; this explains the difficulties in implementing successful import-substitution policies and accessing a Fordist cycle in developing countries in order to achieve a mass production / mass consumption model; it is noteworthy that only some populous Asian countries have succeeded in building national industries within protected markets;
– lack of previous domestic private accumulation generally: this explains why a capitalist class with both money and the ability to manage enterprise did not exist;
– lack of human resources and capacity building: the inability of most developing countries to finance both productive investments and public services, particularly education services, was a huge constraint to building management and institutional capabilities;
– agricultural specialisation of the economy: because of colonial application of comparative advantages, i.e., raw materials for industry based in the metropolitan area, former colonies or independent countries, e.g., Argentina, specialised in agricultural and mineral product exports, with a low aggregate-value for the developing countries' domestic economies.

This existing situation unfortunately did not improve due to the failures of new state management and the political difficulty of designing a new autonomous and sustainable model of development. As Stiglitz has stated (1998), 'development represents a transformation of society, a movement from traditional relations, traditional ways of thinking, traditional ways of dealing with health and education, traditional methods of production, to more 'modern' ways'. Because they forgot the embedment of the economy in the social context, or because they thought they would be able to transform without discussion, the governments in the developing countries failed in promoting better individual and social control over the individual and national destiny. This explains why one great failure in the developing countries was the inability of the more advanced sectors to penetrate deeply in society, resulting in what many have called dual economies.

Failure of state-led economic policies was the first failure of government management. It generally served particular private interests, generalised corruption and failed in promoting efficient public services. Most of these deviations were due to a total lack of institutional counter-power. The weakness of state development in developing countries is a fact which explains why their policies did not resist when external shocks occurred.

THE DEBT CRISIS

The debt crisis in developing countries which overwhelmed most of them in the 1980s can be explained by:
– the unconsidered level of investments aiming either correcting the market's failure by the government (subsidies, free public services, etc.) or production of goods by state-owned enterprises (SOE).
– easy credit in international markets during the 1970s (petroleum shock and post-shock) and to hiding public financial difficulties with fresh foreign cash. Northern banks and governments were totally implicated in this phenomenon;
– the collapse of prices for commodities exported by the developing countries. An increase in offer, substitution of primary products by industrial Northern technologies (rubber, cotton), and the weakness of Northern markets during the 1980s, led to the end of international agreement on commodity prices;
– increases in international interest and exchange rates during the 1980's, which made the debt burden unbearable.

The fact is that in the early 1980s, the public sector was very extended, that governments were unable to finance investments for production of private or publics goods or to assume the debt burden.

GLOBALISATION[2]

The world situation has also radically evolved compared to the economic context of liberal policies in the first decades of the century, essentially based in trade (and not foreign investments). This difference can be summarised as follows.

- In the Northern countries, the Fordist national-centred cycle ended (mass production / mass consumption), because of progressive limitation of profits at the national level (Boyer, 1995). In reaction, firms turned to foreign markets in order to sell their products. Governments helped them. The institutional background progressively changed (position of donors, GATT to WTO, etc.) from a state-led position to a trade-oriented one.
- New mass consumption products (such as new communication and information technologies) require greater investments from firms in R&D, immobilisation (plants), marketing for segmentation. All this requires global markets, and of course, trade and financial liberalisation for selling products and investing capital. National markets are no longer determinant for international firms (Petit and Soete, 1999).
- A consequence of opening markets in developing countries has been to make it possible to import basic, cheap products as well as to sell high-aggregate value products coming from Northern countries or firms. In some economic sectors, such as the pharmaceutical industry, 70 % of trade concerns subsidiaries of multinational firms.

Actually, globalisation is first conducted at the regional level (60 to 70 % of foreign trade is intra-EU in most of European countries, with similar characteristics in production and consumption). This will represent a difficulty for the integration of developing countries in Sub-Saharan Africa into a global market.

---

2. Globalisation: process leading to a decreasing power of state and characterised by four attributes. The first ones are conduced by new technologies of communication: (i) international redeployment and competition between firms and (ii) quick growth of international market of capital. They are completed from a geostrategical point of view by (iii) the increasing role of multi-country unions (UE, NASTA, Mercosur, UEMOA...) and by (iv) the international debat on environment [Oman, (1994), *In* Losch, (1998)]..

In this context, Structural Adjustment Plans (SAP) and privatisation can be interpreted either as a chance for developing countries to integrate a global market, or as a way for Northern firms to extend their markets.

All these negative effects, among which the insolvency of states ranked first for donors such as the World Bank, have generated an 'increasing disenchantment with inward-looking development', as the World Bank cautiously stated (World Bank, 2000: 61). This 'increasing disenchantment' led developing countries to implement reforms (and donors to impose conditionalities) that replaced state intervention on markets with private incentives, public ownership with private ownership, and protection of domestic industries with competition from foreign producers and investors.

Donor's rationale for privatisation

THE RATIONALE

Within a few years, international agencies changed their recommendations (Coussy, 1991) from state interventionism to a strict separation of market and state. The first indication of this evolution was the Berg report (WB, 1981), which basically argued with state-led policies failures. These arguments were reinforced by neo-classical theory, with emphasis on (Losch, 2000):

- perfect regulation of economic activities with market intermediation. This regulation is possible under certain clear market conditions, analysed in the last developments of neo-classical theory[3];
- the role of the state with regards to security, rules of competition in the economic field, and in some cases, the correction of market failures (public goods, externalities, economies of scale). It may be involved in strategic domains, such as helping infant industries, regulation of some price instabilities or optimum tariffs for trade policy.

The New Institutional Economy (NIE) has presented such a vision pointing to market failures, linked with limited rationality of agents, risk-aversion behaviour and transaction costs. Organisations may help in regulating economic activities where market regulation remains unsatisfactory. Institutions and organisations become basic elements of economic efficiency. However, the public-choice theory has demonstrated that cost-profit calculation of agents and rent-seeking strategies anticipated institutional or state regulation limit the interest of institutional analyses. Joining neo-classical developments with opposition to the state in public-choice theory has provided the theoretical base for a new representation and intervention background for international agencies.

PROPOSED REMEDY OR 'WASHINGTON CONSENSUS'

Privatisation rests upon the same logic as liberalisation and pursues the same goal of improved efficiency. Indeed, standard economic analysis argues that trade liberalisation (and along with it, privatisation), even if it only concerns the unilateral opening of markets, benefits a country. Expected gains from privatisation/liberalisation are provided from the increased competition and a reduction of the welfare losses resulting from protection, public monopolies and price distortions. This implies that the freer the market, the more likely the price signal to direct resources toward

3 The five main conditions for a perfect market are (i) the same rationality for each agent (utility maximisation), (ii) agent atomicity (competition), (iii) product homogeneity, (iv) free entry to the market, (v) clarity in information for each agent.

sectors where they are mostly required, and the higher the gains in terms of welfare for an economy[4].

THE OBJECTIVES OF PRIVATISATION IN SAPs

General objectives

The first waves of privatisation in the 1980s focused on efficiency, competitiveness, and growth. They did not deal specifically with state reform: it was believed that liberalisation and down-sizing in themselves would produce a minimal and efficient state. To summarise privatisation goals, we can refer first to Megginson (1999) who recalls the six core objectives behind the Washington consensus (Box 2).

Box 1. Washington consensus on best practices.

- *Fiscal discipline.*
- *Redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary care, primary education and infrastructure*
- *Tax reform (to decrease marginal rates and broaden the tax base)*
- *Interest rate liberalisation*
- *A competitive exchange rate*
- *Trade liberalisation*
- *Privatisation*
- *Deregulation; (in the sense of abolishing barriers to entry and exit)*
- *Secure property rights*

Source: Williamson, 1990.

Box 2. The permanent objectives of privatisation, or Why privatise?

- *To raise new revenue for the state*
- *To promote economic efficiency*
- *To reduce government interference in the economy*
- *To promote wider share-ownership*
- *To provide the opportunity to introduce competition*
- *To develop the national capital market*

Source: W. L. Megginson (1999).

However, the World Bank and the IMF rapidly faced sharp criticisms by NGOs, e.g., Development GAP, 1992, scholars, e.g. Susan George and Sabelli, 1994; Chossudovsky, 1997; Naïm, 2000, and other international organisations such as UNICEF (Cornia *et al.*, 1987) or CNUCED (2000), because the results of SAPs in Sub Saharan Africa were generally considered as disappointing (see next section). Furthermore, changes in the macro-economic context and possible recovery in national accounts did not lead to the adoption of any changes in 'good practices', referring to the recipe-book of the Bretton Woods Institutions. The answer of WB and IMF was to broaden the primary objectives of economic efficiency,

4. 'Private ownership normally raises the efficiency of the privatised enterprise, because of the sharper incentives confronting the managers. It may also have an invigorating effect on competitive firms, as the playing field is levelled (a private firm confronted by a state competitor can never be sure that competitive success will not be nullified by a state bailout of its competitor). Its fiscal impact is normally positive (cash, less subsidies to pay, more taxes to recover). About the only negative effect is the reduction of employment that will happen if the induced increase in output is less than the increase of labour productivity.' (Williamson, 1999).

competitiveness and growth, and to recommend from the end of the 1980s also taking social objectives into account. This was followed by environmental concerns in the early 1990s and by a return to the principal objective of poverty alleviation on the eve of 2000[5].

These 'second-generation' reforms are now set to be implemented in developing countries. 'Consolidating the gains from these [first-generation] reforms often requires institutional building in much more difficult areas, such as developing an independent judiciary, creating independent and effective regulatory agencies, and instilling professionalism in the public sector. Such 'second-generation' reforms are not only much more complex and take much more time – they are also often likely to be opposed by powerful and entrenched interests. This is not to say that such second-generation reforms should be postponed – precisely because they take time to bear fruit, it is important to embark on them as promptly as possible' (World Bank, 2000: 64) (box 3).

Box 3. The Cotonou Agreement (June 2000).

'The February 2000 expiration of the Lomé Convention has provided an ideal opportunity for a thorough review of the future of EU-ACP relations' (EU, 2000). The implementation of the options taken in some articles of the Cotonou agreements could facilitate the progress toward efficient and sustainable liberalisation and privatisation.

Cotonou Agreement takes into account:

– the support to sustainable private sector (Article 21);

– the development of basic social infrastructure and services (Article 25);

– the regional dimension (Article 67);

– the necessity of locally defined and accepted programs of adjustment, (the design of macroeconomic policies and structural adjustment programmes shall reflect the socio-political background and institutional capacity of the concerned countries).

Some issues could be strengthened to avoid the pitfalls of the privatisation process:

– risks of instability with SAP and privatisation : insurance systems relied more on self-help and community solidarity;

– principle of partnership and ownership;

– liberalisation of trade: 'The weakness of the Agreements' provisions for future trade arrangements in their unsuitability and their uneven-handiness of when coupled with the EC's Common Agricultural Policy (CAP)' (Eurostep, 2000).

Scale and scope of privatisation

Since huge differences exist and remain between countries in terms of previous institutional situations, market development or firms' competitiveness, privatisation processes were mainly conducted by donors. They should have been adapted to the situation, but in many cases, only receipts were proposed.

As expressed by Guislain (1997), 'the real challenge of privatisation is not just to sell an enterprise or its shares. It implies also to seize the opportunity to refocus the role of the government and public administration, increase economic efficiency, and adapt an enterprise, a sector, or the economy as a whole to the fast-changing requirements of the international

[5] See ABCD World Bank Conference Proceedings, Paris, 1999. Also see the 1995 World Summit for Social Development, organised by the United Nations in Copenhagen, which fixed priorities for action. One of the commitments agreed on the goal of accelerating the economic, social and human resources development for Africa and the least developed countries. This included, in particular, implementing structural adjustment programs which integrate social development goals, encourage trade and investment, give priority to human resource development, and promote democratic institutions (UN, 1995).

economy. By shifting the emphasis from productive activities to core governmental responsibilities (national defence, security, and justice, etc.), governments can become catalysts, promoters, regulators, and redistributors (of wealth) and thus help to build a 'smarter' state'.

Privatisation can focus on state-owned enterprises. Generally far away from general objectives, SOE have been concerned with privatisation for pragmatic reasons, i.e., non-politically sensitive sectors, transfer of public monopoly to private monopoly linked to lobbies, etc. This may explain the reduced acceptability of this kind of privatisation.

In other cases, privatisation was part of a more global process of economic liberalisation. In this perspective, the government has to reconsider the entire structure of the sectors concerned. The objective is to discard the public monopolies and to replace them with a structure that could be more dynamic, competitive and open to the private sector (Guislain, 1997). This is particularly true for the economic sectors facing international competition. Restructuring is important because, as explained by Cornia and Helleiner (1994), consensus has been reached on the necessity of increasing exports and, when possible, efficient import substitution in order to respond to deteriorated international terms of trade and the medium-term prospect of reduced net external resource transfers.

The case of agricultural sector

There was considerable regional variation in agricultural reforms in developing countries, with agricultural pricing being more important in Africa and trade policy more important in the Latin America and the Caribbean (FAO, 1990). Earlier African aspirations to rapid industrialisation, based on resources the from agricultural sector, no longer carry credibility. The importance of non-price factors – notably rural infrastructure, transport, marketing and input distribution systems, as well as credit - is fully recognised by all. The main objectives of the liberalisation of the agricultural sector are to improve producers' incentives and income, to increase production and productivity, and to develop private participation in marketing and export activities (although this has been discussed) while maintaining the country's reputation in international markets as a reliable supplier of quality products for export crops. In general, the programs seek to reduce the government's role in the production, pricing and marketing of agricultural commodities. If we take the case of the prerequisites of the structural adjustment loans (not specifically for the agricultural sector), the major policy areas are:
–agricultural input and output pricing: 'get prices right', e.g., eliminate price-fixing policies to minimise inefficiencies and financial costs of direct price control;
– trade liberalisation: lowering or abolition of tariff and non-tariff trade protections to improve the relative price of exportable commodities and improve the terms of trade between agriculture and the manufacturing sector (manufactured goods generally received higher rates of protection than agricultural tradables);
– institutional reform: transfer of the function of the public institutions involved in agricultural production and marketing to the private sector.

However, agricultural markets possess some characteristics which often make market mechanisms unsatisfactory for the adjustment of supply to demand through prices. Indeed, some studies show (Boussard, 1994) that a free agricultural market can generate chaotic prices unable to provide a clear signal to producers. The reasons are:
– on the supply side, natural and climatic constraints, which make agricultural production risky and its level difficult to anticipate;
– the adjustment of supply to demand not immediate nor automatic. Perennial crops are particularly concerned. Supply shows reduced flexibility while demand has strong inertia or 'rigidity'; both rigidity and inertia magnify price reactions and foster price instability.
–market segmentation for organoleptic and/or socio-cultural reasons. This explains why

substitution between food products can be difficult;
– imperfect information (on prices, quality) is a widespread situation. Agriculture supply is still characterised by a great number of producers while international markets are mainly controlled by oligopsonic firms.

These structural characteristics of agricultural markets explain why improved stability of agricultural prices cannot be obtained through the free market only (Gérard, 1991; Boussard, 1994). Another reason for international agricultural price instability may be financial liberalisation that is likely to direct international capital to futures markets and make prices diverge from their 'fundamental' value. Because of past and costly experiences in various kinds of public regulation (the cost of CAP in Europe, the failure of marketing boards in Africa), new regulation mechanisms need to be experimented with, especially in developing countries.

Assessing the impact of privatisation in developing countries

Assessing the impact of privatisation faces heavy methodological problems. They are more fully developed in annex III, but can be summarised as:
– what to compare? Privatisation is a process that requires time, involving lot of related factors such as exchange rate or tax policies; comparisons with previous situations, or situations in non-privatising countries, or including counterfactual effects can never be made *ceteris paribus*; this makes it very difficult to assess, and explains why there is not 'a' definitive scientific interpretation of privatisation facts;
– lack of data, particularly in some countries where state collapse destroyed data production in the statistical services (Campbell, Bhatia, 1998).

In spite of all the limits in measurement underscored above, the literature concerning the impact of privatisation, even if not scientifically flawless, identifies some trends in the benefits and problems of the privatisation programs. The literature focuses mainly on analyses on the company level and few studies are available on sectorial level (except for natural monopolies in utilities and agriculture).

PACE OF REFORMS

The slow pace (or rate of occurrence) of reform is one of the key questions regarding privatisation in developing countries. The World Bank (1995) sees politics as one of the main reasons for the slow pace of privatisation, i.e., reforms need to be politically acceptable (leaders can obtain political benefits that outweigh political costs, the primary objective being to remain in power), politically feasible (means of retaining support for policy change and withstanding or weakening opposition), and credible (realistic assessment) This idea is also found in Wescott, 1999 and in Cook *et al.*, 1998. Often, packages failed because they did not take into account the resistance of politically powerful groups to changes that reduced their standard of living (Bourguignon *et al.*, 1991).

The question of the pace of reform can also be linked to the fact that the WB's structural adjustment loans have a short disbursement period, usually 1 to 2 years, which causes Bank staff to think in terms of quick and deep reforms rather than gradual reforms. The notion that 'faster is better' may be true for countries in deep economic crisis, but gradual reform may be a more realistic and preferable choice in other cases. Gradualism spreads out the political costs of privatisation and allows for learning between rounds (Ramamurti, 1999).

Many Asian governments have found that a gradualist approach to improving their competitiveness is preferable to 'shock therapy'. The slow pace and specially-tailored sequencing allowed time for adjustments to take place so that there were far more 'winners' than 'losers' (Wescott, 1999). Stiglitz (1998), places the emphasis on sequencing, not only because of social acceptability, but because of pragmatism: 'It may, for instance, be essential to establish a competition and regulatory framework before privatisation; or it may be essential to establish a financial regulatory framework before capital market or financial sector liberalisation'.

REVENUE AND EFFICIENCY

By the early 1990s, it was generally agreed that the widespread adjustment efforts produced mixed outcomes, and, in particular, that success was greater in middle-income than in low-income developing countries (Mosley, Weeks, 1993). Mosley and Weeks conclude for the African case: (a) that net damage occurred when the burden of adjustment fell upon public development investment (infrastructure, health, education, etc.), (b) that trade liberalisation had done more harm than good if unaccompanied by real devaluation because it increased imports without necessarily assisting export performances - and (c) that political instability proved especially negative and had more impact on economic reform than liberalisation in any form; and this political instability could reasonably be attributed to the inappropriate design of SAPs.

In terms of revenue and efficiency at the company level, Bangura (2000) states that the expenditure reduction goal of privatisation has been important in most countries. The WB (in Harsch, 2000) establishes that privatisation has strengthened public finances by reducing the huge subsidies that governments often had to give to loss-making companies and that post privatisation investment, notably in enterprises purchased by foreign investors, tends to be greater than the amount paid to purchase the company.

Megginson (1999) summarises four recent studies together examining over 200 companies privatised in 40 countries, both industrial and developing[6]. For him, they clearly document significant improvements in the operating performance and financial strength of newly privatised firms, even if the empirical evidence on privatisation's effectiveness is still rather limited. Capital investment spending surged after privatisation (see annex III).

In some cases, and especially for the 1980s, the privatisation process has been criticised as impeding, in particular, the efficiency of the privatised firms. The ill-prepared and hasty manner with which many of the early privatisations were carried out contributed to the economic and social unrest that were encountered. 'Donors have exerted pressure to privatise without sufficient information,' the World Bank's 1998 study acknowledged (Harsch, 2000). The most important point emerging from the empirical evidence is the importance of competitive conditions and regulatory policies, as much as ownership, incentives and efficiency seeking (Vickers, Yarrow, 1991).

The constraints of the privatisation process

Privatisation processes in Africa have had disappointing results, lower than expected. These facts can be explained by huge market deficiency, low levels of investments in public goods, and lack of embedment of economic policies in the social and cultural context.

6. One is Boubakri and Cosset, 1998; the other are not cited.

PREVAILING MARKET DEFICIENCIES

Since the mid-1990s, the importance of working consciously to alleviate poverty and to protect and promote human development in adjustment programs, rather than allowing these issues to be derived from more growth-oriented policies is once again agreed upon after more than a decade of being neglected. Renewed consideration of the social impact of privatisation derives from the basic observation that the hypothesis underlying market reform was not fulfilled in the developing countries.

Rigidity of the labour market

Illiteracy and low levels of training of most workers, which are not favourable to workers changing to higher productivity jobs. Ideally, 'job loss in one sector will be offset by job creation in another, and the new jobs will have higher productivity than the old ones. This economic reasoning requires markets to be working well, however, and in many countries, underdevelopment is an inherent reflection of poorly functioning markets. Thus, new jobs are not created, or not created automatically. Moving workers from a low-productivity sector to unemployment does not increase output. A variety of factors contributes to the failure of jobs to be created, from government regulations, to rigidities in labour markets, to lack of access to capital... There are some sectors of the economy where the standard competitive paradigm does not work well even in developed countries, let alone developing countries' (Stiglitz 1999: 4-5).

Weakness of domestic capital markets

Local savings are far from sufficient to finance private activities and public investments. Microfinance institutions may help in collecting savings, and finance short term needs of micro- or medium-sized enterprises, but generally, the intermediation costs make them unable to finance their investments. Banks do so with difficulty. Of course, the argument according to which the origin of the capital does not matter if its injection leads to a better allocation of resources and to an improvement of competitiveness and consumers' satisfaction remains strong. Nonetheless, instability in international financial markets may weaken companies and national economies when a financial crisis occurs, as in Asia, Russia and Brazil in 1997-1998.

Dualism of economy, monetisation, risk aversion, market distortions

In the case of the developing countries, and SSA in particular, Logan and Mengisteab (1989) argue that privatisation is inappropriate as a mechanism of change in SSA, characterised by the absence of market penetration (pre-capitalist segments, traditional segments not dominated by the market, unwillingness of entrepreneurs to expand in the rural sector); the risks of exploitation (privatisation likely to exacerbate inequalities, perpetuating the concentration of resources); market distortions (oligopolistic or monopolistic structure; real demand – defined by ability to pay - inferior to actual demand).

Is a private monopoly better than a pubic one?

Many studies confirm that public corporations are no less efficient than private firms are. Privatisation may perpetuate monopolistic practices. Logan and Mengisteab (1989) also develop the same ideas for the health sector in SSA, as does Tandon for Mexico (1995). In a recent paper with a rather provocative title ('Who will guard the guards themselves?', Stiglitz, 1999-1), by comparing the Russian and Chinese transitions, Stiglitz concludes that if the ideal mix remains the mix of private property and competition: '...competition may be more important than private property [...] it is the absence of competition that creates rents, which so often get diverted to inefficient uses'. Private property can lead to monopolist markets, whereas public property is not incompatible with competition (China, in some sectors today).

SHORTAGE OF PUBLIC GOODS AND ACCUMULATION

The evolution from agrarian societies to industrial ones needs accumulation, enabling technical changes, labour productivity improvement, increase in labour income and, subsequently, the development of a mass production / mass consumption model. Of course, accumulation may be private, but collective accumulation in public goods (laws, security, education, health, culture, infrastructure, price stability, etc.) is indispensable.

Indeed, good public services offer an advantage for national competitiveness. Analysing, in particular, the case of Nigeria, Adejumobi (1999) underscores the risks of the privatisation of natural monopolies: 'when the infrastructure and welfare sectors are privatised and subject to market rules (appropriate pricing and financial returns), the results can be reduced access for those who are not prepared to pay, with severe consequences for the society. Private firms cannot be a panacea in terms of distributive and allocative efficiency in the delivery of social welfare services; by the logic of their objectives, they concentrate only in areas where they can yield a maximum profit. In terms of operational efficiency, it does not appear that private firms are better organised'.

The problem in developing countries is that, despite of number of years since independence, the large private accumulation process has failed, e Except for some elite who generally invest their money in the international financial market rather than the domestic one. Although rent-seeking objectives may explain this situation in some cases, privatisation, the opening national markets to international investors, has recently led national entrepreneurs, e.g., in the Ivory Coast, to sell their assets to international firms, because of unbalanced competition.

Moreover, Bairoch (1995) underlines that history cannot be ignored either. He demonstrates that except for some rare cases, the North drew its economic expansion, production of public goods and increasing of private incomes mainly from protectionist policies. However, the question is how to make national accumulation possible when basic comparative advantages are on selling primary products with low aggregated-value, and when the development of a more efficient economy demands elaborate high-aggregate value goods which are not produced by domestic industries? Without local accumulation for further investments in technologies, can development differences between developed countries and developing countries be reduced? Because of the weakness of domestic markets, as is the basic situation of SSA countries, how can we help to explore possibilities to turn regional agreement (such as UEMOA, etc.) in a true regional market and not just a simple free trade area, or securing the way for foreign direct investments?

THE SOCIAL EMBEDDDENESS OF THE ECONOMY

Moreover, Stiglitz, (1998), underlines the lack of historic context of the main approaches which sustain the privatisation process. Many analyses, starting with Dumont (1966) and followed by many others such as Engelhart (1999) deeply questioned the possibility of setting up *ex nihilo* service-oriented capitalism.

Reducing the objectives of economic policy to an economic point of view may lead to misunderstanding between economists and politicians. Analysing the ten years of transition from the socialist economies towards the market economy, Stiglitz (1999-2) made a fundamental plea against a too narrow view of economic theory: 'I argue that the failures of the transition process in Russia and the former Soviet Union are not just due to sound policies being poorly implemented. I argue that the failures go deeper, to a misunderstanding of the foundations of a market economy, as well as a misunderstanding of the basics of an institutional reform process. For instance, reform models based on conventional neo-classical economics are likely to underestimate the importance of informational problems, including those arising from the problems of corporate governance, of social organisational capital, and of the institutional and legal infrastructure required to make an effective market economy.'

In order to improve the privatisation process, which is necessary at least for structural reasons, solutions adapted to local conditions capacities have to be found. This should deal with funding, legal property status, and rules for fair competition. There is then a possible active role for the state to induce and regulate economic activity. As Stiglitz says, development is more than an optimal allocation of resources. It is cultural change that is assumed by the society as a whole (Stiglitz, 1998). Then, the question is:
– should structural adjustment and privatisation be considered just as tools of a development policy? If they are, in the national context, debate has to exist in order to discuss, define and assume the global challenge of development;
– market and state regulation are both necessary, because of the failures of both. As government regulation is completely embedded in the historical and cultural context, institutions by which regulation is done are generally country-specific, and always evolving. Policy makers have to integrate this context (Hollingsworth, 1997).

An historical review of economic policies shows that the role of the state and the role of the market in economic regulation vary according to the country, period and culture. The actual global phenomenon of privatisation is completely embedded in the very different situations of developed, transition or developing countries. Of course, each process of privatisation has to emerge from national discussion and to be assumed more completely. Nevertheless, at least three questions remain completely open.

In this first chapter, we saw that:
– liberalisation and privatisation come after years of state-led development policies with both successes and failures, coming themselves after market successes and failures in the first decades of twentieth century;
– assets and results of privatisation in developing countries may come in the future, but, up to date, they have mainly failed both in their original objectives (efficiency of companies or sectors, less government but better government) and in other new objectives (poverty alleviation, quality of and access to public services, ecological sustainability, etc.);
– development is embedded in a social, politic and economic context which has to be integrated by policy makers.

Taking into account market failures, social context and history should, in conclusion, help us to build an operational and theoretically sound framework for our analysis. That is the reason why the method we will propose (i) concentrates on facts and (ii) does not simply point out competitiveness indicators, and (iii) places the emphasis on context evaluation, poverty alleviation and sustainability.

This framework will now presented. Due to the short deadlines, we used previously collected data. This explains why all of the criteria have not been applied to the case studies. Of course, it would be possible to do a deeper evaluation of the case studies.

CHAPTER II

FRAMEWORK OF THE ANALYSIS AND APPLICATION TO PRIVATISATION IN THE AGRICULTURAL SECTOR

Different economic contexts, different periods, timetables and scope of privatisation processes in developing countries make arduous the collection of privatisation impacts, and make necessary the definition of a common analytical framework to provide meaningful results and avoid the pitfalls of an untidy shopping list. Based on the previous analysis of the impact of privatisation and the identified limits of the process, we define an operational and theoretical framework for the analysis of privatisation indicators of competitiveness, also emphasising context evaluation, poverty alleviation and sustainability (first section). This framework will be applied to different case studies on commodity-chains and services for agriculture (second section).

An operational framework for analysis

Objective of the method

In order to study the impact of privatisation, the framework of analysis proposed here takes into account the general objectives fixed for privatisation: competitiveness, poverty alleviation sustainability. The general objectives are articulated around a set of specific objectives necessary to reach the broad goal (table I). Some of the specific objectives included may generally be absent from, or not clearly stated, in the definition of the privatisation programs, but in view of the disappointing results of privatisation, we consider them as an essential part of the privatisation agenda to needed overcome the constraints identified in the previous chapter, namely market deficiencies, shortage of public goods and accumulation and lack of social embeddedness. These specific objectives relate then to the specificity of national contexts as well as social and political sustainability.

This framework of analysis should help identify possible sources of the relative inefficiency of privatisation in achieving the wide range of objectives, as well as the factors of success. This framework is applied to a number of African case studies with some comparisons with other countries. In most African economies, agriculture plays a prominent role of and there is specific dependence on exports of a few primary products, for which the commodity chains were formerly often integrated in SOEs or at least under public supervision/management. Due to these economic contexts and also to the experience accumulated by experts in sub-sector analyses, it was decided to focus on agriculture and, more specifically, on the privatisation of commodity-chains (cotton in SSA, rice in Senegal, cocoa in Côte d'Ivoire, Cameroon and Indonesia) and some agricultural services (financial services in West Africa and veterinary services in Central African Republic, Ethiopia and Kenya).

For operational and contractual reasons, the case studies are based on already available data and cannot offer the full range of results on all the specific objectives identified. Further analysis could be conducted in the future, integrating the whole range of indicators.

DEFINITION OF THE FRAMEWORK OF ANALYSIS

The framework adopted is based on the analysis of benefits and problems of privatisation along a commodity-chain approach.

We will define the general objectives (GO) fixed to privatisation and the sets of specific objectives (SO) that should be taken into account to implement an efficient and sustainable process of privatisation. They are presented in table I with the performance criteria used to measure the achievement of the different SO.

▶ GO1 International competitiveness

Privatisation is part of the market-led / outward-looking development promoted by structural adjustment and liberalisation programs to improve growth. The need for competitiveness is the consequence of this main orientation.

Competitiveness means first the development of exports, for which the evaluation criteria is the conquest of new market shares. The traditional attributes of competitiveness are usually: (i) the capacity of the production system to increase the volume of exports or to adapt itself to market opportunities thanks to flexibility, (ii) improvement of quality (to benefit premiums or access to market niches) and, of course, (iii) reduction of production and marketing costs. These three specific objectives are presented in the following SO1, 2 and 3.

However, competitiveness also expresses the ability of the country to attract foreign investments whose contribution to local growth is essential. This attractiveness mostly depends on the quality of the economic and institutional environment regarding public goods, collective goods and services and social capital, for which the quality of governmental policy is critical (SO4). Obviously, the quality of the environment offered by public action also has a direct impact on the performance of producers and firms.

SO1 Increased volume and flexibility

Reducing price distortions, decentralising decision-making, and privatising with the definition of clear property rights, offer farmers incentives to produce and should lead countries to maximise their potential for production. As investment is allocated more efficiently, the potential for increased production also increases. Output, therefore, should grow at the national level. At the sector level (for one particular crop), output should rise for crops benefiting from comparative advantages, by diverting resources from low-productivity uses to high-productivity uses. Output growth is thus only a proxy measure of productivity growth (implying lowered costs and rising market shares) at the micro-level.

However, the best allocation of resources cannot be operational, for efficiency reasons, without flexibility in production. Rigidity in the production process (risks in tapping financial resources, obstacles to accessing competing crops seeds, lack of information) hampers efficiency. Efficiency, in a dynamic perspective, is thus achieved through successive switches to the crops with the best expected returns. Diversification, at both national and farm levels, can be used as a proxy of production flexibility.

SO2 Improved quality

International competitiveness cannot be sustained without products of high and stable or improving quality. Quality changes in response to demand needs improves competitiveness while competition forces producers to bring appropriate quality changes to their products. Quality should be satisfactorily reflected by prices which integrate all existing costs. However, due to incomplete information about the products, quality may sometimes be hidden, and this can hamper trade efficiency.

SO3 Reduced costs

Along with increased volume and improved quality, reducing costs should foster competitiveness on the international market. The expected outcome of privatisation is the reduction of the discrepancy between prices and costs. The removal of taxes and subsidies, i.e., 'price clarity' should provide a meaningful signal or comparative returns on investment in various crops. Consequently, costs fully reflecting prices should lead to a shift in production toward the production of crops where expected profits are the highest. However, farmers may face constraints on transaction costs and risks which can generate inefficiencies and higher costs.

SO4 Conducive Government policy

The liberalisation process has reduced the role of governments in the economy and increased those of the firms. For the governments, foreign investments are crucial to support growth and develop technological transfers. For private firms, in the context of globalisation, the choice of a new location in a foreign country is principally founded on the attractiveness of each national situation, i.e., the different advantages regarding public goods (law, security, etc.), collective goods and services (infrastructures: transport, information networks, efficient capital market, etc.) and human resources (skilled workers).

Nevertheless, these attributes of attractiveness are directly linked to local capacity in co-ordination, promotion of collective action and incentives in dealing with permanent adaptation to the global economic context (incentives to flexibility). They refer to the role of the state in correcting market failures. This statement gives a crucial role to public action and to government policy, which clearly appears, referring to Stopford and Strange (1991), as one of the essential characteristics of competitiveness.

Moreover, this challenge of attractiveness is an imperative for the developing countries because competition is increasing and represents a real risk of marginalisation (Oman 1994).

▸ GO2 Poverty alleviation

Poverty alleviation is one of the main objectives of the second generation of reforms engaged by donors. Basically, price liberalisation (and suppression of taxes) and the greater competition offered by the end of public monopolies has a direct impact on growth and it is widely admitted that poverty alleviation requires growth. However, attention must be paid to five limiting factors inherent to this type of approach to poverty reduction.

Poverty is not an abstract data. In poor families, problems come from lack of income, as well as from non-integration into the monetary market. It is possible to cancel a real increase of incomes by monetising former non-monetised functions such as education or health in Africa. Fighting against poverty means increasing incomes (SO5) but also better quality of and access to public services (SO6), and better income redistribution.

If we accept the idea that development means more than just mass consumption, then we have to evaluate poverty with qualitative indices (Sen, 1999) such as accessibility of social services (health, education, culture), improvements in life style (life expectancy, hygiene, maternal mortality rates, child mortality rates), security, minorities rights, social involvement in city life...

Monetising former non-monetised functions implies a profound change in social organisation. This can lead to social marginalisation of certain classes and to social difficulties by introducing individualistic behaviour which was not part of former social values. These social dynamics have to be understood.

Because of the well-known squeeze effect (input prices soar while output prices decrease due to productivity gains), sustainable increase of agricultural income may lead to greater rural depopulation. It requires social consensus and sustained growth in other economic sectors to induce the rural labour force to go into labour-intensive activities. Whether the poor benefit from agricultural price increases depends on factors which vary from country to country, and, in particular, whether the poor farmers are net food producers or consumers.

SO5 Increase in farmers' income

In developing countries, growth in agricultural incomes is expected to be particularly effective in reducing rural poverty (especially in SSA, where most of the poor are agricultural households) and because of demand spill-overs to local markets in which the non-farm rural poor have a large stake. After decades of inward-oriented models of development where the structure of tariffs and non-tariff barriers, and often the exchange rate, were biased against agriculture, market-oriented reforms that reduce this anti-agriculture bias – and dismantle various forms of state intervention (price supports, input and credit subsidies, support for marketing products) - are being implemented to increase agricultural growth and farmers' income. Increases in farmers' prices and margins can then be expected to rise (World Bank, 2000).

SO6 Provision of social services and infrastructure

With government involvement in economic activity scaled back, markets, not governments, determine prices, output, and the allocation of resources. Government involvement narrows to the provision of public goods such as health, education, infrastructure, security and justice. Contribution of public goods' effective provision to market efficiency has been widely documented and can explain, when the provision of public goods is ineffective, insufficient or unsatisfactory, that market performance is weakened, and, consequently, that the impact of privatisation is altered.

Theoretically, the withdrawal of the government from productive sectors and its involvement in the production of public goods and services would lead to better provision (and relatively greater public expenditures) for health, education, infrastructure, security and justice.

▸ GO3 Sustainability

The traditional conception of sustainability refers to the sustainable use and management of natural resources. The privatisation process is supposed to increase the involvement of players in a patrimonial management of resources. However, the concept of sustainability cannot be so restrictive and must also take into account the economic and political dimensions, as there are no answers to environmental sustainability or poverty alleviation, without consensus on the rules of the game in politics and economics and without government viability.

SO7 Environmental sustainability

The free prices made possible by the privatisation process should lead, in a free and competitive market, to efficiency and environmental sustainability. Nonetheless, because environmental costs are not yet integrated into production costs, a polluter faces no incentive to shift to cleaner production processes. This is notably the case in agriculture. One consequence is that as long as environmental externalities are not integrated into prices, i.e., prices do not reflect all existing costs for society, sustainability might not be achieved through market forces only. Economic policy response then is to implement environmental policies, dedicated to assessing environmental impacts of economic activity and growth, and to correct them through appropriate mechanisms (taxes, quotas, regulation).

SO8 Economic and political sustainability

Political stability is a condition of global sustainability. With the actual organisation of the world into nation-states, it is determined by the quality of the consensus between the different economic and social categories of each territory, which conditions the legitimacy of power. This global consensus always includes antagonism and a fight for political power, but is founded on a minimal acceptance of the rules of the game and on global objectives for public action. This political stability appears as a critical condition for good government management, which determines the quality of public action. Good management requires macro-economic viability, especially regarding the public debt, but it can include a reasoned and temporary recourse to imbalance to reach collective goals.

Table I: Definition of objectives and performance criteria.

Objectives	**Performance indicators**
GO1 INTERNATIONAL COMPETITIVENESS	
- SO1 Increased volume and flexibility	Production increase, market shares, diversification index
- SO2 Improved quality	Qualitative indicator (premiums), production segmentation
- SO3 Reduced costs	Input and factor prices (% changes), raw or net margin, productivity, yield (% change)
- SO4 Conducive government policy	Availability of public and collective goods and services
GO2 Poverty alleviation	
- SO5 Increase in farmers' income	Producer price (fob %), raw or net margin (fob %)
1. Increase in producer prices	Producer price (or margin) change compared with other commodity chain's
2. Increase in producers margin share in the commodity chain	players Price or margin changes (distribution of margin growth among players) Profitability: return on sale, on investment, output, debt
3. Decrease in production costs (input and factor prices)	Input and factor price (% change)
4. Increase in quality (output and input)	Quality of output or input (various index % change).
5. Decrease in credit costs	Interest rate, transaction costs (% change).
- SO6 Provision of social services and infrastructure	Proxy indicators: beds-doctors/inhab., classrooms-teachers/inhab., paved roads (km), etc.
GO3 Sustainability	
- SO7 Environmental sustainability	Pollution indexes (% change),value of yield losses, value of lost resource uses
- SO8 Economic and political sustainability	Qualitative: legitimacy of government, pluralism/diversified debate, rule of law, consensus – Macro-economic viability, debt management

Results

The application of our framework has been done on two bases:
– the first is a general application based on a synthesis of the different case studies (see annex II). Examples were picked to illustrate and explain methodological or empirical results. A summary of findings is given in table III;
– the second is the nearly complete application of the framework to the cotton commodity chain situation, presented in annex I.

For the first application, several case studies on representative commodities and services, in a wide range of situations serve as a basis – or as 'inputs' - for our analysis of the impact of privatisation in developing countries. For all commodities and countries, we have drawn upon the knowledge of experts to answer the basic questions expressed above. First-hand expertise and field knowledge are thus combined with a theoretical framework to provide economically-sound answers to these questions.

INTERNATIONAL COMPETITIVENESS (GO1)

International competitiveness is a basic objective for privatisation. We shall discuss first the impact of privatisation with respect to increases in production volume and flexibility of production. We will then analyse the impact of privatisation on quality, cost reduction and government policies.

Result 1. Unstable output increase and, with exceptions, higher flexibility in production

OBSERVATIONS

Unstable, when not diminishing, output volume changes are reported for some commodities (rice, table II; cotton, figure 1; cocoa, figure 2) but production looks more stable for perennial crops (cocoa). On the contrary, services (financial and veterinary) enjoy greater activity levels after privatisation.

Instability in output growth seems to prevail too for other crops under study like rice in Senegal: after a large production increase (1987 to 93: +95%), production collapsed after total liberalisation (1993 to 96: -55%), and restarted after.

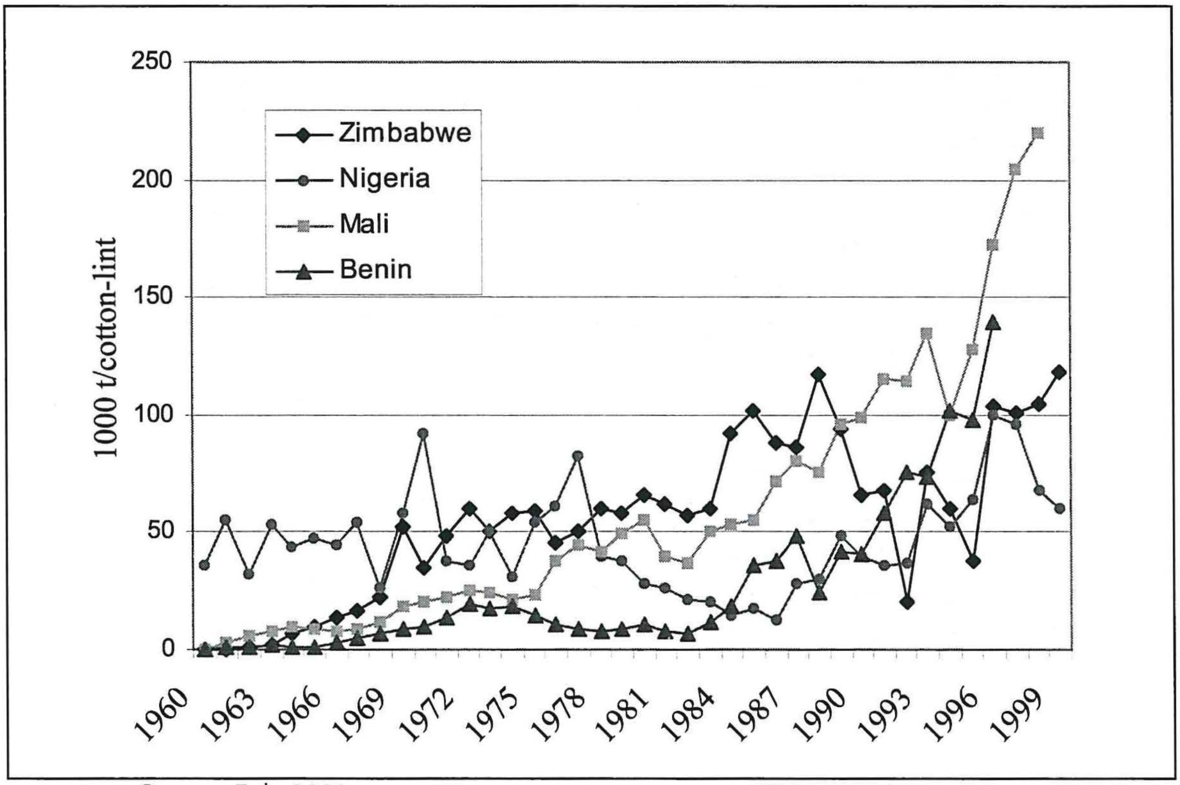
Flexible increase is observed for rice and cocoa, the former for the quality and production structure changes observed, the latter for changes in quality (American market, see above). Moreover, diversification is acknowledged for rice, with an increase of tomato, onion, corn, sorghum cultivated areas in Senegal from about 15-18% of total cultivated area before 1994 to 18-25% afterwards.

For veterinary services, the results are more contradictory: supply of financial services still does not match demand needs (limited supply facing diverse demand / insufficient supply compared with the size of the demand size), whereas supply of veterinary drugs, although effective and efficient in countries studied, rests upon a narrow range of products. For financial services, the increase is far from sufficient, albeit important, since just 5 to 20 % of households are reached.

Table II. Output volume changes, rice.

Rice (Senegal)	1987-1993	1993-1996
Production growth rate	95%	-55%

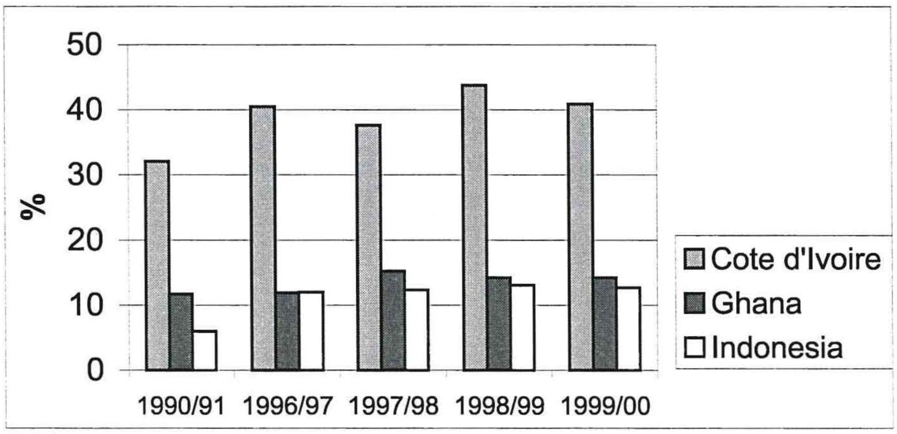
Instability in output growth seems to prevail too for other crops under study like rice in Senegal: after a large production increase (1987 to 93: +95%), production collapsed after total liberalisation (1993 to 96: -55%), and restarted after.



Source: Fok, 2000.

Figure 1. Output volume changes, cotton.

Limited and unstable efficiency gains, notably in privatised-cotton chain countries (i.e., English-speaking countries) have been registered compared with countries where the sector is not yet fully privatised.



Source: ICCO.

Figure 2. World cocoa production, share by country.

Côte d'Ivoire which was under public marketing control increased its share more than Ghana whereas Indonesia's private cocoa sector grew only in the early 1990s.

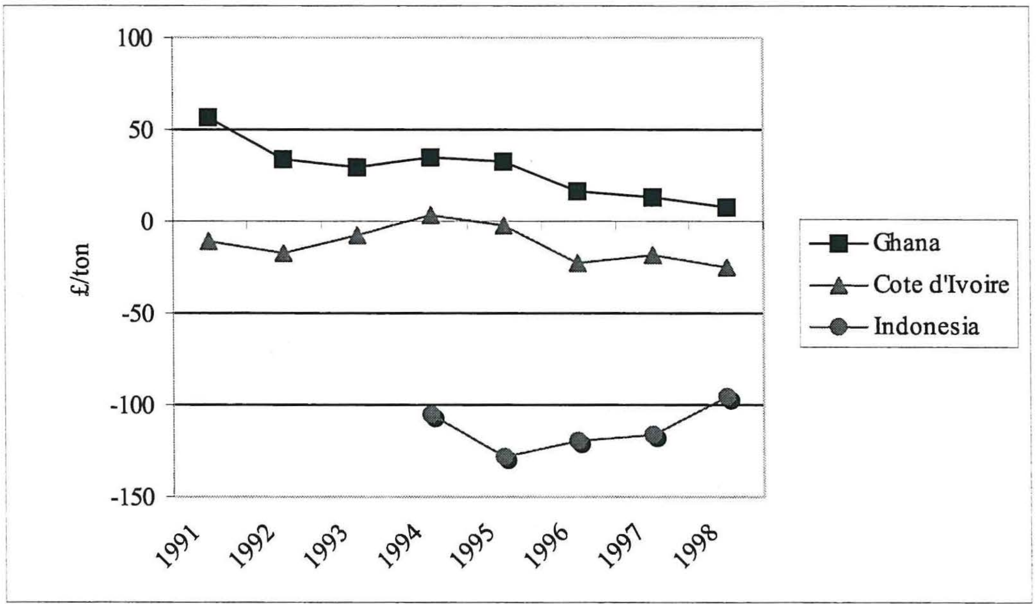
COMMENT

Flexibility in supply response to exogenous shocks (falling world prices) and reduced expected profits on crops formerly protected or supported explains the changing perception of commodities profitable to farmers. This conclusion is, in a way, in line with expected effects of privatisation as long as farmers have a real choice between various crops or activities. However, liberalised sectors have not systematically shown, in the short term, significant improvements in production volume, as was expected. Moreover, the observed instability of volume has negative consequences on investments in the commodity chain. Effects seem to have been magnified by the lack of appropriate institutions to deal with risk. Evaluation of privatisation impact, at the moment, in production volume indicators is rather uncertain, in the context of the developing countries.

Result 2. Higher quality response

OBSERVATIONS

When assessing quality adjustment to demand, rather than quality improvement or decline in absolute terms, market forces seem to lead to the removal of opportunist behaviour and appropriate quality adjustment to demand needs as shown in two cases (cocoa, figure 3) and rice, with the development of a rice-quality strategy among millers, but on narrow markets in Senegal.



Source: Hanak-Freud E. *et al.* (2000).

Figure 3. Premium and discount by origin on London cocoa prices 4th position.

A permanent discount of Indonesian cocoa is explained by the fact that the target is the American market, which wants lower quality. Either for technical reasons, or for adapting to the American market, Indonesian production has a lower quality than Ghanaian or Ivorian production.

A permanent discount of Indonesian cocoa is explained by the fact that the target is the American market, which wants lower quality. Either for technical reasons, or for adapting to the American market, Indonesian production has a lower quality than Ghanaian or Ivorian production.

For livestock, however, the quality of the export products has not been improved, contrary to what was expected (skins and hides in Ethiopia being a good example). There are no quality incentives to induce farmers to treat their animals against skins parasites. In dairy sector, we consider that there is a quality effect and that a competitive advantage has been given to some private farms having high standards of quality including health-care, and which use private veterinarians to achieve such objectives.

Still, the major unexpected result seems to be found in the case of cotton. Although there is no single trend in the evolution of the international appreciation of cotton lint among the SSA countries analysed, the possibility of international depreciation seems to be widely shared by SSA countries according to experts. Indeed, stabilisation is observed in Zimbabwe (after improvement due to public support in the years preceding the privatisation process), whilst depreciation is occurring in Ghana, Nigeria and Tanzania (where cottonseed trade or payment to farmers can be take so long - several months to more than one year - that there is no longer any incentive for farmers to pay attention to cotton quality). In French-speaking countries, there is an effective classifying system and no quality depreciation has been reported to date. In Cote d'Ivoire, a new system of credit leads to an improve quality of cocoa (box 4).

Box 4. Unexpected credit / quality cross-effect in the cocoa market in Cote d'Ivoire.

Moreover, the no-credit policy practised by some exporters has had one unexpected impact on cocoa quality and seems to prove that it is possible to have two parallel and neighbouring marketing chains, one for selected cocoa and another for lower quality, in a free market environment. A no-credit policy has an enormous advantage. One can reject the cocoa batches that do not fit one's requirements with no financial loss. This is not the case of exporters who fund large credits to middlemen: if they want to recover their credits, they have to compromise on quality requirements. Otherwise, middlemen send the truck to other exporters. Before liberalisation, this was a traditional complaint from major exporters. There was a sort of crossed free-riding on credit and quality. Finally, during this first year of liberalisation in Côte d'Ivoire, the no-credit strategy of one multinational seems to have reduced this type of free-riding.

COMMENT

Greater flexibility in the farmers' and service providers' response to price or market signals has shifted quality toward demand needs in some important cases (cocoa in Indonesia, rice in Senegal and the livestock dairy sector in Kenya and Ethiopia). However, the weakness of the farmers' bargaining power for such crops (to buy inputs or sell their products to traders) is likely to thwart positive supply response to demand needs in the future by reducing expected income and 'forcing' farmers to develop low quality products.

Result 3. Higher costs due to higher input prices

OBSERVATIONS

Using an accountancy approach, we observed instability in cost values due to strong reliance on (imported) inputs. The best example can be given by the case of rice in Senegal, where fertiliser prices first soared between 1993 and 1997 (+70-80%), as well as herbicide prices (+40-60%), and tillage prices (+20%). The same evolution is noted in Ghana for cotton production (table III). Overall production costs increased after devaluation (1993-94: +32%), then decreased to pre-devaluation levels. As far as productivity is concerned, surveys on evolution of the productivity of labour are scarce in the cotton case, and to our knowledge, the existing ones are related to French-speaking countries. In these countries, added value related to cotton production is stagnating, but cotton acreage per labour unit has increased significantly during the period. Added value per labour unit has thus favourably evolved.

However, because workers might have been working more, changes in labour productivity remain uncertain. This is a matter of controversial debate that needs to be clarified. For cocoa, productivity gains in marketing are observed, along with reduced taxation.

Table III. Evolution of input and output prices in Ghana.

	1985/1986	1986/1987	1991/1992	1996/1997
Fertiliser costs (c/unit)	1 177	2 050	12 900	77 000
Pesticide costs (c/unit)	2 120	3 600	24 300	67 200
Seedcotton prices (c/kg)	25	28	70	220

Source: Poulton, 1999.

Output prices have been multiplied by 9 between 1985 and 1996 (nominal terms), whereas fertiliser prices have been multiplied by 65.

COMMENT

Under the current circumstances of deterioration in technical information provision as well as uncertainty (quality) and higher cost of inputs, land and labour productivity have seldom increased after privatisation started. Along with damaging market failures, the shift toward labour-intensive activity, although efficient in a perspective of allocating factors, has hampered productivity growth and reduced the benefits privatisation might have brought. Particular attention should be paid to the case of cotton, where in some cases inputs are no longer provided (Tanzania) and in some parts of other countries (Zambia, Mozambique), whereas some pre-existing seed production schemes have totally collapsed during the liberalisation process (Nigeria).

Result 4. Lack of conducive government policy

OBSERVATIONS

In most of the case studies, privatisation initially involved substantial problems in the regulation of activities and between economic actors and has highlighted the difficulty of establishing fair competition. In Kenya, for example, the veterinary services sector shows superposition of private and public veterinary services, which still exist but without the same constraint of profitability. The profitability rate of the private veterinarian businesses (generally associated with drug sales) is reduced by the activity of chemists who are directly providing drugs.

Secondly, the growth of international investments allowed by privatisation opportunities and the control of activities by foreign firms have involved an increase of external dependence in many sectors and productive areas. The volatility of foreign investments, only guided by direct profitability, can produce drastic withdrawals with huge local consequences. In Ghana, Benin, Côte d'Ivoire many cotton buyers or ginners have stopped their activity as a consequence of falling world prices. In southern Africa, the multinational Lonrho has invested in the cotton sector in many countries since 1986 but decided to withdraw totally in 1999. Regarding the importance of one sector in the whole economy, the consequence of this phenomenon can be critical. In Côte d'Ivoire, with the privatisation of the cocoa marketing and the suppression of the former protection of local exporters, the entire sector – which weighs dramatically in exports, GNP, employment - is now under the control of a few international firms which are the world giants in the cocoa industry.

COMMENT

There is a real and crucial need for conducive government policies to provide a good market environment, which is indispensable for markets development. Governmental policy must be especially attentive to the promotion of the rules of the game to insure fair competition and to avoid opportunistic behaviour. It can obviously increase the attractiveness for foreign investments but governments must also prevent their excessive volatility by a set of pledges.

POVERTY ALLEVIATION (GO2)

The second objective assigned to the second generation of privatisation is poverty alleviation. We will successively identify some impacts in producer prices, producer margins, input and credit costs, and then the provision of social services.

Result 5. Higher instability of farmers' income

OBSERVATIONS

In the case cotton, privatisation has led to price increases in favour of the cotton growers, at least in the short run (Nigeria). Nonetheless, higher prices do not automatically mean higher incomes, due to increases in input prices (Ghana) (as shown in table previous). Using this income criteria, liberalisation seems to be counter-productive for cotton producers, because 'price co-ordination' in public commodity chains enables an absorption of increased imported input prices (Mali / Burkina Faso). Higher income instability, due to higher price instability, is observed for rice and cocoa (table IV, figure 4, table V).

In the Central African Republic, grouping the purchase of veterinary products at the national level with a national organisation from farmers has led to reduces unit costs. The price of drugs is the same for all farmers throughout the country, regardless of the remoteness of the region.

In west Africa, the new wave of microfinance institutions intends to reduce credits costs (box 5)

COMMENT

In the case of West African countries, an increase in producer prices is observed but could be better explained by CFA franc devaluation than by progressive market liberalisation. Calculating in constant CFA F or in US dollars demonstrates, for example, that prices decreased in real terms for rice producers in Senegal. Liberalisation has led to income instability connected to large price fluctuations in the world market and an increase in input prices.

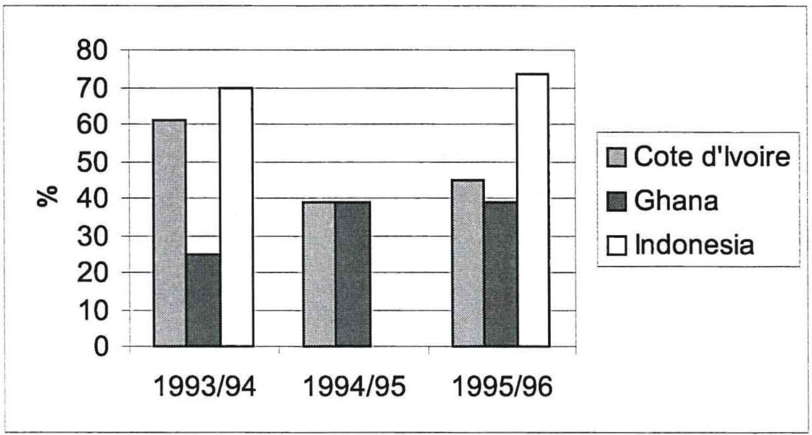
Table IV. ($US) Remuneration per workday on an adult cocoa plantation.

	Producer income		Tenant income*	
	1993/94	1995/96	1993/94	1995/96
Ghana				
Extensive	1.79	3.49	0.60	1.18
Semi-intensive	2.15	4.31	0.76	1.48
Cote d'Ivoire				
Extensive	4.38	3.89	1.47	1.30
Semi-intensive	4.64	4.09	1.68	1.48
Intensive	5.66	4.84	2.37	2.10
Indonesia				
Extensive	7.33	9.16	1.47	1.84
Intensive hillside	5.76	7.45	1.41	1.76
Intensive plains	7.18	9.20	1.67	2.09

* one third of the harvest in Afriqua, one fifth in Sulawesi.

Source: Hanak-Freud *et al.* (2000).

In the three countries, the monetary income from growing cocoa, after deduction of inputs costs, are sufficient for the planter and his family to be paid for their labour at a rate well above the the market salary. In Indonesia, it is possible to earn four to five times more than a daily worker, in Cote d'Ivoire two to three times as much. In Ghana, the advantage of being a planter is more limited, it was almost negligible in 1993/94, a year when the price of cocoa was low.



Source: Hanak-Freud *et al.* (2000).

A more profitable crop in a liberalised market.

Figure 4. Producer prices (% world CIF $US price).

In the three countries, the monetary income from growing cocoa, after deduction of inputs costs, are sufficient for the planter and his family to be paid for their labour at a rate well above the the market salary. In Indonesia, it is possible to earn four to five times more than a daily worker, in Cote d'Ivoire two to three times as much. In Ghana, the advantage of being a planter is more limited, it was almost negligible in 1993/94, a year when the price of cocoa was low.

Table V. Net profit per hectare, excluding amortisation.

	1993/94($)	1995/96($)
Ghana		
Extensive	10	52
Semi-intensive	28	101
Côte d'Ivoire		
Extensive	133	129
Semi-intensive	173	164
Intensive	405	361
Sulawesi		
Extensive	338	431
Intensive hillside	540	732
Intensive plains	960	1,269
Indonésie grandes plantations		
Java	1,095	1,226
Sumatra/kalimantan		1,156

Source: Hanak-Freud *et al.* (2000).

Profits per hectare: a pittance in Ghana, a fortune in Indonesiae. In 1993/94, profits varied from 1 to 100 between Ghana and Indonesia, and, the following year, from 1 to 25.

Box 5. Microfinance and poverty alleviation.

Several impact assessments have proved that it is difficult for the MFI to reach the poor. Short-term loans are preponderant in MFI portfolios It allows the households to smooth their consumption and it is adapted to funding small-scale and short-term rural economic activities (but not investment to increase labour productivity).

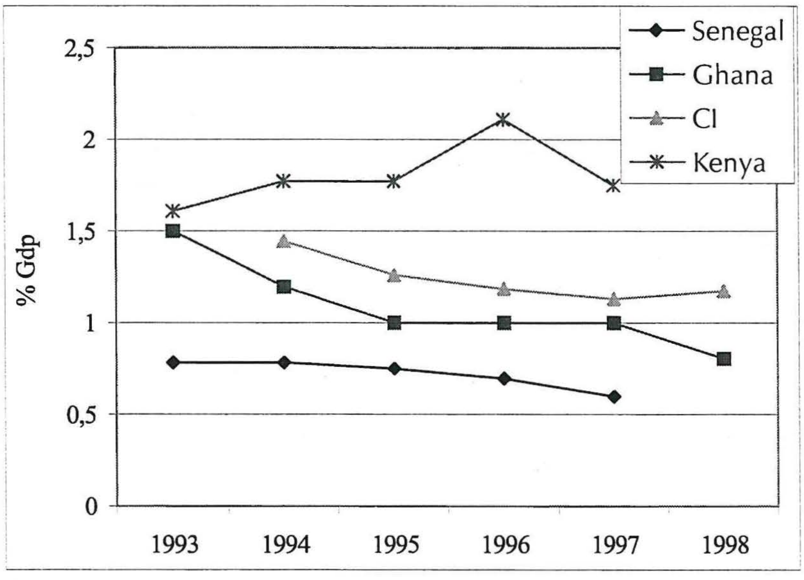
The cost of MFI services decreased compared with traditional lenders. Nonetheless, it remains particularly high in West Africa, because of the high level of transaction costs, the cost of risk and the cost of financial resources. Often, this cost is higher than the previous public subsidised interest rate (thus, regarding impact, it is a loss for the consumer), but it remains lower than the interest rate of local moneylenders (thus, it is a gain for the consumer). However, these high interest rates might exclude a lot of low-profit activities from financing (agricultural, small-scale rural activities whose profitability was depressed by too much competition in too narrow rural markets...

Result 6. monetisation of social services

OBSERVATION

HEALTH

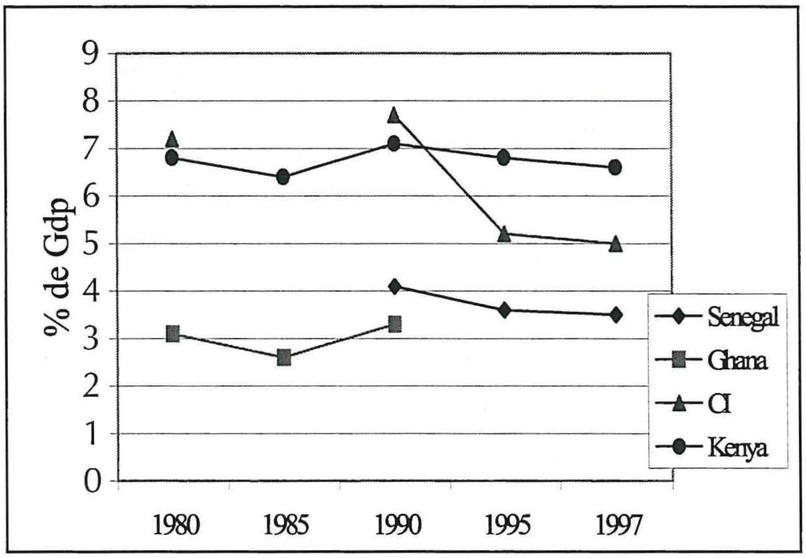
Transport and education provision by the private sector after withdrawal of the state is observed in some specific cases: large-scale industrial plantations in remote areas exploited by large companies (namely rubber and palm estates) can or could deal with that, but they cannot be generalised to food crops. It is worth noting that the global trend is the opposite. The basic observation is that, in spite of the main objective of stable or increased public expenditures in social services, facts demonstrate (WB and IMF reports, 2000) that public expenditures in education decrease, as a % of GNP (see Annex 2, social indicators and figure 5 and 6). Moreover, access to public services has often turned out to be more difficult after privatisation and SAPs were implemented. The perception at the micro-level is thus rather negative: 'government is doing less' simply because farmers now have to pay for social services (like drug provision) they used to access for free.



Source: WB, IMF, UNDP.

Figure 5. Health expenditure, % gdp.

In CAR, withdrawal of the state has led to the creation of co-operative structures that can play a role in the purchase of products, supply, in training of farmers, in providing social services or in the political representation of the farmers at the local and national levels.



Source: WB, IMF, UNDP.

Figure 6. Education expenditure, % gdp

COMMENT

Qualitative information on provision of and access to social services and infrastructure underlines the trend toward 'merchandisation' and 'monetisation' of health. The micro-level perception in a particular sector (you pay now for your health-care) provides an unexpected explanation for privatisation to have turned out to be unpopular on a larger scale: it is simply associated with greater risk, uncertainty and cost.

SUSTAINABILITY (GO3)

The international environmental situation has led policy-makers to be aware of the environmental impact of privatisation. If sustainability is a concept usually linked to the environment, it needs to be understood from an economic and political point of view.

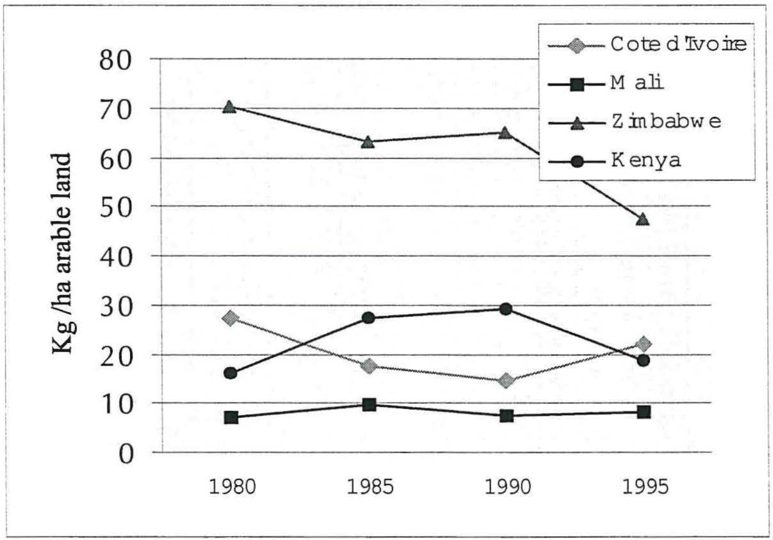
Result 7. Negative environmental impacts

OBSERVATIONS

Negative environmental impacts (see figure 7) are observed for rice. Hydraulic liberalisation in Senegal led to private settlement in irrigated areas. Some years later, because of the low quality of settlement, increased salinity has been identified as a cause of low yields. For cotton production, higher parasitic pressure has been noted in SSA, because of the low quality of the pesticides sold on the market after partial or complete liberalisation. In the veterinary services sector, if prices increase, there is a risk of under-use of veterinary products or use of low quality products found in the parallel market, which may lead to the multiplication of pest resistance (Central African Republic).

COMMENT

Incomplete information about input quality, uncertainty concerning input provisions, when taken together, led to uneven, sporadic and intensive (when available) use of inputs in the case of cotton in West Africa. In the case of rice, opportunistic behaviour, e.g., free-rider behaviour, in the use of irrigation equipment has caused damaging effects to soil in Senegal, combined, in a second phase, with the standard 'negative' impacts of extensification (erosion) after input prices rose. Absence of internalisation of environmental costs (you do not pay for the damage you generate) as well as the absence of sound environmental policies (budget constraints and/or priorities) have not provided the expected mitigating effects on the environment that privatisation and effective public policies should have brought.



Source: UNDP.

Figure 7. Fertilizer consumption (kg / ha arable land).

Result 8. Economic and political sustainability

OBSERVATIONS

The privatisation process can clearly impact on global regulation in one country when some sectors play a critical role.

In the case of Cote d'Ivoire, where the place of the cocoa sector was central, the liberalisation of the price system and the privatisation of the marketing board (the *Caisse de Stabilisation*) has deleted the main tools of political action: the resources taken from the sector were systematically employed to deal with the different internal sources of protest (social and regional). Bad management of the liberalisation program, without taking into account these specificities, and governmental resistance to change and without adapted accompanying measures has led to a real threat in civil peace (see the dramatic conditions of the October 2000 presidential election) with great risks for the future of the country.

COMMENT

To guarantee the success of reforms, the contents of programs must move from a strict outward- to an inward-decision process including negotiation with the different social and regional categories and with the donors. There is a real need for appropriation of economic policy in view to more global development strategy corresponding to the individual challenges each country must meet.

Table VI. Summary of trends and results of privatisation in the agricultural sector.

Objectives	Trend	Privatisation impact
GO1 International competitiveness	= / +	Growth but instability
SO1 Volume, Flexibility	= / +	Unstable output increase and, with exceptions, higher flexibility in production
SO2 Quality	+	Higher quality response
SO3 Costs	- / =	Higher costs due to higher input prices
SO4 Government policy	-	Lack of conducive government policies
GO2 Poverty alleviation	- / =	Uncertain income gain, but higher social costs for households
SO5 Farmers' income	= / +	Higher instability of farmers' income
SO6 Social services	-	Monetisation of social services and increase in households' social expenditures
GO3 Sustainability	-	Negative environmental impact and influence on economic and political stability
SO7 Environment	-	Negative environmental impact
SO8 Economic and political sustainability	-	Economic and political risks

Table VII. Summary of benefits and problems of the privatisation in the agricultural sector.

Objectives	Benefits	Problems
SO1 Volume, Flexibility	Diversification in production	Unstable volumes due to rising risks in production and marketing. Lack of incentives for risk-averse producers
SO2 Quality	Quality adjustment to demand needs in some cases (cocoa, rice)	Deterioration in quality due to imperfect information about products, imperfect competition and reduced expected income for producers (cotton, SSA, livestock Ethiopia)
SO3 Costs	Remove of taxes and subsidies to establish correct prices	Instability in costs when there is strong reliance on (imported) inputs (rice, Senegal)
SO4 Government policy	Opportunity for definition of goals, objectives and means for the different economic sectors	Lack of capabilities Bad practices and rent-seeking Obstacles to changes
SO5 Farmers' income	Increased competition among traders lowering marketing costs (cocoa, Cameroon) Structurating of farmers' organisations (veterinary products, CAR) Development of micro-finance institutions: increased access to micro-finance services. Development of complementary structures for services: farmers' co-operatives and private institutions providing increased access to products (decentralisation, training, low costs and permanent supply)	Instability of private operators' activity Privatisation is not sufficient to improve local prices and producers income
SO6 Social services		Monetisation of health Reduced public expenditures in health and education due to public budget constraints not compensated by the effects of privatisation and SAPs
SO7 Environment		Risks of degradation of soil fertility due to lack of incentives and financial constraints Risks of pest resistance and high parasitic pressure due to increasing costs of pesticides (cotton, SSA, livestock, CAR)
SO8 Economic and political sustainability	Opportunity of sectorial and global debate between different stakeholders	Low viability of reforms when decided from abroad, leading to risks of destabilisation

CHAPTER III

CONCLUSIONS and RECOMMENDATIONS

The privatisation of the public sector is one aspect of the general move towards liberalisation adopted by global economy since the start of the eighties. The analysis of the background, motivations, conditions, and results of the privatisation processes in developing countries, completed with the impact assessment on the agricultural sector, show that they have only partially — and even unequally — achieved its original objectives.

There are considerable differences between national and regional situations, which are linked to economic and social history as well as to the opportunities and constraints of the natural environment. However, the information obtained in the case studies (tables IV and VII) reveals results that enhance impact assessment when the objectives of competition, poverty alleviation, and sustainability are analysed. It suggests that agricultural growth has been both unequal and unstable. The increase in agricultural incomes as a result of price liberalisation has often been reduced by a rise in production costs and purchasing power has been cut back by the increasing monetization of social services (health and education, for example). State withdrawal from different sectors has not improved accountability in terms of environmental costs which are difficult for the market to pick up. This points out the inadequacy of institutions which weakens current political and social compromises, making it difficult to accept new conditional rules — often imposed by emergency structural adjustment plans — and thus creating a barrier to the effective implementation of reforms.

Main lessons to be drawn from the privatisation process in developing countries

Four cross-sectional conclusions can be drawn from the case studies undertaken.

- **1.** Today, in most developing countries, privatisation requires pre-conditions for building competitive, sustainable and poverty alleviating capacities. These are particularly important for ensuring that liberalisation makes a positive contribution to achieving social, development, and environmental goals. The analysis shows that markets can only function smoothly if a set of conditions or hypotheses (called H, hereafter) has been satisfied :

(H)

- Legitimate stakeholders and effective competition
- Solvent demand
- Rules
- Independent and effective regulatory agencies (or effective social control)
- Institutions for risk management
- Labour and capital mobility
- Transparency of and access to information

This point confirms the conclusions drawn in various studies, including the important survey of national studies by UNCTAD (1999).

- **2.** It follows that privatisation should be implemented at the level or scale on which (H) are satisfied. The national level is the most important even if conditions required for a market to function smoothly can be achieved at local, regional or national level.

- **3.** When (H) are not satisfied, which appears to be the situation in the case studies, they have to be implemented gradually through public or collective action (ultimately with financial aid). Progressive establishment of efficient market conditions means that: (i) market development is based on competition (in this way, the private/public status of the means of production should be considered as secondary) and (ii) progressive privatisation allows capacity building in terms of human resources and institutional efficiency.

- **4.** Complementary conditions for capital accumulation and transfer seem to be required in the privatisation process. Since privatisation seeks to improve economic efficiency (through increased productivity), its success seems to be based on local accumulation (which implies investment capacities) and enhance availability of capital, national or international (for investment). Accumulation and capital transfer requires:

  - operational credit and saving institutions
  - regulation of investments
  - monetisation of the economy
  - efficient local governance and legitimate leadership
  - effective supply of public goods

The practical consequences are that:
– the scale and scope of privatisation must be coherent;
– a sequential and iterative approach is adequate for defining the scale and the requirements in terms of constraints and opportunities at each step;
– privatisation processes take time and should be strengthened through capacity building. In addition, they should also be subject to continuous critical analysis and adaptation.

Main recommendations for donors

The Cotonou Agreement of June 2000 places European cooperation in the context of providing support in order to create a favourable economic and institutional environment for private investment (Art. 21) with particular attention given to basic social infrastructure and services in terms of coverage, quality, and access (Art. 25).

In general, donors should adopt an approach that is understanding and not dogmatic.

- Privatisation is not an end in itself but a means of achieving economic and social development objectives chosen by each community. Nonetheless, privatisation effectiveness depends on respecting competitivity rules, the pre-requisite for mobilising efforts.

- Rather than applying 'given' formulas, each situation should be examined individually in terms of opportunities, constraints, and the most appropriate implementation means.

- In a context of global economy the nation is the relevant and political legitimate scale for actions and eventually for state intervention.

- Local control of reforms is a condition for privatisation success. The different parties concerned need to be informed, in order to debate and negotiate to identify common objectives and the appropriate and acceptable means by which they can be achieved.

- When national markets are too narrow, multi-countries regional markets can be created through regional cooperation, allowing business development to achieve the necessary conditions for competition.

More precisely, three areas of action can be put forward concerning aid to enhance a favourable environment, manage risk and anticipate undesired changes.

On a favourable environment for private investment make markets and the state work better:

– provide better market information (prices, quality standards, legal framework);
– build human capacities;
– seek institutional innovations;
– improve market access through increased investment in infrastructure (transport and communication networks);
– build confidence by developing a legal framework for market transactions;
– promote effective governance and state capacity to provide basic social infrastructure and services;
– encourage and facilitate discussion between stakeholders.

- On risk assessment: monitor economic and social development

  – Promote steering committees to help and provide guidance for the reform process and to define the appropriate level of action for states and donors
  – Use the 'market-failure' and/or 'government failure' approach for continuous risk-assessment to avoid undesirable effects, through:
    - regular assessment of insolvency and vulnerability and their location (remote areas);
    - identification of the disruptions affecting infrastructure;
    - identification of market power and rent-seeking activities;
    - evaluation of significant changes in sustainability (social, environmental);
    - assessment of the decline or disruption of collective goods provision;
    - identification of any possible market dysfunction or disruption.

- On the improvement of the implementation process: risk mitigation

  Help to define appropriate responses to potential short- or medium-term difficulties in a timely and effective manner:
    - anticipate the appropriate linkages between public/collective/private activities, on the basis of the the market possible reaction;
    - set priorities for public action to overcome market failures, if any;
    - set priorities for multilateral (goods/services/environment) negotiations, depending on the market strengths and the problems being faced by the private sector.

The Cotonou Agreement emphasises the fact that reform programmes should be defined and accepted locally. This addresses requirement (and the challenge) of capacity building, necessary for any negotiation and definition of sectorial, national, and regional policies. This new European approach to aid for development provides the opportunity to learn from EU experiences in market integration, capacity building and coordination between states and private sector through collective discussions, concerted decision making processes and joint project development.

References

Adejumobi S., Privatization policy and the delivery of social welfare services in Africa: a Nigerian example, *Journal of Social Development in Africa* 14 (2), 1999, p. 87-108.

Bairoch P., *Mythes et paradoxes de l'histoire économique*. La Découverte, Paris, France, 1995.

Bangura Y., *Public sector restructuring,* Occasional Paper 3, UNRISD, Conference Geneva 2000, Geneva, Switzerland, 2000.

Bélières J.-F., Touré E.H.A., *Impact de l'ajustement structurel sur l'agriculture irriguée du delta du Sénégal,* Thèse de doctorat, ENSAM, Montpellier, 1999, 490 p.

Boubakri N. and J.-C. Cosset, The Financial and Operating Performance of Newly Privatized Firms: Evidence from Developing Countries, forthcoming issue of *Journal of Finance*, 1998.

Bouin O., *La privatisation dans les pays en développement : réflexions sur une panacée.* OCDE. Paris ; Bouin, O., Privatisation in developing countries : reflections on a panacea, OECD, Paris, France, 1992.

Bourguignon, F., de Melo, J, Morisson, C., *Poverty and Income distribution during adjustment. Issues and evidence from the OECD project,* Policy research working paper, The World Bank, USA, 1991.

Boussard, J.M. et Gérard, F., Stabilisation des prix et offre agricole. *In* Benoit-Cattin, Griffon et Guillaumont, *Economie des politiques agricoles dans les pays en développement,*. Tome 2, 1994, p. 319-335.

Boyer, R. *Etat, marché et développement : une nouvelle synthèse pour le XXI siècle ?* CEPREMAP, CNRS. EHESS. Discussion paper 9820. Paris, 1999, p.21.

Boyer, R. *La politique à l'ère de la mondialisation et de la finance : le point sur quelques recherches régulationistes.* CEPREMAP, CNRS. EHESS. Discussion paper 9907. Paris, 1999, p. 78.

Campbell White, O., Bhatia, A., *Privatization in Africa. Directions in Development,* The World Bank, Washington, DC. USA, 1998.

Chossudovsky, M., *The globalization of poverty, Impacts of IMF and World Bank reforms,* Zed books, Third World Network, London, UK, 1997.

Cornia, G.A., Helleiner, G.K., (eds.), *From adjustment to development in Africa. Conflict, controversy, convergence, consensus?* St Martin's Press, NY, USA, 1994.

Coussy, J., Economie et politiques de développement. In Coulon, C. et Martin, D.C. (eds). *Les afriques politiques,* La Découverte, Paris, 1991, p. 123-139.

Development GAP (ed.), *The other side of the story: the real impact of WB and IMF structural adjustment programs,* Development Group for Alternative Policies, Washington DC, USA, 1992.

Dumont, R., *L'Afrique Noire est mal partie,* PUF, Paris, 1966.

Engelhard P., L'indispensable renversement des priorités : vers un développment à l'africaine. *Le Monde Diplomatique,* 09/1999, Paris, France.

Eurostep, The New ACP-EU Agreement, An assessment and recommandations for implementation, 2000. http://www.oneworld.org/eurostep/webcot1.htm

FAO, *The state of food and agriculture, World and regional reviews, Structural adjustment and agriculture,* Food and Alimentation Organization of the United Nations, Rome, Italy, 1990.

George, S., Sabelli, F., *Faith and Credit: The World Bank's secular empire,* Penguin books, London, UK, 1994.

Guislain, P., *The Privatization Challenge: A Strategic, Legal and Institutional Analysis of International Experience,* Regional and sectoral studies, The World Bank, Washington, DC, USA, 1997.

Harsch, E, Privatisation shifts gears in Africa, *Africa Recovery online,* vol 14(1), 2000 (www.un.org/ecosocdev/geninfo/afrec/)

Hanak-Freud, H., Petithuguenin, P. et Richard J., *Les champs du cacao,* Cirad Karthala, Paris, 2000.

Logan B. L., Mengisteab, K., The potential impacts of privatization on health care delivery in SSA, *Scandinavian Journal of development alternatives,* vol 8, no 1, 1989, p. 133-152.

Losch, B., Eloge de la distinction. S'intéresser aux intrigues pour comprendre les situations africaines, *Economie et sociétés*. Série Relation economiques internationales, 2000.

Losch, B., Les politiques publiques et les compromis sectriels face à la mondialisation : normes internationales, rôle des firmes et projet national en Afrique. Colloque *Comportement des ménages, dynamiques sociales et politiques publiques,* Abidjan. 11-14 novembre 1998.

Mc Michael, P. *Development and social change. A global perspective,* Pine forge Press. Thousand oaks. London-New Delhi,1996, p. 310.

Megginson,W.L., *The Impact of Privatisation,* Center for International Private Enterprise, 1999.(www.cipe.org/ert/e27/megge27.html).

Mosley, P., Weeks, J., Has recovery begun? Africa's adjustment in the 1980's revisited. *World Development,* vol 21 no 10, 1993, p. 1583-1606.

Naim, M. *Washington consensus or Washington confusion ?* Foreign policy. Spring 2000. Washington DC, 2000.

Poulton, C., Smallholder cotton production in Ghana under market liberalisation: a new institutional economics perspective. Communication presented to Conference *La libéralisation et la privatisation des filières agricoles en Afrique sub-saharienne,* Montpellier, 09/09/1999, CIRAD, Montpellier, France, 16 p.

Ramamurti, R., Why haven't developing countries privatized deeper and faster? *In* R Ramamurti (ed), Privatization revisited, *World development,* vol 27 (1), 1999, p.137-155.

Ruf, F., Indonesia's Position Among Cocoa Producing Countries? *Indonesian Circle,* (61): 21-37, 1993.

Sen, A., *L'économie est une science morale,* La Découverte, Paris, 1999, p.127.

Stiglitz J.E., Market, Market Failures, and Development, *American Economic Review* 79 (2) 1989, p. 197-203.

Stiglitz J.E., *Two Principles for the Next Round, or How to Bring Developing Countries in from the Cold,* Geneva 1999.

Stiglitz, J., Quis Custodiet ipsos custodies, (Who is to guard the guards themselves), Annual World Bank Conference on Development Economics, Paris, June 21-23, 1999, *Challenge,* vol 42, no 6, 1999 p. 26-68.

Stiglitz, J.E. *Towards a new paradigm for development : strategies, policies, and processes* Prebisch lecture at UNCTAD, Geneva,1998.

Stiglitz, *Wither reform ? Ten years of transition* Annual Bank conference on develoment economicsWashington. 28-30 September 1999.

Stopford J., Strange S., *Rival states, rival firms. Competition for world market shares.* Cambridge studies in international relations: 18, Cambridge University Press, Cambridge, 1991, p. 321.

United Nations, International Council on Social Welfare, *The Copenhagen Consensus, A summary of principal commitments of the World Summit for Social Development,* Copenhagen, ICSW, London, UK1995.

Tandon, P. *Welfare effects of privatistion : some evidence from Mexico*' Boston University International Law Journal. vol.13, n°2 (Fall, 1995). p. 329-330.

Vrije Universiteit Effets de la libéralisation dans les sous-secteurs Café-Cacao au Cameroun. Vol 1. (prepared by C. Gilbert, E. Tollens, et al). Vrije Universiteit, Amsterdam. vol 1, 1999, 249 p.

Wescott, C., *Learning to compete: improving the public service in developing Asia*. Workshop on public administration strategy, 10 December, 1999. Hanoi, Vietnam. http://www.adb.org/work/governance/.

Williamson J., *What Washington means by policy reforms.* In Latin american adjustment : how much has happened. Washington DC, USA,. Institute for international economics, 1990.

Williamson J., *Economic reforms : content, progress, prospects,* Washington DC, USA, Institute for International Economics, 1999.

Williamson J., 1999. *What should the bank think about the Washington consensus,* Washington DC, USA, Institute for International Economics.

World Bank, 1981. Accelerated development in SSA, Washington DC, USA (Berg report).

World Bank and UNDP, 1989. *Africa's adjustment and Growth in the 1980's,* WB, UNDP, Washington DC, NY, USA

World Bank, *Bureaucrats in Business: the economics and politics of government ownership,* Oxford University Press, Oxford, UK, 1995.

World Bank, *Attacking Poverty,* World Development Report 2000/2001, The World Bank, Washington DC, USA,

PART TWO – ANNEXES

ANNEX I

PRIVATISATION OF COTTON SECTORS IN SUB-SAHARAN AFRICA

IMPACTS ARE STILL SHORT AND WORRISOME

Introduction

This paper is an attempt to analyse the impacts of the privatisation of cotton sectors in Sub-Saharan Africa (SSA). This region is dominated by a high concentration of developing countries where the issue of privatisation seemed to make more sense in the cotton sectors. As opposed to other geographic regions - in spite of the fact that government intervention is common however developed the concerned countries are and wherever they are situated - government involvement has taken the form of dominant state-controlled cotton agencies in all of the cotton-producing countries in SSA. These agencies were called cotton marketing boards in English-speaking countries and they were established by the end of the 1960's (Ghana, Nigeria, present-day Zimbabwe, etc.).

The privatisation of SSA cotton sectors is a process which began in the mid-1980's and is still ongoing. There are countries where we have enough hindsight from the time privatisation was launched to have some indication of its impacts, whereas this is not the case for many other countries. Thus, it is not easy to assess privatisation impacts from a pool of concerned countries with unequal privatisation backgrounds. There are also countries where privatisation has not yet started, e.g., Mali, Chad, thus, it would be highly risky to incautiously consider the results of these countries as reference guides to assess the impacts of privatisation, since many factors intervene in the performance of the cotton sectors.

The privatisation process has followed various modalities, hence the impacts being observed have more to do with the means of privatisation than the principle of privatisation itself. Furthermore, as privatisation (of firms) has sometimes been conducted along with liberalisation (of the economic sector), it is not easy to distinguish the effects of these two phenomena, which are commonly confused in the current debate in French-speaking SSA countries. Impacts which will be analysed deal with privatisation alone, liberalisation on its own or privatisation within a more or less partial process of liberalisation. For this reason, we will apply the notion of privatisation/liberalisation.

Our analysis will focus on French-speaking countries and non-French-speaking countries (mainly Nigeria, Ghana, Tanzania, Zambia, Uganda and Mozambique). The reservations emerging from some negative impacts that will be pointed out should not be understood as a dismissal of the privatisation/liberalisation principle, but rather as a contribution towards clarifying the conditions that could make this process become successful. It appears that in the short run, some positive impacts can be observed, but they are not necessarily sustainable. There are nevertheless negative impacts which pose serious threats in the long run. Privatisation/liberalisation should be coped with globally, there are activities that could be privatised/liberalised and other ones which could not: overlooking this fundamental difference would lead to the disappearance of some services at the expense of cotton sector competitiveness, farmers' welfare and environmental sustainability. No privatisation processes have been preceded by an analysis of what should or could not be privatised/liberalised. It is not too late to do so, provided that this issue is addressed urgently. The privatisation process must be location-specific, taking into account the social, economic and technical frameworks of each country. There is no panacea but promoting exchanges of experience is a key word to helping each country to figure out the best way to move forward efficiently.

Our contribution begins with the introduction of some specific facts about cotton in Africa in order to familiarise the reader with the cotton business on this continent. The second chapter is devoted to the various modalities of the privatisation/liberalisation, the third chapter is focused on the analysis of impacts. The concluding part emphasises the issues to address in the view to helping cotton sectors become more efficient.

Generalities about African cotton commodity chains prior to privatisation

All the African countries share a similar history of volontarist development of cotton production during colonial times (Hartmann, 1988). We will not dwell on this historical human drama, but this perception has evolved somewhat in certain countries where cotton development is treated as a 'success story' for its positive impact on rural development. Positive impact of cotton production on food security is now well-documented in French-speaking Africa. Similar evidence is also arising in Mozambique (Strasberg, 1997) where such production resumed only less than a decade ago. Furthermore, it is also acknowledged that mineral fertilisation brought into cotton plots provides a positive contribution in decreasing the current mineral imbalance within existing cropping systems. These phenomena should not be generalised, as the adverse effect of cotton production on food crops has been reported in Tanzania, while low input/low output is a dominant strategy of agricultural production which includes the risk of soil mining.

GINNERY AS A HUB OF COTTON ACTIVITIES

Cotton cultivation leads to harvesting seedcotton with cotton fibre (or cotton lint) being attached to the seeds. Mechanical separation of the cotton fibre is implemented in ginning factories (ginneries). This operation is necessary to transform an agricultural product into a tradable commodity. For this reason, the ginning factory is commonly considered as the hub of all cotton production activities: this is the location of convergence of seedcotton, where production inputs (seeds and chemical products) can be placed at the disposal of cotton growers, where cotton lint is stored before being marketed and ginned seeds are available for oil extraction operators. This is the rationale that has led to common vertical integration within SSA cotton sectors with the former cotton boards playing a monopolistic role from seedcotton trade to cotton lint and seed marketing. The sequence of technical stages involved in the cotton production from seed to lint is represented in Diagram 1.

TECHNICAL CONSTRAINT OF PEST MANAGEMENT

A second common feature of cotton production is related to plant susceptibility to pests, and, in particular, to insects. This feature has been acknowledged since the early decades of this century, leading some outside observers to classify cotton as an impossible crop (Michotte, 1926). This susceptibility encompasses the risk of abuse in using chemical pesticides, a risk that was expressed eventually in some countries, with numbers of chemical applications reaching 20 to 30 for one cycle (the case of Central America in the 1970s, where cotton production has subsequently collapsed), whereas the number has seldom gone beyond an average of four in SSA. Nevertheless, continuation of cotton production has to deal with pest management in most countries; this is a constraint which demands precise technical methods as well as favourable production framework for their implementation.

COTTON PRODUCTION: A SMALLHOLDER'S BUSINESS

Cotton production is mainly conducted by smallholders in SSA countries. Except some eastern and austral African countries, this production is conducted exclusively on small farm holdings averaging a total of 5 hectares, among which no more than 30% is devoted to cotton cropping. Where cotton production on commercial farms exists, as in Zimbabwe, South Africa or Mozambique, smallholders' production represents an increasingly dominant part of total production. This attachment to cotton production derives from the cash advantages this production provides: in Mali, surveys reveals that cotton now accounts for 60 to 70% of the farmers' total income.

VARIABLE RELIANCE ON THE SUPPLY RESPONSE TO PRICES ALONE

A previous study (Lele, *et al.*, 1989) has distinguished roughly two types of cotton development strategies in SSA, extensification (low input/low output) opposed to intensification[7], or English-speaking *versus* French-speaking models. We would not debate the relevance of this fine distinction, the main message to retain is the attempt to go beyond price factors and to place the emphasis on the impacts of non-price factors that could made implementation of intensive production techniques available and attractive. Another lesson to point out is variable reliance on the supply response to prices: in English-speaking cotton countries, price is thought to be sufficient to push production upward, while in French-speaking countries there is at least an implicit assumption that price is only one factor among others in promoting cotton production. As privatisation/liberalisation is often justified by positive impact on the price being paid to cotton growers, the clarification given above helps us to understand that this process is built upon great reliance on supply response to prices.

GENERALLY LITTLE COTTON/TEXTILE INTEGRATION

A final point is pertinent to the variable, but generally small, extent of vertical integration between cotton production and the textile industry, as this phenomenon may have an influence on the impacts of the privatisation of the cotton sectors. Except for Nigeria and, to a lesser extent, South Africa, the national industrial demand for cotton lint is small compared to production levels in most SSA cotton countries, making these latter totally dependant on the world market. In Nigeria and South Africa, where cotton production is below domestic demands, policy on cotton production (like privatisation) interacts with the concern of securing provisions of raw material for national industries and with macroeconomic measures of exchange rate policies and import restrictions. Mozambique is an example of a country having significant textile industry potential with large-scale investment being set years ago and which is suffering from severe underuse, as a consequence of current policy which overlooks the textile industry (Fok, 1995).

7 The intensification path being followed is assessed to be a factor to compensate lack of comparative advantage: "...and that cotton in Francophone countries is at least as efficient a producer of foregin exchange as in Nigeria even though the Francophone countries have been heavy users of imported technology, with all DRC's being less than one)' (Lele *et al.*, 1989, p. 20).

Privatisation/liberalisation under variable processes

SIMILAR RATIONALE FOR MOVING OUT OF PARASTATALS

As pointed out above, cotton production in SSA was under the direct control of state-owned agencies or companies endowed with monopolistic power in the implementation of various functions (seedcotton purchase, input provision, ginning, marketing of cotton lint, etc.). Economic sector studies that preceded Structural Adjustment Policy (SAP) implementation demonstrated the management limitations of parastatals in SSA from the end of the 1970s onwards; the financial burden represented by the continuation of direct state involvement in many economic sectors was emphasised. Phasing out the cotton parastatals, along with others, was then put on the agenda in the SSA countries that committed themselves to SAP. Selling out the assets belonging thus far to the public sector was the strict expression of privatisation understood as a phenomenon of transferring property rights to private operators.

A CONTINUING PROCESS SPREAD OVER NEARLY TWO DECADES

The process took place by mid-1980s although it had been prepared since the end of the 1970s. In Zambia, the National Agricultural Marketing Board gave birth to LINTCO which remains state-owned but with an enterprise-minded objective. Most of the cotton boards were actually abolished in the 1980s (Nigeria and Ghana in 1986) but this phenomenon lasted until the mid-1990s (Uganda in 1994, Zambia in 1995).

Privatisation undoubtedly started in English-speaking countries. This process was completed by mid-1990s but it took a decade to accomplish. The phenomenon then gradually spread to other countries. It was also gradual in terms of the extent of privatisation within a given country.

Privatisation only started in French-speaking SSA countries from the mid-1990s onwards, and this phenomenon is not yet completed, either in terms of the countries actually involved or in terms of the functions being privatised. In Benin, private investors were permitted, from 1994 onwards, to set up their ginning factories, operating along with and in connection with the state-owned cotton company (SONAPRA). In Côte d'Ivoire, the CIDT joint venture (with the French CFDT) was split into three companies by selling off a great part of the ginning assets; each company was ensured of the monopolistic right of transforming the cotton production within a delimited area. Two companies were set up with international funds coming from cotton brokers. The government remained in the third company during a transitional period before recently selling its shares to a federation of cotton farmers' co-operatives. The withdrawal of the government in favour of farmers' institutions was also decided in Senegal and Burkina Faso in 1999. Mali, which has been the main producing country, is considering moving in the same direction. Privatisation of state-controlled cotton companies in Chad and Cameroon is on the agenda, although the modalities have not yet been defined.

It is worthwhile to point out that a strong reluctance (Fok, 1995) to privatisation/liberalisation has been, and still is, expressed in these countries, giving rise to a passionate and polemic debate[8] while such reluctance has not been publicly reported in English-speaking countries. Several factors could help understand this divergence. One important point is that privatisation took place in English-speaking countries when cotton production was collapsing and when people perceived the need for an institutional change. On the contrary, pressure for French-speaking countries to get involved into a privatisation/liberalisation process took place when cotton production was increasing, which led to a perception of dogmatism (Zolty, 1997).

8. It is through this debate that confusion was introduced between privatisation and liberalisation.

A WIDE RANGE OF MODALITIES AND PHASING OF IMPLEMENTATION

Heterogeneous modalities in non-French-speaking SSA countries

Privatisation did not only take the shape of selling out public companies to private investors. In Zambia, since 1986, private traders have had the right to set up their own ginning factories along with existing public ones. In Tanzania, there was a complicated sequence of measures corresponding to the phasing out of government involvement. In 1984, the monopolistic power of the Tanzanian Cotton Marketing Board was limited to the selling of cotton lint and cotton seeds on domestic and international markets. Until 1994, this Board was in charge of the seedcotton trade, at the village level, along with five co-operatives. A new organisation took over after that date: the Tanzanian Cotton Lint and Seed Board, whose functions were restrained to co-ordination of the cotton sector and to delivering licences authorising the purchase of farmers' seedcotton production. The facilitation role of the Cotton Board is even more conspicuous in South Africa as its main tasks have become to conduct price negotiations between the cotton sector stakeholders (communal and commercial producers, ginners, textile industries, etc.) and the supervision of the dispatching of the national production among the textile companies. In Zimbabwe, privatisation started as a coexistence between publicly- and privately-owned companies. The Zimbabwe Cotton Corporation was abolished in 1994 and gave birth to a government-owned company called the Cotton Company of Zimbabwe, while a totally privately-owned company was allowed to be set up (Cotpro). Another private involvement was realised in 1996 with the entrance of Cargill. Total privatisation was achieved by the end of 1996 when the government sold the majority of its share in the Cotton Company of Zimbabwe to communal farmers, commercial farmers, national investment trusts, institutional investors, the company's employees and the general public. In Mozambique, even before the end of the civil turmoil, the government decided to favour private involvement in the cotton sectors. This led to the establishment of joint ventures with international investors (Lonrho) or national ones, with the specific feature of allowing a delimited zone for each joint venture to implement its regional monopolistic right of purchasing farmers' production. In Nigeria, the abolition of the Cotton Board was decided along with a strong currency devaluation accompanied by import restrictions: this obliged the textile firms to address themselves to national production and to try to get involved in upstream integration (through direct production or contract farming) in order to secure their provision of raw material.

Partial, progressive and selective privatisation in French-speaking

SSA COUNTRIES

As indicated above, privatisation has been relatively recent, over a period of five years at the most. Referring to the privatisation of ginning activities, which is the common focus of cotton sector privatisation in SSA, recent experiences relate to a specific type of privatisation opening the cotton companies' capitals to farmers' institutions (Senegal, Burkina Faso). In such cases, the government does not withdrawal totally from direct control of the cotton sectors, leading some observers to contest the reality of privatisation. Entrance of real private firms only occurs in Côte d'Ivoire and in Benin, although some basic differences still remain. In Côte d'Ivoire, there is no government participation in the capital of the two private companies which were set up in 1997. In Benin, there is indirect government participation in the private ginning companies through the state-owned SONAPRA. It is noteworthy to underline the international status of the private investors in Côte d'Ivoire (international cotton brokers), whilst in Benin mainly national investors are concerned.

Apart from the sensitive issue of privatising cotton ginning, some activities related to cotton production have been submitted to privatisation. This is the case of chemical input provision. In Benin, it is claimed that such privatisation has been achieved since 1993/94 as distribution of these inputs (fertilisers, pesticides) is ensured by domestic traders. It could be questioned that this actually represents real privatisation as the traders who obtain a certain allowance to provide in a predetermined area, at a pre-agreed price, do not run any risk. In Mali, an experiment involving the transfer of input provision to the private sector was conducted in 1995 but was limited to herbicides, which were considered as a less essential input than fertilisers and insecticides.

Privatisation of transportation of cotton products (seedcotton and cotton lint) has been current in all the French-speaking SSA countries for many years. This is a phenomenon that dates back to the beginning of 1980. However, it is not total as all the cotton companies in these countries feel the need to have some degree of autonomy in the crucial activity of transportation in order to prevent total dependence upon a third-party operator. Transfer of the credit function out of the cotton companies has taken place gradually over around 15 years in most French-speaking countries. Nowadays, most cotton companies only play an intermediate role[9] between villages and conventional financial institutions. More original is the process leading to a certain extent of research privatisation in Côte d'Ivoire where the CNRA is a shareholding body, not exclusively controlled by the government. As a matter of fact, a federation of farmers' co-operatives has taken part in this new research institution.

FEW EXPLICIT OBJECTIVES ATTACHED TO THE PRIVATISATION PROCESS

With regard to the privatisation process in English-speaking SSA countries, it took place during a period when the inefficiencies of the parastatals were being criticised. The implicit assumption was that transfer of responsibility for management to private traders would encourage gains in performance and would alleviate a financial burden on the government. Indicators of performance gain were seldom specified, but one can assume that the main criterion was based on the production volume as such production was collapsing.

Referring to the debate over the performance of state-controlled monopolistic cotton companies in French-speaking SSA countries, there is a confusion between privatisation of existing firms and liberalisation of an economic sector. International funding bodies which have questioned these companies' performances from the beginning of the 1990s are somewhat responsible for this confusion. The World Bank's precise preference for a liberalised cotton sector comes out of rather recent study reports (Pursell and Diop, 1998 ; Varangis *et al.*, 1995). It is expected that such liberalisation would favour cotton growers' income, in compliance with the goal of poverty alleviation, as a consequence of the competition between private ginning factories. Payment of higher prices to farmers is assumed to push them to produce more. Better cost control, through private management of cotton companies, in addition to ending subsidies to the oil and textile industries (assumed to be at the expense of cotton producers) is expected to lead to greater competitiveness in selling cotton lint in the international market. The issue of achieving or maintaining a satisfactory level of lint quality as a factor of competitiveness is seldom addressed. There is some concern about preserving the achievements obtained thus far in the area of pest control, in compliance with the goal of environmental sustainability. How this could be obtained under a liberalised cotton sector is not clearly indicated.

With regard to the objective of cotton sector liberalisation, most English-speaking SSA countries have achieved the goal of a liberalised sector, at least in appearance (Ghana, Nigeria, Zambia,

9. In Mali, after the inputs are provided at the village level, the cotton company is paid by the BNDA (*Banque Nationale de Développement Agricole*) which in return gets back its money during the seedcotton trading period when it has to pay the villages for the cotton production they have sold.

Zimbabwe, Tanzania). On the contrary, in French-speaking SSA countries, the free market is not operational, even in countries where there are functioning private cotton companies. Monopolies, either national or regional ones, still prevail and the purchase price of seedcotton remains administratively set.

UNEQUAL BUT RATHER SHORT PERIOD OF RETROSPECTION

FOR A PROPER ASSESSMENT OF PRIVATISATION/LIBERALISATION IMPACTS

Total privatisation took time before becoming operational in most SSA cotton countries. Only in Nigeria did privatisation occur as an instantaneous and total transfer of public assets to private traders. This provides a background of around 15 years which has been used in a few academic works. This was also a process of instantaneous liberalisation through government withdrawal from most of the cotton issues. In Ghana, although government withdrawal was neither total nor instantaneous, we have a similar background period, which is more documented. In other countries, total privatisation remains a recent phenomenon. Thus, we have varying periods available to assess the impacts of privatisation.

Proper assessment is complicated further by the confusion that has been introduced between privatisation of firms and liberalisation of cotton sectors. As international funders are referring more and more to the general goals of poverty alleviation, international competitiveness and environmental sustainability, we are trying to assess the impacts of the privatisation process we are analysing with reference to some indicators associated with these goals.

Impacts of privatisation

REGARDING INTERNATIONAL COMPETITIVENESS

Production indicator: Heterogeneous supply response to privatisation

Cotton production (figure 1) has clearly been increased in some countries but not in all, whilst the extent of the increase is variable. In Ghana, where privatisation has a longer background, cotton production has actually increased very significantly, but its level (around 12,000 tons of lint) is lagging far behind Benin (which is a smaller country) or Mali (which has reached more than 200,000 tons of lint). Zambia has shown spectacular cotton development during the past few years, with a production level that is beginning to be significant (30 to 40,000 tons of lint). Similar observations can be made in Mozambique for a longer period (lint production of around 30,000 tons in 1998) but here privatisation was implemented under a scheme of regional monopoly allowance.

With a similar privatisation background, Nigeria experienced an increase in production during the first ten years following the cotton sector privatisation, but this production is falling again in spite of the favourable situation of high domestic demand. Uganda is facing signs of a new decline in production after a short period of renewal with production levels (20,000 tons in 1997) remaining very far below the record productions obtained in the beginning of the 1970s (85,000 tons).

Total liberalisation achieved by the end of 1996 in Zimbabwe has not led to a clear change in production volume. Tanzania is particular in the fact that gradual privatisation in recent years has led to a sharp decline in production, with production being divided by three (45,000 tons in 1997 against 106,000 tons in 1992). As compared to French-speaking SSA countries where liberalisation has not yet taken place, whether there has been some privatisation (Benin, 141,000 tons in 1996) or not (Mali, 220,000 tons in 1998), production increases in the English-speaking countries examined above appear to be limited and more unstable. In other terms, privatisation may lead to cotton production moving upward in some circumstances, but this is not the only way to reach such a target or to do it most efficiently.

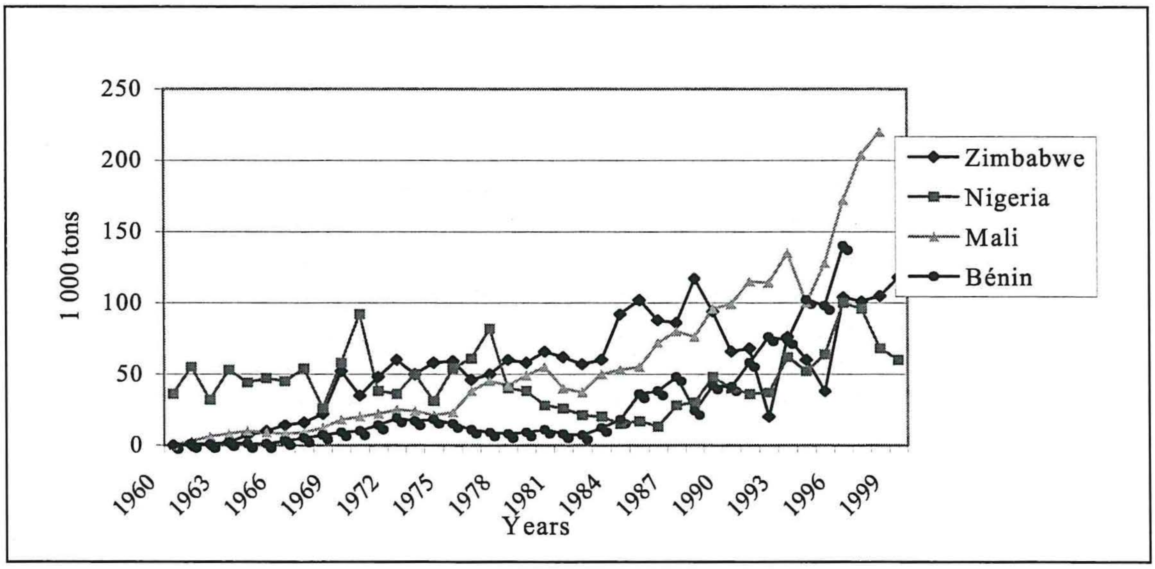


Figure 1. Evolution of cotton lint production.

Quality indicator: risk of international depreciation

There is no single trend in the evolution of the international appreciation of the cotton lint between the various SSA countries under examination. Zimbabwe achieved very positive appreciation of its cotton lint quality well before the complete privatisation of its cotton sector. This appreciation does not seem to have evolved negatively since then. The cotton classifying system remains cited as a reference to be followed in Africa. Furthermore, international quotation of Zimbabwean cotton lint has been limited only to fibre lengths greater than 1'1/8 from 1998 onwards[10]. It is however difficult to link this achievement to the complete privatisation process which remains too close in time.

On the contrary, in countries where privatisation has a longer background, depreciating quality has been observed with nobody in charge of the classifying task (Ghana, Nigeria). In Nigeria, ginners under competition are more moved by the amount of seedcotton they can buy and any deterioration in seedcotton quality is feared to impact negatively on this amount. In Tanzania, seedcotton trade or payment to farmers can be delayed for so long (from several months to more than one year) that there is no longer any incentive for farmers to pay any attention to the cotton quality in spite of existing modern equipment (HVI or High Volume Instrument), which is no longer running properly.

In all of the French-speaking SSA countries, there is an effective classifying system and no quality depreciation has actually been reported. There are certain reservations concerning affiliation to conventional and manual classifying systems, whereas there is clear evidence that mechanical, high volume and high speed, and multi-criteria classifying will become the new international standards in the near future. There is a challenge to move towards a modern classifying system which most French-speaking countries seem to ignore (Benin is an

10. For countries where there is simultaneous cotation on lint of 1'1/32 and 1'1/8 length, the premium associated to the greater length of 1/32' could be a price gain of 2 to 6% respectively for australian and francophone in average during the last 2 years.

exception in this area with its two recent sets of HVI). It is stated that in Benin around 40% of the production is nowadays classified at a lint length of 1'1/8, this is a significant increase which is associated to the move towards HVI classification.

Productivity indicator: stagnation of land productivity at the most

Surveys to assess the evolution of labour productivity (or its indicators) are scarce, and the existing ones we know of are related to French-speaking countries. In these countries, added-value related to cotton production is stagnating at the surface unit basis after a significant increase due to currency devaluation (Table I). In most countries of francophone Africa, cotton acreage per labour unit has increased significantly at the same time: in Mali, the average cotton area/cotton farm has doubled since 1986 and has induced a significant increase of the added-value per farm (Table II). We can hence assumed that added-value per labour unit has thus evolved favourably. Each labourer could, however, have been working more, so that the progression of added-value per labour-time unit remains uncertain. This is a matter of controversial debate that needs to be clarified by reliable assessment of labour investment.

Yield, as an indicator of land productivity, is often used as a productivity estimate. This indicator is to be taken with serious caution, as its reliability is dependent on an estimation of the cotton acreage. It is common to acknowledge that, under a liberalised system, with no organisation committing itself to handling the production statistics, available data on cotton acreage, and hence cotton yield, are highly unreliable (example of Tanzania).

Table 1 : Evolution of added-value per hectare, FCFA/ha.

Années	Pays		
	Bénin	Cameroun	Mali
1978			37901
1979			32635
1980			50282
1981			29604
1982			48811
1983			54400
1984			71607
1985			66309
1986			73266
1987	111049	165726	81614
1988	55417	133200	72141
1989	57473	155571	74993
1990	72692	77124	64149
1991	80715	79340	76040
1992	93220	89933	70106
1993	90295	80507	76006
1994	97834	131932	74370
1995	104478	148340	94387
1996	136993	170472	144301
1997		157189	134239
1998			120680
1999			133940

Source : G. Raymond and M. Niang, 1992; G. Raymond, 1997, M. Fok, 2000.

Table II. Added-value per farm boosted by increased cotton area, FCFA.

Années	Value-added	
	Per hectare of cotton	Per cotton farm
1978	37901	47957
1979	32635	47296
1980	50282	78930
1981	29604	44076
1982	48811	65846
1983	54400	95170
1984	71607	124816
1985	66309	118595
1986	73266	146495
1987	81614	162682
1988	72141	132800
1989	74993	159310
1990	64149	122892
1991	76040	138110
1992	70106	142344
1993	76006	167591
1994	74370	139574
1995	94387	218181
1996	144301	369071
1997	134239	386234
1998	120680	376183
1999	133940	397535

Source : M. Fok, 2000.

In most French-speaking SSA countries, cotton companies continue to consider handling statistics a major task. Although certain difficulties remain in estimating acreage in these countries, which leads to questioning the reliability of the levels of acreage and, hence, of the yield, one can assume that the evolutionary trend is more reliable, provided that estimation methods remain the same throughout the period under consideration. This trend has been observed to be stagnating, if not decreasing, in spite of maintenance of effective input and credit provision and the continuation of extension work (table III).Input and credit provision, continuation of actual extension work have become virtual in most of the English-speaking countries engaged into a liberalisation process (Nigeria, Tanzania, Zambia). Because of the ethical questions that could lead a farmer to get input credit with one cotton company and to sell his production to another company, input is no longer provided in some countries (Tanzania) or some parts of other countries (Zambia), but also in Mozambique. In Ghana, private cotton companies have collectively decided to directly deduct input costs from the single seedcotton price they propose. Such arrangements seem to prove somewhat effective in controlling free-rider behaviour, but it shows clearly that the competition between private operators that liberalisation is supposed to create is not functioning.

Table III. Trend of yield stagnation in francophone countries.

Années	Bénin	Cameroun	Mali
1987	1291	1295	1338
1988	972	1200	1336
1989	991	1571	1316
1990	1154	1169	1234
1991	1187	1202	1358
1992	1180	1267	1275
1993	1328	1278	1310
1994	1179	1233	1200
1995	1161	1177	1098
1996	1212	1226	1213
1997		1147	1083
1998			1058
1999			1033

Source : G. Raymond and M. Niang, 1992 ; G. Raymond, 1997 ; M. Fok, 2000.

Seeds are the minimum input to provide to cotton farmers. It is reported that the pre-existing seed production scheme has totally crashed since the liberalisation process (Nigeria) was implemented. When pre-existing scheme have been transferred to private companies (as in the case of Lonrho Zambia), there have been complaints about seed prices and quality.

Most private companies, although not all, do not provide any technical assistance to cotton growers. In Nigeria, extension work seems to have totally stopped. In Ghana, extension is often limited to the implementation of mechanical ploughing that farmers request. In Zambia, the private company belonging to Lonrho has set up its own extension staff, while another big private trader seems to ignore such needs.

In the prevailing circumstances of no technical information or input provision through adapted credit, we doubt that yield (land productivity) has ever increased after privatisation began. Productivity remains, at best, unchanged, if individual cotton acreage per labour has not been increased.

Future gain in productivity is not under preparation

Research implementation is assumed, along with the efficient provision of other services, to provide a new margin for productivity gain. Continuation of this implementation, the extent of research activities in connection with allocated funds, are indicators of productivity gain prospects. In this sense, the situation is very alarming in all the English-speaking SSA countries. It is not an exaggeration to state that there is no longer any research implementation in Nigeria since shortly after privatisation took place, as no financing mechanism has been provided. One sign of this worrisome situation can be seen in the total collapse of the seed production system(Chikwendu and Giwa, 1994). The same situation prevails in Tanzania. In Ghana and the Zambia, the research system is practically inactive as a consequence of short financing. In Zimbabwe, research has been resumed in some activities thanks to an externally financed project; the same applies to Mozambique owing to a French-supported project. Recently, Ghana has been targeting establishing a new relationship with CIRAD in order to relaunch its research activities. Zambia is expecting a similar relaunch through a new project to be financed by France.

On the contrary, research on cotton-based cropping systems has remained active in most French-speaking SSA countries. One acknowledged positive output relates to high ginning outturn (percentage of fibre out of seedcotton) which directly induces cost reduction in cotton lint production. This output began in Côte d'Ivoire in the mid-1980s and has now been diffused to all of the French-speaking SSA countries whose average outturn is over 42% against 35-38% in most non-francophone countries in the continent. Another positive impact is related to pest management whose cost has been reduced with equal if not better efficiency. In this area, some French-speaking SSA countries are meeting the challenge of having illiterate farmers cope with pest control adjusted to pest pressure levels, a 50% of reduction in pesticide use is being experienced with unchanged pest control efficiency (Silvie, P., *et al.*, 1998). There are, however, still many challenges ahead. Yield stagnation is harming cotton farmers' income, some pest resistance has occurred, phenomena for which we will not elaborate the underlying factors here. At the same time, adequate research financing is far from being clearly identified. Benin is puzzled by the privatisation process which offsets the existing research financing mechanisms controlled by the state-owned SONAPRA. In Mali, although privatisation has not taken place with the cotton company which contributes a lot in research financing, there are signs that a funding shortfall is responsible for a reduction in research activity.

REGARDING POVERTY ALLEVIATION

Price improvement that requires cautious interpretation

Privatisation has led to a price increase in favour of the cotton growers, at least in the short run. Evidence is provided in the case of Nigeria, but in nominal price and in the local currency, which was severely devaluated along with privatisation; whether farmers have actually become better off remains questionable (Table IV). Referring to the indicator of the ratio comparing purchase price to the world market cotton lint price (but corrected in order to fit with the purchase of seedcotton) is more neutral towards the macroeconomic incidences. In this sense, The World Bank has observed a significant improvement of this ratio in favour of the cotton growers in Zimbabwe[11]. This is a fundamental argument this institution uses to highlight the unfair situation in French-speaking SSA countries where this ratio seems to be far smaller. No similar information is indicated for Uganda which the World Bank also praises for its success in privatisation. No details are given on the way of calculating the above-mentioned ratio[12].

In Ghana, a price increase has been observed as well, but its positive impact on farmers' income is doubtful as input prices have increased even more. It is important to underline that, in spite of the liberalisation of the cotton sector, price competition is no longer observed in this country. There is a clear 'co-ordination' between the cotton companies in collectively fixing a common price to prevent farmers from selling their production to companies other than those from whom they have received soil preparation and chemical products. As an associated effect of this 'price co-ordination', input credit pay back is included in the price fixing. This type of arrangement prevents difficulties in credit reimbursement as experienced earlier, shortly after liberalisation. However, an essential consequence of this mechanism is to totally transfer the increase of input costs to the cotton growers. The case of Ghana clearly demonstrates that liberalisation does not lead automatically to price competition in favour of the cotton producers, as was assumed by the World Bank (table V).

11. This ratio is estimated at 80% in Zimbabwe and 40-50% in francophone countries (Pursell-Diop, 1998).

12. Such details are essential as the calculation of the ratio is a difficult one owing to the fact that there an uncertain delay between the period of seedcotton purchase and the period of fibre selling in the fluctuating international market, the choice of the selling period induces the choice of the international price to retain.

Table IV. Nominal price increase in liberalized cotton countries.

Product paid	Nigeria seedcotton	South Africa lint	Zimbabwe seedcotton
Currency	Neira	SA Rand	Zimb $
1977	0,330		
1978	0,330		
1979	0,330		
1980	0,330		
1981	0,400		
1982	0,465		
1983	0,510		
1984	0,560		0,555
1985	0,700		0,655
1986	0,850	2,900	0,735
1987	1,200	2,950	0,735
1988	2,750	2,800	0,785
1989	3,500	3,500	0,860
1990	4,000	3,550	1,100
1991	5,000	4,720	1,350
1992	5,000	4,720	2,950
1993		4,800	2,950
1994		4,900	4,000
1995		5,120	6,000
1996		6,350	5,700
1997		7,400	5,600

Source : Chilwendu and Giwa ; Republic South Africa, 1997 ; Republic of Zimbabwe, 1997.

Table V. Evolution of input and output prices in Ghana.

	1985/86	1986/87	1991/92	1996/97
Fertilier cost (c/unit)	1175	2050	12900	77000
Pesticide cost (c/unit)	2120	3600	24300	67200
Seedcotton price (c/kg)	25	28	70	220

Source : Poulton, 1999

Adjusted insight from going beyond the price level

DIFFERENTIATED PRICE INCENTIVE OWING TO LIQUIDITY CONSTRAINT

The price level is also a short indicator of its actual incentive effect. Delay in payment of the price promised is an essential factor in the cotton growers' income expectations. Under liquidity constraint, as is the case for most smallholders in developing countries, cotton growers might prefer accepting a lower price but with immediate payment instead of a higher price whose payment could be very much delayed. In Tanzania, it seems that there is still some actual price competition among the ginners (more than 50 ginners were listed in this country in 1998), the price levels also vary throughout the period following the harvest.

However, payment delay can be very long, so that it is hard to conclude, for an individual farmer, whether the price he finally gets corresponds to the highest prices observed in rural markets. Furthermore, there is evidence that supply response to price occurs mainly among farmers who are better off, thus, we can fear that liberalisation has led to differentiated effects at the expense of those worst off.

Better indication from income instead of price alone

Basing the impact assessment only on price is debatable. There is research which questions the extent of the supply response to price. In Uganda, no evidence is provided to corroborate such response (Opira Otto, 1997). For other countries, supply elasticity to price has been found to be very variable between countries.

More fundamentally, it is also claimed that farmers produce according to their income expectations for which price is only one among many factors. Comparison of incomes on the basis of surface unit shows that farmers of Zimbabwe are not in so much better a situation than those of Côte d'Ivoire in spite of the far more favourable price ratio the World Bank has calculated (Freud, C., 1999). This is the result of taking into account yield levels that favourable input provision conditions and actual technical information provision help to reach (table VI).

The possible incentive of income is sustained by some facts derived from surveys implemented in Mali (Fok, *et al.,* 1999). On the basis of net income per hectare (only after deduction of input costs under a low capital production scheme), cotton ranks among the most attractive crops (rice gives better results, but can only be cultivated in limited areas and not in every village). However, cotton is far more favourable on the basis of the farm unit as secured marketing pushes farmers to grow more cotton without any constraints in soil adaptation.

Table VI. Higher income in spite of lower price in Côte d'Ivoire compared to Zimbabwe.

	Côte d'ivoire		Zimbabwe	
	1993	1996	1993	1996
Gross purchase price, seedcotton (FF/kg)	1,80	1,85	2,70	2,75
Cost of chemicals per kg of seedcotton	1,05	0,72	0,78	0,78
Gross margin per kg seedcotton	0,75	1,13	1,92	1,97
seed cost			0,09	0,09
Transportation cost to buying centres			0,03	0,03
Net margin per kg seedcotton	0,75	1,13	1,80	1,85
Subsidy to chemicals	0,30			
Net purchase price, seedcotton	2,10	1,85	2,58	2,63
seedcotton yield, kg/ha	1168	1200	600	600
Gross income	2453	2220	1548	1578
Added value	876	1356	1080	1110

Source : C. Freud, 1999.

Scarce indicators of improved welfare related to privatisation

We have no knowledge of direct and specific studies analysing the social impacts of cotton sector privatisation in non-French-speaking SSA countries. Existing studies do not show any improvement, whereas we have underlined some concern for farmers in the worst situations.

In spite of plentiful statistic data in French-speaking SSA countries, there is little attention paid to social indicators to assess improvements in farmers' welfare. The very positive development of ox-drawn agriculture in Mali, figures about the very significant cattle increase (a means of capitalisation in many SSA countries) in Mali and also in other countries, nevertheless, to a lower extent, are indicators that cotton production in non-privatised or non-liberalised countries may lead to some positive developments(CMDT, 1991; 1992). However, obvious material equipment accumulation is visible in many cotton areas in these countries as opposed to non-growing ones. In Mali, many farmers are travelling on motorcycles whilst during the 1980s, entry level extensionists were only equipped with bicycles: it was a matter of debate within the cotton company to analyse whether such a differentiation was acceptable for a fair relationship between farmers and extensionists (meanwhile, extensionists have been provided with upgraded transportation equipment).

The impact of cotton production on food security is also better documented in French-speaking SSA countries. There is evidence that food security is better ensured by cotton growers as opposed to non-growing ones (Raymond and Fok, 1994). In spite of producing cotton, cotton growers are producing at least as much food as non-cotton growers. However, as non-cotton growers have to sell part of their food to meet their cash needs, actual food availability for their own consumption is far lower than cotton-growers whose cotton production provides them secure cash (table VII; table VIII).

Such results are being confirmed in Northern Mozambique where cotton production resumed less than a decade ago. Our current surveys show that half of the surveyed farmers are now equipped with radios and bicycles, whereas 64% and 75% of non-cotton growers have respectively no bikes or radios, compared to 40% and 45% of the cotton growers. In Mozambique, it is noteworthy to recall that cotton development has thus far been engaged in a privatisation scheme without liberalisation.

Table VII. Food surpplus in cotton zone in 1992.

Farm type	Cotton growing	Non-cotton growing
Advanced ox-draught equipped farms	170	122
Ox-draught equipped farms	156	244
Farms with no or little ox-draught equiped farms	25	67
Average	150	130

Note : food surplus defined after deduction of 250 kg/inhabitant/year.

Source : CMDT, 1992.

Table VIII. Food surplus in cotton zone in 1998.

Farm type	Cotton growing	Non-cotton growing
Advanced ox-draught equipped farms	239	334
Ox-draught equipped farms	230	302
Partially ox-draught equiped farms	51	18
Manual farms	32	-12

Source : M. Fok *et al.*, 1999.

REGARDING SUSTAINABILITY

The issue of sustainability is a complicated one, we refer here to only two of its components: environmental sustainability and the duration of the private operators' involvement.

Preservation of soil resource being further questioned

In developed countries, concern related to chemical fertiliser use is associated with their overuse leading to water pollution; the issue is totally reversed in SSA countries where the average use is estimated at around 5 kg/ha of fertilising elements. This level is far from being sufficient to compensate crop mineral exportations, leading to real soil mining that pushes farmers to abandon cropped lands in favour of new lands at the expense of natural forestry. Wherever the strategy of low input/low output has been followed, chemical fertilisers brought to cotton have had little positive incidence to correct the generally negative situation. In French-speaking SSA countries, we observed that cotton cultivation contributed to increasing chemical fertiliser use, leading to a better mineral input/output balance of the cotton-based systems, although not sufficient to ensure the desired equilibrium(Van der Pol, 1990).

Privatisation or liberalisation has undoubtedly led to making the pre-existing negative situation even worse. This is clearly assessed in English-speaking countries where the use of chemical fertilisers has decreased. Soil mining is being accentuated.

The situation seems to be less alarming in French-speaking SSA countries, where input subsidies have been phased out during the last decade. The increase in fertiliser prices has been relatively offset by seedcotton price improvement, in particular after the CFA devaluation. Although it remains common to observe that farmers are not using fertilisers at the recommended dosages, such use remains very significant and our recent surveys show that farmers in Mali are using fertilisers predominantly on cotton (but also on maize to a lesser extent), and that they are using them rationally in accordance with yield expectations. It also appears that farmers are moving towards higher production and use of cattle manure as a response to fertiliser costs, whilst organic fertilising is more commendable than mineral fertilising as far as soil preservation is concerned.

Harm to environment limited by reduced use of pesticides

Privatisation also impacts on reduced use of pesticides for pest control. This is not a result of greater concern about the dangers of pesticides, but of reduced availability of the needed pesticides. In Ghana, most farmers are not applying pesticides more than twice and there are significant numbers of farmers who are no longer applying any at all. This is a positive result in terms of reduced risk to the environment or public health. The issue is that yield expectation is seriously decreased as no alternative and efficient pest control is available or implemented. Overall, in SSA countries where farmers are far from overusing pesticides, the global impact of reduced pesticide use must be considered as a negative one.

In French-speaking SSA countries, privatisation of input provision has been actually institutionalised in Benin, but in Mali and in other countries, it is hard to say that there is still a monopolistic situation of chemical provision as one can now find such products in rural markets without any control. There have been claims made against the questionable quality of pesticides provided in Benin since privatisation, similar claims are also encountered in other countries. It is hard to state that this is a real issue as, at the same time, it has been scientifically observed that some insects have become less susceptible if not resistant to some pesticides in these countries. Extension of pesticide use, either on cotton which is more widely grown, or on other crops (vegetables during the dry season, for instance) makes it necessary to adapt pest control. Some initiatives are underway, through a regional network composed of several French-speaking SSA countries, to cope with the issue of pest resistance, but more still needs to be done.

Unstable private operators' involvement

Lastly, privatisation requires that the private operators remain in the cotton business for a certain time, but this has not been totally ensured, either in the case of national or international private operators.

In Ghana, there was a significant number of competing private operators attracted by the cotton business. Fourteen were in operation in 1995, but only 12 remained in 1996 as companies collecting only small amounts of seedcotton were forced out of business. In Benin, some of the newly established ginneries are under the threat of being put out of business owing to the recent international cotton price crisis. There is an issue of imbalance between the increased ginning capacity in the country and the production level, some ginneries are then forced into investment underuse.

The situation is not better for international investors. Lonrho's commitment to the cotton business dates from 1986, starting in Zambia. It then extended its activities to South Africa, Mozambique, and had prospects in Uganda before deciding to withdraw totally from the cotton business in 1999. In Zambia, Lonrho has been replaced by Dunavant, a world leader in cotton fibre trade but a newcomer to cotton production in Africa. Who will replace Lonrho in Mozambique remains unknown and there is the threat that the positive production trend will not continue in the Northern province of this country.

In Côte d'Ivoire, some international investors have also shown questionable attitudes during the recent cotton crisis (with the world price down to US $0.44 in February 2000). One private company has decided to postpone the selling of its cotton lint expecting the market to turn around. As the crisis lasted longer than expected, the company faced serious cash flow difficulties that it solved by delaying payment to cotton growers: it has been reported that to date there are still farmers who have not been paid for the cotton they sold more than six months ago.

There is need for research to assess the profitability of private cotton companies. The exit of private operators we are reporting underlines that this profitability is not automatic; unstable involvement of private operators could impede farmers' affiliation to cotton production.

The issues to address

QUESTIONABLE RESULTS FROM PRIVATISATION

There is no way to claim that cotton sector privatisation has reached full success everywhere. In related countries, cotton production has not been increased to the extent implicitly expected, and certainly not on the larger scale that countries with little privatisation in French-speaking SSA have attained.

For the farmers, prices may have reached higher levels but this is a poor if not a wrong indicator of the progression of their income, at least for the worst off among them.

For the private operators, at least for those who have to decide whether to leave the cotton business, privatisation has left a bitter taste. This is true for both national investors and for powerful international operators.

From the point of view of collective concern, for instance, sustainable management of natural resources, the soil mining process has been accentuated by the reduced use of chemical fertilisers which was already alarmingly low.

One could wonder how realistic it may be to expect that privatisation, understood as a mere transfer of property rights from a public organisation to private firms could help reach so many implicit goals in the areas of poverty alleviation, international competitiveness and sustainability (Bouin, 1992). To be accurate, those goals are more attached now to liberalisation of an economic sector than privatisation of firms, this latter could be an element of the former. This observation complies with the World Bank's current position stating that privatisation is no longer the issue, but liberalisation is. The results we have analysed are those of a variable combination of privatisation and liberalisation. Our analysis leads us to realise that the privatisation/liberalisation which has been conducted so far does not yield the expected results. This statement is not a dismissal of the principle of privatisation/liberalisation but rather an emphasis on the attention to that must be paid to the means of implementing this principle.

LIBERALISATION MUST BE PREPARED

There is more agreement on the need to prepare the move towards liberalisation. The World Bank believes that a free-market would be beneficial to farmers but acknowledges that privatisation alone would not induce free-market functioning. This institution suggests the implementation of a transitional period to prepare free-market functioning. It has also become conscious, although still timidly, that there are activities which belong to public goods and which can hardly be privately financed. However, little attention has been paid by the World Bank to market failures that increase transaction costs. This is probably because all the privatisation and liberalisation processes have started by focusing on governments failures which were thought to be the root of all evil.

There is an urgent task for academics to cope with the identification of services that cannot be privatised as well as market failures that need to be corrected. A network approach would be efficient as it would reveal more easily failures from a set of variable situations in cotton production and processing in different countries.

QUESTIONABLE EVOLUTION FROM NON-PRIVATISED COTTON SECTORS

Insufficient results in enhanced privatisation/liberalisation countries should not lead to showering fulsome praise on the cotton sector systems at work in French-speaking SSA countries. Yield stagnation has been observed there for years. Pest management limitations have been pointed out. Sector co-ordination is facing serious turmoil: the latest being the Malian farmers' protest against the seedcotton price that pushed them into a strike against sowing cotton(Vernon-Wortzel and Wortzel, 1989) and whose result will be an estimated 50% decline in production for Mali this year.

There are serious technical and institutional challenges ahead; if coped with successfully, they could provide new room for progress. How to achieve this still needs to be figured out. The World Bank does not believe that such desired development is feasible under current cotton sector organisation; this is the rationale for its preference for the more radical move towards liberalisation they advocate. The very serious management malpractice which has recently been revealed in Mali seems to make it appear that the pessimists were correct. This is the most serious crisis that has ever been faced so far in Mali; it could herald a coming cotton collapse in this country or it could prepare a new move ahead, as no progress is possible without crisis (Fok, 1993). It is up to the populations of the concerned countries to show in the future whether the World Bank has been right or wrong.

Exchange of information between countries facing similar issues could be an useful tool to help each country find its own way. Co-ordination of information collection and diffusion in favour of all the cotton sector stakeholders should help the process of exchange and negotiation between cotton players: we believe that sharing of information references is a pre-requisite to having people agree on shared issues before trying to solve them.

Stop being amnesiac and short-sighted

One topic that deserves to be shared relates to information about previous debates and processes regarding the privatisation/liberalisation of seedcotton trade *versus* the monopoly systems in Africa. Few experts, if any, engaged nowadays in cotton sector development are aware that such debates persisted from the mid-nineteenth century to the mid-twentieth century, nor are they aware that there were experiments in free-market systems moving towards monopoly and inversely (Fok, 1999). Few academic works, if any, have dealt with an analysis of these experiences and try to extract lessons that could help guide current institutional change in cotton sectors. This amnesia should no longer prevail. Promotion of cotton production in Africa was started everywhere through the deep involvement of private traders. The government role of regulation and involvement in the cotton sectors has resulted from the failure of the private traders' efforts. A basic issue is to clarify is what were the conditions that were missing and led to the free-market not functioning. A collateral issue is to check how such missing conditions have evolved in the meanwhile to fit in with successful functioning of privatisation/liberalisation.

In short, as a contribution to making privatisation/liberalisation more successful, a prerequisite analysis of market failures and public goods should be implemented covering several countries through a dynamic, historically-based network.

References

Andrae, G. and Beckman, B., *Industry goes farming: The Nigerian raw material crisis and the case of textiles and cotton*. Scandinavian Institute of African Studies, Uppsala, 1987, p. 68.

Anon., Compagnie Ivoirienne pour le Développement des Textiles : nouvelle stratégie de privatisation, *Afrique Agriculture*, no. 243, 1996, p. 25-26.

Anon., Pourquoi l'Agha Khan s'intéresse-t-il au coton ivoirien, *Afrique agriculture*, no. 98, 1998.

Badou, J.A., 1998. Coton béninois : l'échec des privés. *Syfia,* no. 114, 1998, p. 12-13.

Banque mondiale, *Tchad Evaluation de la pauvreté. Les obstacles au développement rural,* Rapport développement humain, 1997, p. 73.

Banque mondiale, *Politiques cotonnières en Afrique francophone, Problématique*, Rencontre technique Dakar juin, Paris, France, Coopération française, 1998.

Banque mondiale, Le secteur du coton en Afrique de l'Ouest et du Centre. *Perspectives cotonnières,* juin 1999, p. 1-4.

Béroud, F., La pauvreté au Tchad : une problématique complexe, *Coton et Développement,* no. 27, p1998, p. 4-8.

Bidaux, A. and Raymond, G., 1997. *Evaluation du système d'approvisionnement et de distribution des intrants agricoles du Bénin,* Montpellier, France, CIRAD, 1997, p. 53.

Cantournet, J., 1995. Privatiser le coton ? *Marchés Tropicaux et Méditerranéens,* 3-11-1995, p. 2433-2435.

CFDT, 1998. Contresens et contre-vérités sur les filières cotonnières africaines : éléments de réponse à un document provisoire abondamment diffusé. *Coton et Développement,* no. 26, p. 2-13

Chikendu, D. O. and Giwa, R. I., *Marketing of cotton in a deregulated economy: the Nigerian experience*, 1994, p. 21.(pers.comm.)

Chitah, W. K. and Simwanza, M. M., *Report on the enhanced participation of the private sector in cotton development in Zambia under privatisation*, Lusaka, Zambia, Ministry of Agriculture Food and Fisheries, 1997, p. 43.

Dello, J.J., *Crises cotonnières et évolution durable de la production de coton dans les pays de l'Union économique et monétaire ouest-africaine (UEMOA)*, PhD, Université Montpellier I, France, 1997, p. 614.

Duijvestijn, I., Evolution institutionnelle des zones cotonnières en Afrique. Communication presented to Conference *'Rôle et place de la recherche pour le développement des filières cotonnières en Afrique'*, Montpellier, 01-02 Septembre, France, CIRAD, 1999, p. 133-136.

Fichet, M., L'impact de la privatisation dans les pays africains de la zone Franc. *Coton et Développement,* no. 20, 1996, p. 8-18.

Fichet, M., 1999. Les producteurs africains de coton n'ont pas de leçon de libéralisme à recevoir. *Marchés Tropicaux,* 12-02-1999, p. 324-328.

Fok, A.C.M., *Le développement du coton au Mali par analyse des contradictions : Les acteurs et les crises de 1895 à 1993,* CIRAD, Montpellier, France, 1993, p. 237.

Fok, A.C.M., *The cotton sub-sector in Mozambique: institutional diversity, performance and prospects for improvement,* Montpellier, 05/1995, CIRAD, p.127.

Fok, A.C.M., *Etat, production et exportation cotonnières, industrie textile et développement économique. Une histoire économique du coton textile dans le monde*, Doctorat en Economie, Univ. Montpellier I, Montpellier, France, 1997, p. 827.

Fok, A.C.M., *Sur la réorganisation des filières cotonnières en Afrique francophone,* Actes des Journées coton, Montpellier, 20-24 juillet, Montpellier, France, CIRAD, 1998, p.324-339.

Fok, A.C.M., Le coton : un agent de développement par le marché ? *Courrier de la Planète,* no. 50, 1999, p. 30-32.

Fok, A.C.M., Organisational perspective of cotton production in Sub-Saharan African countries: a still lasting history of mutual influence. Communication presented to Conference '*25th AFSAAP Conference*', Perth, Australia, 1999.

Fok, A.C.M., *et al.,* Farmers' response to the evolution towards globalization : the case of cotton production in Mali, Communication presented to Conference '*16th IFSA International Conference*', Santiago, Chili, 27-29/11/2000, p. 17.

Freud, C., Politiques des prix et performances des filières cotonnières en Afrique. *Revue Tiers Monde* XL, 160, 1999, p. 929-941.

Gibbon, P., *King cotton under market sovereignty: The private Marketing chain for cotton in Western Tanzania, 1997/98,* Copenhagen, Danemark, CDR, Centrer for development research 1998, p. 75.

Gibbon, P., *Peasant cotton cultivation and marketing behaviour in Tanzania since liberalisation*, Copenhagen, Danemark, CDR, Centrer for development research, 1998, p. 35.

Gibbon, P., Free competitition without sustainable development ? Tanzanian cotton sector liberalization, 1994/95 to 1997/98, Communication presented to Conference '*La libéralisation* *et la privatisation des filières agricoles en Afrique sub-saharienne'*, Montpellier, 09/09/1999, Montpellier, France, CIRAD, 1999.

Gilguy, C., Réforme des filières cotonnières en zone franc : La France, la Banque mondiale et les gouvernements veulent un consensus, *Marchés Tropicaux,* 26-06-1998, p. 1359.

Gillham, F.E.M., Sustainable smallholder cotton production following the privatisationof cotton marketing. *Cotton International*, 1999, p. 42-43.

Hartmann, A., *Le secteur du coton au Mali : sa viabilité économique et financière, Un calendrier de réformes,*. Washington, USA, The World Bank, 1988, p. 16.

Hibou, B., Economie politique du discours de la Banque mondiale en Afrique sub-saharienne. Du catéchisme économique au fait (et méfait) missionnaire. *Les études du CERI* no.39, 1998, p. 1-44.

ICAC, *Relance de la production ougandaise, Coton : examen de la situation mondiale*, rapport ICAC, vol. 50, no. 4, 1997, p. 10-12.

Kébé, D. and Hilhorst, T., Environnement économique et durabilité des systèmes agraires au Mali Sud, mariage difficile ? In *Technology options for sustainable agriculture in Sub-Saharan Africa,* eds. T. Bezuneh, A. Emechebe, J. Sedgo and M. Ouedraogo, Ouagadougou. 1997, p.

Lele, U., *et al.*, *Cotton in Africa: an analysis of differences in performances*, Washington, USA, The World Bank, 1989, p. 36.

Levin, A., Developments and outlook for cotton in Francophone West Africa, Communication presented to Conference '*Beltwide Cotton Conference*', Orlando, Florida, USA, 1999, p.16.

Macrae, J., *La compétitivité du coton dans le monde Pays hors zone franc,* Paris, France, Ministère de la Coopération,1995, p. 321.

Macrae, J., *Etude de la sous filière intrants*, Paris, France, J.M. Consultants, 1993, p. 25.

Macrae, J., *Le point de la filière coton béninoise,* Rapport de mission, Paris, France, J.M. Consultants, 1995, p. 32.

Madhavi, G., Production et commercialisation du coton-graine au Nigeria. *Coton et Développement,* no. 19, 1996, p. 7-11.

Michotte, F., *Le mirage du coton, L'impossible problème démontré par lui-même*, Paris, France, Société de propagande coloniale, 1926, p. 48.

Pitcher, A., Recreating colonialism or reconstructing the State ? Privatisation and politics in Mozambique, *Journal of Southern African Studies,* no. 22, 1996, p. 49-74.

Poulton, C., Cotton production and marketing in Northern Ghana: The dynamics of compétition in a system of interlocking transactions, *In Smallholder cash crop production under market liberalisation: a new institutional perspective*, eds. A. Dorward, J. Kydd and C. Poulton, Wallingford, UK, CAB International, 1998, p. 56-112

Poulton, C., Smallholder cotton production in Ghana under market liberalisation: a new institutional economics perspective. Communication presented to Conference *La libéralisation et la privatisation des filières agricoles en Afrique sub-saharienne*, Montpellier, 09/09/1999, Montpellier, France, CIRAD, 16 p.

Pursell, G. and Diop, M.,. *Cotton policies in Francophone Africa. Why and how the "filières" should be liberalized*, Washington, USA, World Bank, 1998, p. 43.

Raymond, G. and Niang, M., 1992. Le coton en Afrique de l'Ouest et du Centre : le cas du Mali. Communication presented to Conference '*29 ème Séminaire AEEA'*, Hohenheim 21-25/09/1992.

Raymond, G., 1997. Les intrants en culture cotonnière en Afrique zone franc. Communication presented to Conference *'Atelier sur l'approvisionnement en intrants des producteurs en Afrique de l'Ouest'*, Bamako 24-27 juin 1997.

Republic of South Africa, Statement to the Plenary meeting of the International Cotton Advisory Committee. Communication presented to Conference *'56th ICAC Plenary Meeting'*, Asuncion, Paraguay, 1997, p.11.

Republic of Zimbabwe, Statement to the Plenary Meeting. Communication presented to Conference '56th Plenary Meeting of the International Cotton Advisory Committee', Asuncion, Paraguay, 1997, p.5.

Roberts, R. L. *Two worlds of cotton: Colonialism and the regional economy in the French Soudan, 1800-1946*, Stanford, Stanford University Press, 1996, p. 381.

Sotinel, T., Le succès de la filière en Afrique de l'Ouest. Paris, France, *Le Monde*, 13/10/1998.

Silvie, P., *et al.*, 1998, Procedures, advantages and constraints of Staggered Targeted Control programmes on cotton in West Africa. Communication presented to *'2nd World Cotton Research Conference'*, Athens, Greece, 4 p.

Strasberg, P., *Smaller cash-cropping, food-cropping and food security in Northern Mozambique*, PhD, Michigan State University, USA, 1997, p. 279.

TISCO, *Cotton production for the next decade: Tanzania case study*, Dar-es-Salam, Tanzania, TISCO, 1994, p. 149.

Traoré, A.D., *L'étau : L'Afrique dans un monde sans frontières*, Paris, France, Actes Sud, 1999, p. 185.

Traoré, A.D., Le FMI et la Banque mondiale sont incompétents, Paris, France, *Courrier International*, 12-05-1999, p

Varangis, P., *et al.*,. *What does experiences in other cotton producing countries suggest for policy reforms in Francophone Africa*, Commodity Policy and Analysis Unit, Washington, USA, The World Bank, 1995, p. 50.

Véron, J.B.,. Le sauvetage des filières cotonnières africaines, In *La France et l'Afrique. Vade-mecum pour un nouveau voyage*, Paris, France, Karthala, 1993, p. 268-272.

Véron, J.-B., Le coton, "diva" des savanes africaines, *Afrique contemporaine*, no. 185, 1998, p. 53-62.

Yamongbe, M., Sofitex/producteurs : unis pour le meilleur et pour le pire. Ouagadougou, Burkina Faso, *Le Pays*, 05-05-1998, p. 12.

Zolty, A., Un débat ouvert devrait être initié sur la mutation de la filière coton en zone franc. *Afrique Agriculture*, no. 249, 1997, p. 59-61.

ANNEX II

CASE STUDIES

Case study I. Liberalisation of the rice sub-sector in Senegal

CONTEXT AND OBJECTIVES

Senegal is one of the African countries with the highest per capita rice consumption (60 kg/year). Although the traditional production area is located in Casamance, the Senegal river valley has been targeted as a high potential zone for irrigated rice since the colonial period. Heavy investments really started only in the late 1970s, after the draught years.

Until 1988, the government was involved at almost every stage of rice commodity chain:
– investments in irrigation infrastructures were funded by donors and the SAED[13] was the project manager and was in charge of water management;
–seed production, input distribution, credit, soil preparation were handled by the SAED;
– after buying paddy at a fixed price (85 FCFA/kg), the SAED milled it and transferred the rice to the CPSP[14] ; the latter was in charge of both rice imports and distribution of local and imported rice, both sold at 130 FCFA/kg.

By the mid-1980s, the system was showing evident limits:
– high production and milling costs, related to the SAED's inefficiency;
– structural deficit in the local rice production process (110 to 135 FCFA of public deficit per kilo of rice; Benz, 1996), financed by the profits from rice imports;
– contradiction between this system of equalisation of the companies in the sector with the objective of reducing imports (at least 3 kg of imported rice were necessary to cover 1 kg of local rice);
– high level of imports and slow increase in production.

The agricultural side of structural adjustment was set in 1984 by the *Nouvelle Politique Agricole*[15], after two decades of sharp decline of the whole agricultural sector (groundnut being the most significant). The main objectives were to eliminate the deficit in the main agricultural sub-sectors supported by the state, to increase efficiency through cost reduction, to increase and intensify agricultural production. For rice, production increase, together with an improvement in competitiveness, was to have led to a reduction in dependency on rice imports.

MAIN PRIVATISATION ISSUES

The first reforms concerning rice were implemented in 1987:
– input distribution, soil preparation, harvesting were privatised;

13. SAED : *société d'aménagement et d'exploitation des terres du delta du fleuve Sénégal et des vallées du fleuve Sénégal et de la Falémé* (Society for the development and exploitation of the Senegal River delta and the valleys of the Senegal and Falémé Rivers).
14. CPSP : *Caisse de péréquation et de stabilisation des prix* (Office of price equalisation and stabilisation).
15. New Agricultural Policy

– credit was transferred to the CNCAS[16];
– local authorities were held responsible for land attribution;
– management of irrigation started to be transferred to farmers' organisations and setting up of new areas was privatised in 1990.

The SAED only remained responsible for irrigation management at the regional level and for agricultural extension. In 1994, the devaluation of the FCFA accelerated the last stage of liberalisation. With the doubling of rice import costs, the existing pricing system became unsustainable. Between June 1994 and December 1996, paddy marketing and milling were privatised, production and consumer prices were liberalised, rice imports and distribution were privatised.

IMPACT OF RICE SUB-SECTOR PRIVATISATION

Uncertain increase in farmers' income

Instability of global output and incomes has been strongly related to easy access to uncultivated land since 1987 and to wide and uncontrolled distribution of credit. Private irrigated areas have flourished, reaching 32,000 hectares in 1993/94, as much in six years as the area developed by the SAED since the early 1960s! Production doubled by 1993 (figure 1), but the bases were unsustainable: technical quality in newly developed areas was poor, the new 'investors' often having no agricultural skills, and growers' debt increased dramatically. Comparing growers' incomes from the beginning of liberalisation period is difficult, due to the lack of homogeneous data, but more reliable assessments can be made for the last phase of the reforms (1993 to 1997).

Paddy prices increased about 45% after liberalisation17, but was partly hampered by the increase in input costs (see below). Margins declined sharply in the year following devaluation (-55% to -60% according to Liagre, 1997). Most concerned were large private growers. A shift towards the most productive areas led to some improvement in productivity. Per unit margins rebounded after 2 or 3 years of adjustment and sharp instability and the trend appears to be positive: from 1993 to 1997, +77% in public areas, +204% in private areas. Nonetheless, total agricultural income decreased sharply for the latter, due to a reduction in growing area (Bélières and Touré, 1999). The total added value of paddy production increased 37% from 1993 to 1999, and 65% from 1990 to 1997.

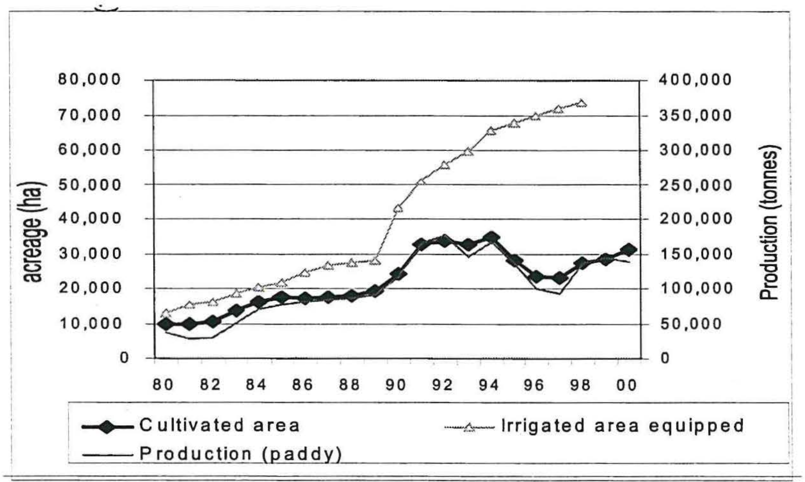


Figure 1. Acreage and production (source: SAED).

16. CNCAS : *Caisse Nationale du Crédit Agricole* (National Office of the Crédit Agricole).
17. The difference between previous official paddy prices and post-liberalisation prices is smaller, but only 40% of the production was handled by the official market, the remaining part being self-consumed or sold at much lower prices on the private market.

Land degradation

Fast private investment in irrigation, without any technical supervision, led to poor quality of irrigation equipment. After two or three years of cultivation, this kind of irrigated area often was no longer in use, because of structural deterioration and soil salinisation. In 1998, 55% of the total area set up for irrigation was considered to be inappropriate for cultivation (SAED, 1999).

Poor financial sustainability

Apart from the large number of new private irrigated areas abandoned after only 2 or 3 years of cultivation, other operators who started their activity with privatisation went out of business after a few years. More than 20 semi-industrial mills developed at the beginning of the 1990s, thanks to CNCAS and EDF[18] funds, and worked as subcontractors of the SAED until 1994. After the SAED withdrew and production collapsed, total milling capacity appeared to be dramatically excessive, i.e., a total of 240,000 tonnes compared to the maximum production of 175,000 tonnes in 1991/92 (Liagre, 1997). Moreover, margins became very tight and millers had to handle paddy collection and rice marketing, neither being activities they were prepared to deal with. Competition reduced the number of active mills to six, out of a total of 27 (Bélières and Touré, 1999).

Many entrepreneurs involved in soil preparation and harvesting suffered from lack of profitability and poor management skills. Easy access to credit again led to overequipping in the early 1990s. Tough competition limited price increases after devaluation, and the cost of renewal became prohibitive. A lot of these entrepreneurs went out of business, and the remaining equipment is often very deteriorated, e.g., in 1996, 52% of tractors and 64 % of threshing machines were broken-down (SAED, 1997).

Another major issue is the situation of the farmers' organisations in charge of irrigation management. This key responsibility (held together with access to credit, input distribution, organisation of soil preparation and mechanised harvesting) was transferred, without any real preparation and training in human resources on farmers' level, whilst the farm leader's position is based usually on social and political rational, with little regard to technical or managerial skills. Moreover, the lack of rigour in credit distribution favoured opportunistic behaviour. Repayment fell 66-77% from 1992 to 1995.

Unstable increase in production and sharp increase of imports

Full liberalisation, together with devaluation, was followed by a sharp decline in production (figure 1), and even if production increased over the long term, per capita rice availability in the valley region decreased by 9% from 1987 to 1996 (Bélières and Touré, 1999). Urban consumption has been affected as well, i.e., -27% in staple food consumption from 1994 to 1996 (Diagana and Reardon, 1997), but more due to devaluation than solely due to rice policy reform. Despite increases in the price of rice, no substitution from rice towards local cereals has been observed.

Import liberalisation led 46 operators to rush into the business, and imports jumped from an average 400,000 tonnes at the beginning of the 1980s to 630,000 tonnes in 1996. Rigorous selection led to a concentration among importers. Only 12 of them were still in the business in 1999, but average imports reached 570,000 tonnes during the years following liberalisation.

Some improvements in quality

The reduction of margins for millers, as well as difficulty in handling their new position in marketing, drove some of them to try to improve quality, investing in using sorting equipment.

---

18. European Development Fund.

Trend toward diversification

The poor profitability of rice production and increases in alternative crop prices led to a trend towards diversification in areas were the soil is not too heavy: tomato, onion, corn, sorghum, sweet potatoes, rose from 15 to 18% of cultivated area before 1994, and to 18 to 25% afterwards.

Increase of input prices but some improvement in productivity

After devaluation, imported input prices soared: +70 to 80% for fertiliser, +45 to 65% for herbicides (1993 to 997). Tillage prices increased only 20%, due to competition among operators (see above). Overall production costs increased after devaluation (93 to 94: +32%), then decreased to pre-devaluation levels.

Producers reacted by reducing input use, with, initially, a negative impact on average yield. However, yields recovered and some signs of improvement in input productivity have appeared (a first explanation being the abandoning of unproductive private irrigated areas), as well as more labour intensive production systems (especially with regard to family labour).

GLOBAL ASSESSMENT

Liberalisation improved the financial sustainability of the rice sector in Senegal, reducing public losses and bringing local rice costs closer to imported rice prices. Nonetheless, it failed to improve the national cereal balance: imports rose to record levels, increasing faster than ever after liberalisation, and production growth has been highly erratic.

Public structures withdrew from most supply activities, services, irrigation management, processing and marketing within a few years, but very little was done to prepare producers and the private sector for this transition. Easy access to capital and land, without any improvement in management capacity, led to a temporary and artificial increase in production, with no economic sustainability.

After a few years of regulation, based on stricter rules for credit and the giving up of unproductive areas, a more stable and sound situation seems to have been reached by the end of the 1990s, leading to hope of some improvement, but no fast relaunching must be expected, local rice competitiveness still being weak compared to low quality rice imports. The consistency of agricultural development in the Senegal Valley, based on rice production with food security as a guideline, regardless of competitiveness, can then be addressed.

Case. Cocoa study II liberalisation and privatisation in Cote d'Ivoire and Cameroon

CONTEXT

Cocoa has been grown for slightly more than one century in Cote d'Ivoire and Cameroon, but really started expanding rapidly in the 1950s. Although both countries were at quite similar production levels around 1960, Cote d'Ivoire produced some 1,350,000 tons of cocoa beans in 1999/2000 (40% of the world supply), while Cameroon is still around 120,000 tonnes. In both countries, these quite different dynamics were both managed under a marketing board system with a theoretically fixed and guaranteed price paid to producers and exporters until the late 1990s.

This system of stabilisation started coming under heavy criticism from the World Bank and the IMF around 1990. Full cocoa market liberalisation was eventually achieved in Cameroon in 1995/96 and in Cote d'Ivoire only in 1999/2000. The two liberalisation processes occurred with opposite backgrounds on the cocoa world market: Cameroon farmers faced liberalisation while the world price was on the rise; Ivorian farmers learnt about liberalisation as the world price collapsed.

DECLARED OBJECTIVES OF LIBERALISATION AND PRIVATISATION

The main declared objectives of the World Bank, the most active institution to promote liberalisation, are simple:
– to reduce the role of the state and taxes (suppression of fixed producer prices, taxes and state-owned marketing bodies);
– to open the competition between exporters in order to make the marketing chain more efficient and lower marketing costs; the challenge is that farmers will benefit from a better share of the export price, and thus a higher price in absolute terms;
– to improve the capability of farmers to adapt to the market in order to let them receive better and more direct signals from the international market, in terms of supply and quality.

MAIN IMPACTS OF LIBERALISATION

Relative stability of the producer prices in a liberalised market

Adversaries of liberalisation often put forward the risks related to the presumed non-stability of the price paid to producers. At least in Cote d'Ivoire, one can observe that the main source of non-stability was provoked by the last attempt at 'stabilisation' in 1998/99. This was a major mistake. As part of a plan to promote liberalisation, international agencies seem to have pushed policy makers to raise the producer prices to 570 CfaF per kg in October 1998. This was far too high compared with the world price that had already started declining. As a result, the producer price collapsed in early 1999. Farmers suffered a brutal change while the sector was still supposed to be under regulation by the Caisse de Stabilisation (Ruf and Cébron 1999).

On the contrary, in 1999/2000, under a liberalised regime, the price was low but relatively stable and increased slightly from September 1999 to January 2000. Meanwhile, the world price kept declining further. Several factors can explain this relative 'stabilisation' of producer prices under a liberalised market.

Sudden and high competition from a new major player, namely Cargill, that did not hesitate to add 10-20 CfaF per kg to rapidly increase its market share. It may have been a sort of dumping but it was also consistent with a no-credit policy. The latter necessarily reduces its costs compared to its competitors and enables the company to propose higher prices to producers. Here also, to a certain extent, there is an improvement of the marketing efficiency. It is a very classic one. Credit helps to secure customers, but has a cost. If a company can make up for an absence of credit with higher prices, it is more efficient.

Farmers' resistance by a spontaneous movement of storage: in October 1999, farmers angry with prices spontaneously decided to store their cocoa as much as possible. This played a role in the slight increase in the producer prices.

The importance of resistance was that it probably helped reduce the differential between the world price and the Cote d'Ivoire price. The erosion of the Euro against the pound and the dollar obviously helped.

Reduction of export tax? In 1999, the government cut its export tax by 17% from 150 F/kg to 125. At least at the time, this did not help at all. The very same week, the world price lost the same percentage. In other words, the international buyers seem to have taken into account the reduction of the cost of one tonne of cocoa produced in a country that supplies 40% of the world requirements. Then, Cote d'Ivoire introduced other taxes that finally brought total taxation close to 140 F/kg.

Lowering state taxes and slightly lowering marketing costs

The declared objective of lowering state taxes has been clearly achieved in Cameroon. Contrary to Cote d'Ivoire, the export tax was suppressed in Cameroon (although the government is said to be planning to reintroduce a 30F tax soon. In Cameroon, despite the concentration of the major exporters (see below), one must admit that the times of enormous profits made by former local exporters in Douala are gone. To a certain extent, marketing efficiency has improved and farmers have had a share of that productivity gain (Vrije Universiteit 1999, Ruf 1999). The main indicator of that achievement is the producer price expressed in percentage of the FOB price. It has increased significantly and helped producer prices to jump in 1996, 1997 and 1998 and, perhaps more importantly, it helped producer prices to resist relatively well in 1999. In December 1999, farmers in south-western Cameroon were paid around 400 CfaF per kg while their Ivorian colleagues had to accept an average of 290. The difference was mostly explained by the surviving Ivorian export tax of 125 CfaF per kg. This means that domestic marketing efficiency in Cameroon and Cote d'Ivoire look similar. At least at first view, it improved in both countries, mostly at the expense of local exporters. In Cote d'Ivoire, for this first year of liberalisation, government revenues per kg were clearly reduced but not global revenues, owing to the increase in supply.

Due to the curious 570 F/kg policy in 1998/99 (see above), state revenues were cut one year before liberalisation, but working exporters benefited enormously from that policy. 1998/99 was the exporters' year in Cote d'Ivoire but they were the great losers in 1999/2000. As a corollary, middlemen, surprisingly, resisted better: their gross margins were well maintained at around 55 CfaF/kg and their net margins at around 25 to 30 CfaF/kg

Liberalisation and its impact on world prices

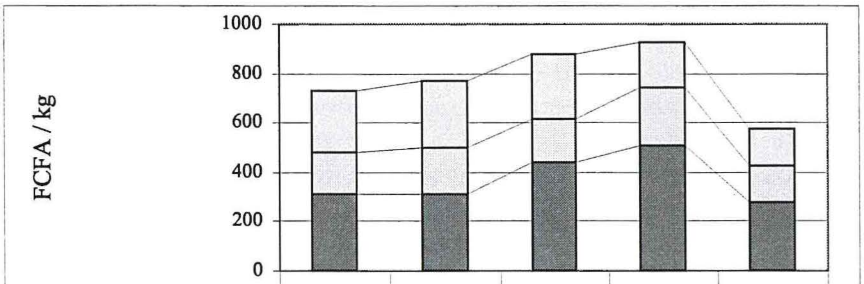
A brief look at the current level of stocks proves that the structural oversupply and what buyers anticipate is the very first determinant of the low price. However, this is not the only one. Whatever international buyers' anticipation of supply may be, it is becoming increasingly difficult not to consider a partial role of liberalisation on the decline in world prices (Ruf, 2000 a and b).

Since mid-1998, stocks are no longer increasing and the regression of regular forward sales (explained by the suppression of marketing boards) could have played a negative role. There is more uncertainty about what is still for sale in the months to come and this keeps the prices down. In short, a sudden lack of information and clarity would be a major market failure.

We clearly identify the impact of productivity gains in marketing and reduced taxation: farmers may benefit from it, but international companies - who set themselves up as the main exporters first in Cameroon and now in Cote d'Ivoire – also take their share. In other words, a reduction of domestic marketing costs leads to a reduction in world prices at least as much as an increase in producer prices.

Maybe more importantly, the impact of liberalisation is a loss of bargaining power for producing countries (mentioned by some major international traders).

It is still difficult to be affirmative. Against a background of oversupply and large stocks, a liberalisation process increases the weight of that oversupply. If this context changes and turns into that of a demand increasing faster that production, we may come to a more favourable impact of liberalisation, But then the whole marketing chain would restart from a world price of 550 £/t instead of 1000 £/t.



	1995/96	1996/97	1997/98	1998/99	1999/00
□ PublicsTax	246	276	261	181	148
□ Intermediaries	173	187	177	238	149
■ Producers	310	310	438	504	275

Source: BNETD 2000 (prepared by D. Cébron).

Figure 2. Evolution of price repartition.

Credit and no-credit policies

One of the explicit fears expressed by several middlemen and exporters before the liberalisation was the credit issue. As long as the price is stable, it is easy for an exporter and a middleman to arrange credit contracts. Both players can forecast their expected margins. If a price changes every day and is not guaranteed, a credit arrangement looks less easy.

The first impact of liberalisation was to suppress credits based on a full year. This is a rather positive impact. In Indonesia, under a free market regime and increasing competition, the very first exporters who used this type of credit lost ground to new exporters using more efficient credit contracts on a weekly, or even daily, basis.

The second impact was less expected. As a new and major exporter – the multinational CARGILL - seems to have been the first one to introduce a no-credit policy. The way to attract middlemen and co-operatives is to offer a price slightly above the market price. In 1999, they were said to do some dumping in order to gain market shares over competitors. It was part of their strategy, but it was not pure dumping. At least partially, the cash payment reduced their costs compared to that of their competitors. So they could offer a higher price without loosing any money compared to their competitors.

Quality of cocoa

In both countries, cocoa quality decreased before the beginning of liberalisation. This was structural and not directly related to liberalisation. One factor was the long price decline that discouraged farmers to sort their cocoa. The shortage of labour may also have played a role. Another reason was increasing competition between middlemen. A more important one was the structural shift of supply - due to pioneer front movements - from regions that provided good quality at low cost to new regions (such as south-west Cameroon and south-west Cote d'Ivoire) where it is more difficult and thus more costly (due to climatic factors) to achieve good quality. More conjecturally, in Cote d'Ivoire, after just one year of liberalisation, there has been no deterioration in quality.

Moreover, the no-credit policy practised by some exporters has had one unexpected impact on cocoa quality and seems to prove that it is possible to have two parallel and neighbouring marketing chains, one for selected cocoa and another one for lower quality, in a free market environment. A no-credit policy has an enormous advantage. One can reject the cocoa batches that do not fit one's requirements with no loss of money. This is not the case of exporters who fund large credits to middlemen: if they want to recover their credits, they have to compromise on quality requirements. Otherwise, middlemen send the truck to other exporters. Before liberalisation, this was a traditional complaint from big exporters. There was a sort of crossed free-riding on credit and quality. Finally, during this first year of liberalisation in Cote d'Ivoire, the no-credit strategy of one multinational seems to have reduced this type of free-riding. Without any credit, they managed to improve their quality. They paid a premium for that, to the benefit of the sellers, either middlemen or co-operatives.

Concentration and competition

One of the fears and most expected market failures of liberalisation is the risk of oligopoly. Liberalisation can work only if competition is active. Attached to that, another fear and risk is that international companies substitute themselves for local ones. It is true that ten years of free market in Sulawesi (Indonesia), competition is still active, but all export companies are now owned by foreign capital.

CAMEROON

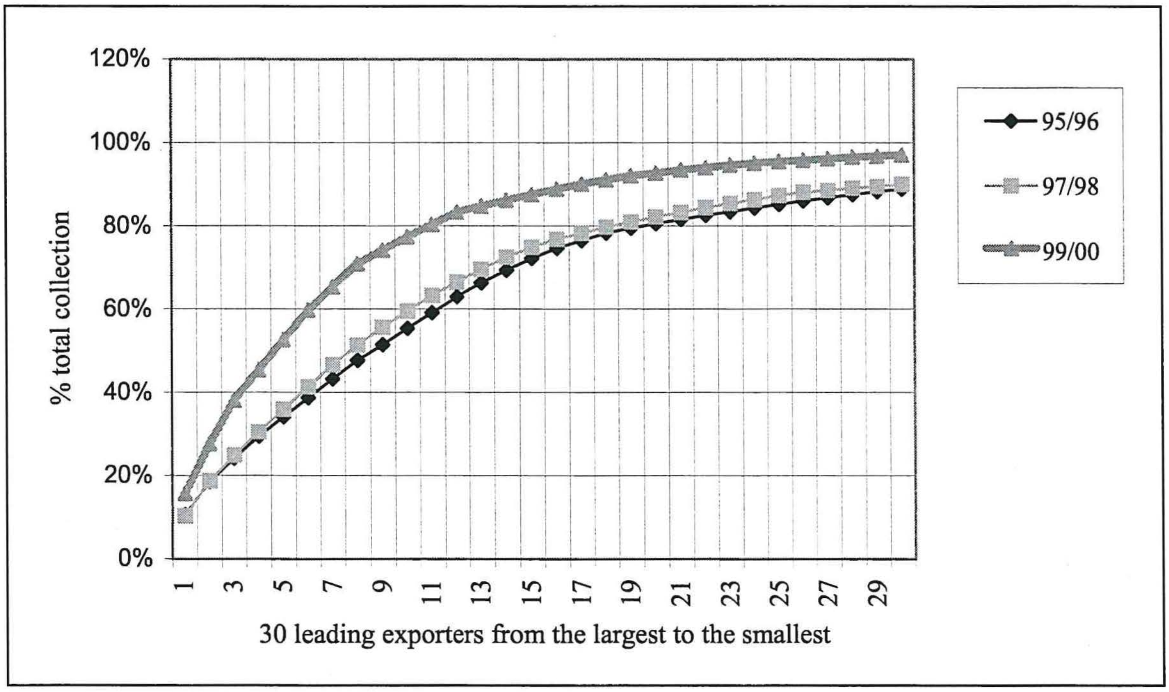
Before liberalisation, the main 'local' exporters were a few firms of Greek origin and liberalisation has offered an opportunity to the two major international grinding companies, ADM and CARGILL, to take their place. The latter set up its own export company, while the former works through local 'exporters' directly controlled by the giant and who are more traders than exporters. The two big world wide companies now control 70% of the market. If we include the third one, Barry, that is buying cocoa for its local grinding factory, the three may control 80 to 85%. Nevertheless, as seen above, producer prices remain high in terms of percentage of FOB price, especially in 1999/2000. The first reason for these relatively high producer prices in percentage of the supposed FOB price seems to be tight competition between the two big American companies, competing with each other to gain market shares. This may be only a short-term mechanism, but another reason is that smaller trading companies such as Continaf and André Lausanne have not left the market and are also ready to increase their market shares if the two major companies try to reduce prices paid to producers and their exporter agents.

COTE D'IVOIRE

In the leading producing country, turn-over was active during these last two years with the disappearance of two of the three biggest exporters (JAG and SICC). Lastly, the most important Ivorian group (SIFCA) had to sell its cocoa and coffee sectors to its most important shareholder, ADM. Eventually, in 1999/2000, we once again find the two American giants in the grinding sector (ADM and Cargill) among the first three exporters in Cote d'Ivoire. Cameroon, with its 100,000 tonnes now looks like a field day for the two, before coming to more serious stakes in a country producing 1,300,000 tonnes per year. In 1999/2000, there were no local exporters attached to either of these. The first ten exporters now account for 80% of the supply and there is thus a slight trend towards concentration.

This is still far from an oligopoly. However, 1998/99 was only the first year of liberalisation. Open discussions with representatives of the cocoa industry seem to show that they all anticipate a high degree of concentration in the years to come. The first weeks of 2000/01 seem to confirm that only the four or five major exporters can afford to buy cocoa in Cote d'Ivoire. In addition to their financial power and to the recent high profitability of powder-making, foreign companies who have local grinding factories, such as ADM, Barry and Cémoi, have a major advantage. They escape the export tax on beans when they export butter, powder and paste. This is evaluated at an enormous 70 to 80 F per kg. Within a context of liberalisation, it will prove to be an enormous advantage. Cargill will soon join the club. It is no wonder that some cocoa experts forecast that these four may well control one million tons of Ivorian cocoa in the years to come.

On the other side, end-users such as the giants Mars, Nestlé, Cadbury seem to have benefited more from the low prices of the last decades. Even though they complain that their other costs are increasing, such as advertising, they look like the current great winners of the world price collapse.



Source: Douanes, MINAGRA, BNETD. Figures and chart prepared by D. Cebron, BNETD.

Figure 3. Concentration curves of the 30 first exporters.

Conclusion

The key issue is to know if liberalisation in Cote d'Ivoire was a technical factor of world price decline or not.

If not, positive aspects of liberalisation seem to overwhelm the negative ones. The former Ivorian exporters were not professional enough. Otherwise they would have resisted better. The reduced role of credit and the consolidation of co-operatives and a higher percentage of the FOB price paid to farmers look like an achievement. Last, liberalisation may help to suppress the amount of free-riding related to quality issues and that should benefit smallholders. Its also seems to accelerate the concentration of multinationals at the export level: after one year, the risk seems to be growing in Cote d'Ivoire, after 4 years it is already much more serious in Cameroon. If two of the three main buyers find an arrangement, competition is over. Up to 2000, this had not happened.

If yes, this is a different story. The output of liberalisation would be alarmingly negative. Farmers and local exporters are the main losers of the world price collapse and thus would appear as the major losers of liberalisation (the improvement in producer prices in terms of percentage of FOB price would loose all meaning). Middlemen resist relatively well. With their financial power, with their advantage *vis-à-vis* export taxes, with the increasing profitability of powder making, the international traders/grinders will probably marginalise most of other independent exporters and will be among the winners in the years to come. The share of the cocoa rent between grinders and chocolate makers remains to be studied, but the current great winners of the world price collapse look like the 4 or 5 big end-users, those who sell chocolate to the consumer. The latter did not see any change. The price of chocolate did not change on supermarket shelves. If liberalisation played a role in the cocoa price collapse, these end-users look like the winners of that economic reform.

This is not the first time that Cote d'Ivoire has 'helped' international companies in the cocoa and chocolate sector. To a large extent, one can say that Cote d'Ivoire tropical forests and labour (and also Burkina Faso, which provided much of the labour) have been structurally subsidising the international cocoa and chocolate companies through their steady and cheap cocoa supply over the last 20 years. Liberalisation probably just shores up that process.

Case study III. Impact of privatisation of rural financial services in West Africa

The rural financial services were mainly provided during decades by public bank. Because of their bankruptcy, or their difficulty to reach rural population, the liberalisation of the sector has been decided. That is the reason why we shall speak of liberalisation rather than privatisation.

CONTEXT OF LIBERALISATION OF RURAL FINANCIAL SERVICES IN WEST AFRICA

The lack of availability to financial services is a major constraint for the development of rural areas in the developing countries. Large amounts of capital are needed to intensify and modernise agriculture, to promote the diversification of rural activities and to develop technical and organisational innovation. To achieve fluidity in rural financial markets, several services are necessary, i.e., credit schemes, saving products, but also insurance services. In rural areas of West Africa, the remoteness and dispersal of people, the high level of risk, the weakness of rural markets, make it difficult to finance the rural sector.

The liberalisation of rural financial services was implemented in three main stages in West Africa:
– in the late 1970s, the failure of the first generation of rural financial schemes implemented after independence (agricultural and development banks, credit component of rural development projects, etc.);
– during the 1980s and 1990s, in an economic context more and more open to liberalisation, the financial schemes became more diversified: the public sector persisted in different forms, with agricultural banks, agricultural development societies, and the loan aspect of projects; microfinance schemes were experimented with, strengthened and progressively integrated into the financial market; the commercial banks were reformed and consolidated, but their interest in the rural sector finance remained slight;
– at the present time, the greatest part of public funding schemes, which subsisted on a large scale in the agricultural sector, are being questioned and rapidly broken up; thus, microfinance is becoming the focal link of the rural financial market; considering its present level of development, its capacity to respond to the extent of the demand for rural funding is also being questioned.

Objectives of liberalisation of rural financial services

The objective of microfinance is to provide sustainable availability to financial services for rural and urban populations excluded from traditional banking systems. The objective is no longer, as in the previous public financial systems, to promote an agricultural credit scheme, but to favour the development and the fluidity of a rural assets market, aimed at the optimal allocation of financial resources. Microfinance should make it possible to fight poverty through the promotion of private enterprise and the development of economic activities. To provide sustainable access to services, the effort has to be focused on the creation of sustainable financial institutions, in which the consumer assumes the full cost of the service. The present breaking up of public agricultural loan schemes responds to the same logic. One of the major focal points here is to transfer to the consumer the cost of the service assumed until now by the state.

Impact of the liberalisation of rural financial services

The question of impact and comparison of impact is complicated, and some methodological precautions need to be taken:
– often, it is quite impossible to compare the impact of private and public financial services because public services did not previously exist in many areas; thus, we can only compare a situation with existing microfinance services with the same situation without any financial services;
– the third stage of the financial services liberalisation process (liberalisation of agricultural credit schemes) is still in its initial phase, and we have very little information about its impact;
– as money is fungible, impact analysis of financial services and, specifically, that of loans, leads to important methodological problems, for which entirely satisfying solutions have not yet been found.

Regarding poverty alleviation

Microfinance improved the availability of rural financial services for rural populations (in UEMOA, in 1997, 1.5 million members were reached by microfinance institutions (MFI) loans totally 66 billion CFA were granted, 60 billion CFA of savings were collected). However, the outreach of MFI remains weak in rural areas (5 to 20% of households, depending upon the country). Several impact assessments have proved that it is difficult for the MFI to reach the 'poor'; MFI more easily reach the middle range of populations who still have some economic activities, some means of production, technical knowledge, satisfying social insertion, etc.). These are the basic conditions needed to develop loan availability. In the same way, it appears difficult to implement sustainable MFI in very poor areas, e.g., Sahelian areas, devoid of sufficient economic activities and wide enough markets.

Short-term loans are preponderant in MFI portfolios It allows the households to smooth their consumption and it is adapted to funding small-scale rural economic activities. These kinds of activities are often performed by women, and existed prior to the availability of credit. However, the development and the profitability of these activities are often rapidly limited by the narrowness of the rural local markets. Short-term loans enable the partial funding of agricultural production, but, with regard to the high level of risk, the MFI tread very cautiously in the agricultural sector. Medium-term loans, which would make it possible to finance equipment and other investments, are currently being experimented with by a few MFI, but for the moment, this is not widely developed.

The cost of MFI services is particularly high in West Africa, because of the high level of transaction costs, the cost of risk and the cost of financial resources. Often, this cost is higher than the previous public subsidised interest rate (thus, regarding impact, it is a loss for the consumer), but it remains lower than the interest rate of local moneylenders (thus, it is a gain for the consumer). However, these high interest rates might exclude a lot of low-profit activities from financing (agricultural, small-scale rural activities whose profitability was depressed by too much competition in too narrow rural markets, etc.).

Saving services which could have a positive impact on the households' self-financing capacity, are not sufficiently developed. Insurance services, which could improve the risk management capacity of the households, are quite nonexistent for the moment in West Africa.

Some MFI implement, on a subsidised base, social services (training, literacy, technical support for production, etc.), but, in general, when the MFI are trying to become self-sufficient, they give up these kinds of services, because of their excessively high cost.

Regarding sustainability

The environmental impact of MFI has not been widely studied. We can propose the hypothesis that the breaking up of the major agricultural public credit schemes, and the lack of credit that results, could have a negative impact on soil fertility in some areas where agriculture production was implemented using a high level of fertiliser.

FINANCIAL AND MACRO-ECONOMIC IMPACT

Even if microfinance remains marginal on a macro-economic scale, it contributes to improving rural financial markets. To extend the outreach of the MFI activities will take time. Their liberalisation should make possible, in the long-term, significant savings in public budgets. MFI need subsidies during the capacity-building stage (and this may take a long time), but they should become progressively self-sufficient. The governments will have to remain responsible for the cost of controlling and regulating the microfinance sector, but this cost should be broadly lower than the previous cost of public credit schemes, which combined running costs, subsidies and the frequent cancelling of debts. One major impact will be that the re-allocation of resources between different sectors, which was possible in the previous public financial system, will be now impossible, i.e., in the new private financial system, the consumer will have to assume the full cost of the service.

CONCLUSION: HOW TO IMPROVE THE LIBERALISATION PROCESS

The development of microfinance is checked by strong structural constraints: weakness of previous rural accumulation, weakness of the rural markets, financial self-sufficiency not easy to reach by the MFI in the West African context, high level of risk, lack of well-trained human resources managers, lack of professional tools, weakness of the state's capacity to control and regulate this emerging sector, etc.

To improve the impact of MFI, the global conditions of the rural economic activity have to be strengthened. Extending the outreach of MFI implies reinforcing:
– human resources, by improving the professional capacities inside of the MFI, but also by favouring capacity-building in the rural populations (literacy, etc.) and rural organisations;
– the financial resources of MFI through better integration into the financial market, by improving savings conditions, etc.;

– the organisation of the microfinance sector: strengthening representative MFI organisations, consultation within the sector and between the microfinance sector and the other economic sectors.

In spite of liberalisation context, the function of the state and its capacity to control and regulate the sector should be strengthened. Finally, the place of the government in funding the sectors and areas where strict financial logic cannot efficiently support development (the poorest areas, some parts of the agricultural sector, etc.) must be discussed.

Case study IV. Responsibility for primary animal health on the national level taken by Farmers' Groups in the Central African Republic

The case study shows, over a period of 20 years (1980-2000), the take-over of functions in the field of primary animal health ensured until 1983 by the Husbandry Department of the Central African Republic by the farmers and their organisations. This privatisation process, in aid of the farmers themselves, is the fruit of a long development which is still continuing. The different structures set in place by the farmers fulfil the functions of supply, distribution, training and representation, both on the local and national levels. The privatisation of this sector has had profound repercussions of the institutional structuring of the farmers and on their real participation in major decisions affecting national policies in the animal husbandry sector.

THE CONTEXT OF ANIMAL HUSBANDRY IN THE CENTRAL AFRICAN REPUBLIC

The Central African Republic, with an area of 620,000 km^2, has a population of approximately 3 million, among which around 24,000 families (250,000 people) possess cattle herds. Farming is mainly transhumant and even migrant for 1/4 of Fulani farmers. The farmers tend to be scattered in very small encampments of three to four families. Very few trails suitable for vehicles exist for reaching these camps. The humid climate presents strong pathological pressures, which makes it necessary for the farmers to have permanent access to veterinary products. Dispersal, mobility, transhumance and extensive family farming are the characteristics common to pastoral farming systems in both the humid savannahs (Central African Republic, Cameroon, Nigeria, etc.) and the Sahelian zones, and the experience of the Central African Republic can be used as an example for areas where the farming systems are similar despite their different environments.

OBJECTIVES ASSIGNED TO PRIVATISATION IN THE VETERINARY PRODUCTS SECTOR

The major objectives assigned are (i) poverty alleviation (GO2) by increasing farmers' income through a reduction in herd mortality using health-care, and reducing inequalities by rendering this accessible to all types of farmers (SO5); (ii) sustainability through the implementation of a financially autonomous and sustainable system (recovery of costs) for veterinary products (SO8).

FROM A STATE ANIMAL HEALTH SYSTEM TO PRIVATISATION: A LONG EVOLUTION

In 1980, animal health-care was ensured by the Husbandry Department (250 technicians in 110 veterinary jobs divided among 5 Veterinary Inspectorates). Since 1973, the National

Association of Central African Republic Farmers (ANEC[19]) ensured the supply of veterinary products, which was lacking in the government circuit.

From 1980 to 1983, the backers sought to reinforce the government Husbandry Department by supporting its restructuring, equipment and operation throughout the entire country. At the end of two years, the system became blocked due to the fact that the money from drug sales was not reaching the top of the pyramid and that the 250 technicians could not ensure animal health due to the difficulties encountered in the Central African Republic.

Privatisation through having the farmers assume responsibility: Thus, in 1983, the backers sought to place the responsibility for primary animal health in the hands of the farmers, with the ANEC as the base. The ANEC was set up as a national federation and endowed with a Input Department, which became a national private central purchasing group importing the necessary veterinary products and responsible for their dissemination throughout the country.

A second approach was based on the creation of Pastoral Interest Groups from 1983 onwards. Funded by its members' subscriptions, it made products permanently available to farmers. From 1983 to 2000, more than 250 of these groups were set up in all of the country's farming areas, with one pharmacy per 12,500 head of cattle.

Starting in 1982, when the government disengaged from the supply and distribution of veterinary products, the farmers' structures and the private pharmacies sought to take over these functions:
– setting up of emergency solutions (agents, travelling salesmen), but they were eliminated as they were not viable;
–setting up of a structure of depots managed on the central level, followed by its progressive elimination for reasons of heaviness, costs and insufficient decentralisation;
– responsibility was transferred to the local structures (the pastoral interest groups), managed by the farmers themselves, supplied by the national structure when it was operational, but also by the private pharmacies, and distributing products throughout the country using the pastoral interest group network. At this level, it was necessary to provide the farmers with training in the use of the products.

The disengagement of the government enabled the private sector to develop in two directions:
– a co-operative farmers' structure (National Federation), which in 1990 ensured nearly 80% of supply and distribution, but also, and thanks to which, other functions such as the processing of farming products (cheese dairies), training (animal health, management), and, most especially, the representation of the farmers on the local and national levels so that they could participate in all of the decisions concerning them.
– the development of private pharmacies in the supply function, but practically not at all in the distribution function, due to the context of animal husbandry in the Central African Republic.

It is the complementary nature of these two private structures that enables, at the present time, animal health-care to be ensured, with the following results: proximity of veterinary products, permanent availability, the lowest possible prices (the central purchasing group constituted by the National Federation makes it possible to group the orders and thus to negotiate major discounts with the pharmaceutical laboratories, the price being the same throughout the country), quality of the products and their use (products from recognised laboratories, training of managers and farmers).

It is difficult to say whether privatisation of the veterinary product sector has led to poverty alleviation. In the absence of a plan for monitoring the herds over several years, it is impossible to quantify a decrease in livestock mortality. We can only observe indirectly a high level of consumption of veterinary products, improved practice in their administration

19. Association Nationale des Eleveurs Centrafricains.

following training programmes, favourable developments in prevention. This leads us to believe that the livestock survival rates have improved and, that as a result, the families have profited (dairy products to consume and animals to sell).

Nonetheless, animal health is only one of the four pillars of animal production (genetics, feed, health and farming conditions), and the downstream part of the sector, i.e., marketing and its level of control by the producers, determines, in reality, the added value a farmer can draw from his production. On this level, the competition from subsidised European meat which feeds the consuming coastal countries has lowered the prices of livestock in the producing countries in the Sahel and in the Central African Republic, and has economically cancelled out, due to poor marketing, all of the improvements in production that have been obtained through better control of animal health. The Mbororo farmers in the Central African Republic are presently on the road to advanced pauperisation, under the twofold pressure of a pathology that they have not yet mastered, and, more particularly, the effects of the over-exploitation of their herds which creates real decapitalisation, in order to compensate for the decrease in livestock prices and to meet their needs.

The limits of the co-operative system and the private system

Major management problems within the National Federation (corruption), poor management of the devaluation in 1994, blocking of funding by backers and looting in the Input Department of the National Federation during the serious political events in 1996 and 1997 the Central African Republic, seriously affected the supply and distribution operation. This has highlighted the dangers of excessive centralisation and the gaps in structuring and rendering responsible and autonomous the intermediate level, the regional level. The present failure on the national level actually 'encourages', in a healthy reaction, the local pastoral interest groups to take charge of supply on the local level, and will lead, perhaps, to the emergence of regional structures in the near future.

The failure of the National Federation made it possible for the private pharmacies to recover an important share of the drug market, but has also led to the development of a parallel market in adulterated products. For the time being, these private pharmacies are all located in the capital and do not dispose of branches in the provinces. The investments required, the scattered and unstable nature of livestock farming in the Central African Republic are additional difficulties for the establishment of decentralised private pharmacies. Furthermore, the private pharmacies are often competitors, divided and incapable of playing the role of a central purchasing group with the scope of a national market.

The level of consumption of veterinary products in an extensively-farmed national cattle population is inevitably limited and only represents a small market. Initiatives such as the creation of the Inter-African Union of Professional Farmers Organisations (UIOPE) in November 1999 in Nouakchott, grouping together 12 West and Central African countries, could stimulate the creation of professional unions in each of the member countries, and could also lead to the co-ordination of common international actions in fields such as supply, rational use of resources, the elaboration of concerted land and pastoral legislation, marketing of animal products, access to credit, etc.

References

CIRAD-EMVT, *Fiche Technique d'Elevage Tropical n° 4,* Les groupements d'éleveurs, II. leur rôle, Ministère de la Coopération et du Développement, Paris, France, 1995, 24 p.

FNEC, *Rapport annuel d'activités de la Direction de l'Animation Mutualiste* (DAM / FNEC), République Centrafricaine, 1997.

Kade K., *La distribution des intrants vétérinaires par la Fédération Nationale des Eleveurs Centrafricains*, Mémoire d'ingénieur d'agronomie tropicale, CNEARC, Montpellier, France, 1994.

Le Masson C., Assana Remayeko, *Les éleveurs Mbororo, étude socio-économique,* ANDE, Ministère du Développement Rural, République Centrafricaine, n°090/101, 1990, p. 226.

Meyer C., Romier G., Lesnoff M., Le Masson A., Messad S., Faye B.,. Enquête sur l'élevage du bétail de République Centrafricaine, Rapport final Cirad-Emvt n°97-029, CIRAD-Montpellier, France, 1997.

SOLAGRAL, Marchés Européens des Viandes, Projet bétail-viandes CMA/AOC, Conférence des Ministres de l'Agriculture de l'Afrique de l'Ouest et du Centre, note N° 6, 1998-1999.

Thomé O., Bonis Charancle J.M., Mestre C., Correze A., *Processus de privatisation en santé animale, synthèse des études de cas (Burkina Faso, Guinée, Niger et RCA),* Mission chargée des Etudes, de l'Evaluation et de la Prospective, MEEP, Ministère des Affaires Etrangères, Ministère de la Coopération, Paris, France,1995.

Verdier A., *Rapport final d'activités du gestionnaire des Intrants* (mars 1990-mai 1992), FNEC, Département des Intrants, juin 1992. République Centrafricaine, 1992, p. 25.

Case study V. Process and impact of privatisation of animal health services, a comparison of Ethiopia and Kenya

CONTEXT AND OBJECTIVES

Ethiopia and Kenya are two countries in SSA and the Horn of Africa, which are comparable, given several general characteristics (Agro-eco-zones, subsistence and market-oriented farming systems), particularly when addressing the livestock sector and, thus, the animal health system. How privatisation was implemented through incentives, by natural forces and with government consent or not, and how it has affected socio-economic indicators is discussed in the following sections.

MAIN ISSUES OF PRIVATISATION

Given the mandate and objectives of veterinary services and animal health systems in Africa, we compared the impact and process of privatisation schemes being implemented in East Africa, taking into consideration Kenya and Ethiopia, where privatisation schemes were implemented under the PARC (Pan-African Rinderpest Campaign) umbrella. The means used for privatisation in Ethiopia and Kenya to promote private activity fall within the PARC's Veterinary Privatisation Scheme, strongly associated with PARC's Credit scheme.

Governments were previously involved in most animal health activities either due to ideology or by tradition. Due to SAPs and the pressure of international bodies and donors, privatisation has been advertised and schemes have been designed to achieve the objectives of delivering more services to farmers and to limit public budgets disbursements for animal health systems.

The aim of the privatisation schemes was to encourage selected animal health practitioners to start their own private activity in high and medium-potential areas of the countries, with various financial and technical supports from PARC (financial incentives, guarantees, training). We can also consider that the privatisation process has been fairly helpful in naturally boosting other forms of private animal health activity (without specific incentives or incentives given by the livestock sector *per se*) undertaken by other stakeholders than the PARC; we can mention private livestock production entrepreneurs who have integrated livestock services into their own companies, NGOs which have implemented integrated rural development with services, and co-operatives (or livestock owners associations) employing animal health experts. Consequently, it refers to a given level of privatisation of collateral sectors (livestock) allowed by the state.

MAIN PROCESS AND RESULTS OF PRIVATISATION

In Ethiopia, the PARC's Credit Scheme achievements are summarised as follows: 339 veterinary professionals have submitted application forms, 125 veterinary professionals have participated in the pre-loan training, 78 project proposals have lead to a final total of 21 loans being granted. In Kenya, where the process has been going on for longer, 32 projects have been retained. The cut-down effect from the number of people interested to current commitments in private activity shows that privatisation has not been a success. Veterinary privatisation in Ethiopia and Kenya has also been characterised by some constraints which have hampered partially or totally the success of the operation, e.g., bureaucracy, inadequate individual and governmental commitment to move from state provision of veterinary services to private delivery (actually regions in Ethiopia are expanding public veterinary services continuing to use delivery principles remaining from subsidised public veterinary services), unclear regulations and legal provisions and guidelines governing private veterinary practice (although there were efforts from countries' veterinary associations EVA and KVA to clarify some conventions, e.g., a code of ethics). Competition in drug sales by non-professional staff, inadequate experience of financial institutions in the provision of credit to finance private veterinary practice, competition with a flourishing black market, and, finally, farmers who were too attracted to the drug business and sellers rather than service delivery, all represent governmental or market failures.

IMPACT OF ANIMAL HEALTH SERVICES AND DRUG COMMODITY SUB-SECTOR PRIVATISATION

Poverty reduction, income generation and reduction of inequality

From the farmer's side: any increase in farmers' income and specific indicators such as profitability, return on sale, investment, output and debt are debatable, as the productivity of farmers is not only due to use of animal health services. Subsistence farmers have gained more from adopting other options (crossbred cows which need more health care) than private health services *per se,* which have resulted in increased income. Some private farmers have shown that proper health management in large-scale dairy (peri-urban) farms have shown optimal use of health services (private), which while being more costly, are more beneficial and provide a competitive advantage to the dairy farm.

From the health provider's side: It is clear that private activity has boosted the income of some private practitioners compared to public staff, but a certain level of competition (fair or unfair) has also eroded prospective income. Only employees from private veterinary firms seems to contribute sustainable income.

Improved provision of effective social services and infrastructures

The number of clinics and health buildings constructed by the governments has increased but does not reflect the service provided, and when accounting for progress, one must be careful to the use correct indicators of achievements in social services. In Ethiopia, governmental clinics have expanded, and in Kenya they still remain active but service is poor. In addition, the regional budget allocated to clinic construction has high opportunity costs as these funds might have been used for running the current health system, which is failing. The equity to access services, or access to client (as a reflective topic) refers to various factors, i.e., barriers to payment (purchasing power), natural barriers (mountainous countries such as Ethiopia are difficult to serve), lack of infrastructures (or unequal density of infrastructures such as roads) and the variability of the clientele concerned (demographic characteristics), and eventually differences in farming systems features (marked or subsistence-oriented farms, degree of intensification, etc.). Kenya and Ethiopia show numerous governmental failures within such debate. The one available health system provides only PAHC (primary health) to farmers, and does not take into consideration the variability of their needs. Privatisation has had a chance to help only in developing the drug commodity sector as a substitute for the failure of the government health system when it was unable to provide drugs in a sustainable manner (purchasing and delivery system), but this the led to self-medication. When looking at the real activity of health services (number of vaccinations as public goods and curative treatments as reflecting day-to-day clinical field work), some people may assume that access is still very poor from both points of view: the public sector is not capable of serving the demand, and the private sector is not willing to give service to subsistence farmers in rural areas (toll effect), although we do observe that the drug delivery system sector is successful, as most private firms are running veterinary pharmacies. NGOs and their health projects, consequently, have substituted for the government and market failures in remote, low-productivity areas, providing services with help of CAHW's system (a community-based system).

The final service delivery staff ratio given the animal population would better represent the capacity of the system, although it does not reflect the important variability within the system nor real activity and health improvement.

Businesses having settled in Ethiopia since privatisation started in 1998 include 40 clinics with pharmacies, 20 clinics without pharmacies, 33 animal health posts, 113 pharmacies and 109 drug importers.

In 1998, this represented 206 animal health staff workers nationally involved in a private service delivery system (if we do not consider veterinary staff involved only within drug importing companies, considering they that are not delivering direct field service). There are a number of biases in such figures and a comprehensive study should look into details (per region, per agro-eco-zone, etc.), so that we really understand the diversity of situations. As an illustration, a high percentage of this staff is working in the capital, Addis Ababa (100% of importers, 50% of clinics with pharmacies, almost 50% of pharmacies and clinics without pharmacies), again over-estimating the VLU per staff calculation at national level.

Ethiopian government-employed veterinary staff figures for 1998 (PARC source) show 483 veterinary surgeons, 800 animal health assistants, 3,016 technicians and 312 other staff, and 4,611 as the total animal health staff.

In Kenya, animal health personnel includes a total of 944 veterinarians, out of which 760 are government veterinarians, plus 184 private veterinarians and an additional 2,840 other health workers.

VLU veterinary livestock unit indicators in Ethiopia and Kenya represent livestock equivalent calculations (VLU/staff = Veterinary livestock units per health worker). Kenya has a total of 15,111,500 VLU without considering poultry. The Ethiopian livestock population by region (98-99 census) shows that it has a VLU population of 42,261,000, not considering the poultry population.

In Kenya, when reducing the animal population to VLU without poultry, we have a total figure of 3,784 health workers, among which we find 184 private veterinarians. The VLU per private practitioner in Kenya thus reaches a level of 82,127.72 VLU / private staff, (almost three times less than in Ethiopia), whereas we get an indicator of 3,993.50 VLU per health_staff in general (without considering poultry, but with full health service capacity).

Figures in Ethiopia represent a global indicator of 205,150.50 VLU / private health staff. Again, we have restricted our analysis to large ruminants, equines and small ruminants, representing globally the main animal population for assets, production factors for agriculture and domestic work, or cash animals for both domestic and export markets in both countries. This ratio may not represent an accurate indicator as private activity is mainly involved in the drug business and hardly at all in end-user service delivery. If we consider only governmental health staff in Ethiopia the figures change to 9,165.26 VLU per governmental health staff considering the number of 4,611 staff in 1998, which covers the global capacity of the system and not only end-user service delivery staff.

Table I. VLU veterinary livestock unit indicators in Ethiopia and Kenya.

	VLU without poultry	VLU / private	VLU/ public staff	VLU / total staff
Ethiopia	42,261,000	205,150.50	9,165.26	8,791.50 without importers
Kenya	15,111,500	82,127.72	4,197.60	3,993.50 with importers

Country VLU portfolio summary.

Forms of privatisation in both countries have been fairly similar, but the fact remains that there is a significant difference in VLU / staff, especially with regards to private activity, which may signal differences in livestock sector privatisation, more integration of input services in the livestock business and various levels of commodity sector organisation achievement.

Improved food security: access to food by all at any time

The intensification process in dairy in which animal health component participates has been studied by various institutions and it is clear that the global intensification process provides room for improved household incomes and food security through better productivity of animals, i.e., under conditions where livestock services are provided. On the other hand, poor veterinary services in pastoral areas allow contagious diseases to spread without control and have led to numerous international bans (RVF), which, as a consequence, could hamper cash generation for pastoralists who used to sell cash animals (small ruminants) to export markets and buy cereals with this cash. Neither private nor public systems have been currently able to tackle these problems and food security remains a problem for poor people in the Horn.

International competitiveness in livestock exports

The quality of the export products has not been improved (skins and hides being a good example in Ethiopia, where quality is getting worse from year to year). There are no quality incentives that force farmers to treat their animals against skin parasites.

On the other hand, export bans due to diseases have shown that export markets for animal products are fragile given new international regulations and poor national health systems. Bans have direct consequences on cash generation and food security for certain groups of farmers (pastoralists), and diseases are more frequently exposing countries to trade barriers. However, to monitor diseases, the health system must have frequent contacts with farmers, which is not the case in pastoral and remote areas. Only a certain type of contract approach may help in achieving this objective.

GLOBAL CONCLUSION

Privatisation of veterinary services has been successful only in allowing a new drug commodity sector to appear. Competition from government services and the absence of laws still remain the most restraining factors. Service delivery and health improvement remain very poor although new infrastructures have been implemented by the government, but without enough contractual commitment to alternative health system co-ordination solutions. In addition, the poorer market-oriented livestock sector in Ethiopia may explain differences in privatisation achievements and livestock sector performance between Kenya and Ethiopia.

Case study VI. Health and education sector[20]

SITUATION OF HEALTH AND EDUCATION IN THE DEVELOPING COUNTRIES

There has been tremendous progress in improving the health and educational level of the world's population over the past 35 years (UNESCO and UNICEF annual reports). Nevertheless, enormous problems remain, particularly in Africa. Levels of child mortality in Africa are about fifteen times greater than in the rich countries and scarcely more than half of the children of primary school age actually attend school, compared with about 80% in Asia and up to 90% elsewhere in the developing world. Of critical significance has been economic decline, particularly in SSA, where the effects of recession still linger. Although in most developing countries public expenditures on health (as a proportion of GDP and in real per capita terms) increased strongly throughout the 1980s, there were important exceptions, for example, in several countries in SSA where declines in public spending on health occurred. In the case of education, such reductions were much more dramatic. Although public expenditures for education as a share of GNP were usually maintained, their absolute value dropped sharply, particularly in Africa.

CASE FOR GOVERNMENT FUNDING

Education and health services have been, almost everywhere, provided and financed substantially by the government – including in the developing countries. The case for state funding of education and health is based upon:
– the possibility of market failures such as externalities (not all the benefits of education and health are privately captured by their direct recipients), imperfect information (not all the private benefits are obvious) and monopoly (in poor and small economies, demand for services may not be large enough to support more than one supplier);
– distributive considerations: because health and education are components in the notion of standard of living and because they have an impact upon future income, their distribution of access is important to society;
– notions of 'rights': there is a potential contradiction between adopting targets for universal access to and consumption of basic services, while at the same time charging for their supply.

20. Summary of the book: Colclough, C, (ed) Marketizing education and health in developing countries, Miracle or mirage? Clarendon Press Oxford, 1997.

CASE FOR MARKET ALLOCATION

Contrasting characteristics of health and education systems

In order to become educated, it is usually necessary to partake in the educational system for a considerable number of years, but to remain healthy, it is not usually necessary to remain a consumer of health services on a long-term basis. In terms of investment attributes, education increases the earning capacity of individuals (effects on productivity), while health expenditures are income-restoring rather than income-enhancing. Thus, people are usually more will to pay for education than for health out of their present or future income. There are also problems of 'agency' with both of these services, most severe in the case of education: there is discontinuity between those who benefit (the children) and those who are required to pay. In terms of costs, education and health differ with regard to the predictability of the expenditures. Education costs can be anticipated and planned for while health expenditures are unpredictable both in incidence and magnitude. These differences make insurance schemes a viable option for the financing of health services.

Increasing the role of the market

Arguments for increasing the role of the market emerge from a similar critique of the governments' records in the two sectors:
– because governments in developing countries are at present fiscally constrained, enhanced resources for education and health are not likely to be available from traditional revenue instruments;
– it is judged that resources are often misallocated, with a larger number of (the poorer) people who have no access to education and health;
– it is argued that publicly-financed of health and education systems are often of low quality and inefficiently managed;
– it is unrealistic to expect improvements, as those who support the governments have interests that may be threatened by a more equitable sharing of access to the services.

Private supply with fees charged is expected to:
– help alleviate the financial constraints;
– allow allocations to be more efficiently managed;
– improve technical efficiency by giving teachers and health workers a financial stake in the company. On the other hand, users would demand more of their schools and health services.

EVIDENCE FROM THE DEVELOPING COUNTRIES

However, evidence provided from case studies, in particular in SSA, raises a number of questions as to whether increased fees can be beneficial.

Costs

Case studies in health and education in SSA show that cost recovery policies have raised revenues far less effectively than was initially expected; collection costs are high and fees typically recover only a small proportion of total costs. Limited evidence shows that in some cases revenues have allowed supplies of drugs and medicines to improve at the local level, but generally, both usage and equity have deteriorated as a consequence of fees.

Efficiency

The case study in Indonesia concludes that the relative merits of public and private schools – the latter perform better, may be related more to the nature of school management than to the sources of school funding. The case studies report a range of alternatives which stop short of privatisation but attempt to create, within the public sector, arrangements which replicate some of the competitive characteristics of markets, in order to encourage more efficient production (competition between providers to attract public and private funding, contractual relationships between purchasers and providers of the services, managerial decentralisation, choices for consumers among both purchasers and providers...). However, in practice, central and local governments are often the only relevant purchasers, most people do not have sufficient knowledge to make sound choices, and in rural areas, there is usually no choice. Moreover, there are questions about the ability of the public sector to negotiate and manage contracts adequately.

CONCLUSIONS

Equity and efficiency losses are endemic to the introduction of user fees. These fees could be made compatible with equity and efficiency objectives only if some fairly demanding institutional reforms were implemented (supplementary measures to protect access for the poor, decentralisation...). Although the efficiency of provision is low in the public sector, it would probably be easier to improvement this than it would be to develop governmental capabilities to negotiate and monitor contracts, and to regulate the private sector. Decentralisation and strengthening local management capacity appear important for improving technical efficiency. Governments should probably continue to provide some services across the full range of services, with the private sector functioning as a supplement rather then as a replacement for public care.

Case study VII. Infrastructure sector[21]

SITUATION

The performance of the infrastructure sectors has been quite poor in many developing countries. Many people lack access to these services or have to face many constraints (high prices, years of delay, bribes, highly politicised availability and quality of services, etc.). Technical performance is often weak (obsolete equipment, excessive labour, low productivity).

The reasons for poor performances are complex and diverse: countries may be too poor to finance and support extensive investment in infrastructure, political considerations may have led to prices being set too low to cover operating costs, the regulatory and legal framework may not be conducive to potential investors and performance also suffers when corruption is rampant.

The process of privatising utilities in Africa is now under way in some ten countries, although it has not, thus far, involved the transfer of shares or capital, but has been based on various alternative forms of privatisation (performance contracts, leasing contracts, concessions, etc.).

CASE FOR GOVERNMENT FUNDING

Traditionally, responsibility for supplying many of the basic infrastructure services – electricity, water, telecommunications, transportation – has been assigned to state-owned monopolies. These public enterprises must guarantee universal access while monitoring acceptable standards

21. Summary of the following two documents: ILO, *Managing the privatisation and restructuring of public utilities (water, gas and electricity)*, Sectoral Activities Programme, ILO, Geneva, Switzerland, 1999. – Joskow, P., L., Regulatory priorities for infrastructure sector reform in developing countries, in Pleskovic, B, Stiglitz, J, E, (eds) 1998. *Annual World Bank Conference on Development Economics*, The World Bank, 1998, p 191-236.

of safety, quality and service delivery. The case for state financing of basic infrastructures is based upon the characteristics of natural monopolies in these sectors: economies of scale are so substantial that a single firm can produce total business output at a lower cost than two or more firms.

Competition for the market through concession or franchise contracts, must confront market failures resulting from significant sunk costs, asset specificity and incomplete contracts. In terms of distributional and allocative efficiency in access to infrastructures, privatised firms, because of the logic of their objectives, concentrate only in areas where they can yield maximum profit, which can undermine the guarantee of universal access. Privatisation can perpetuate monopolistic practices, or vulnerable groups can loose access to infrastructure and welfare services.

CASE FOR MARKET ALLOCATION

Despite the widely held view of little or no private participation in large infrastructure services, there are numerous cases which testify to the historical role played by private enterprises in the utilities industry. This participation has coincided with the recognition of considerable investment needs (deterioration of old networks, increased demand).

The infrastructure monopolies often are vertically integrated and provide services that are (arguably) natural monopolies. However, there are arguments for increasing the role of the market, as some services are potentially competitive but require access to bottleneck ('essential') monopoly network facilities to make competition feasible. As in other economic sectors, public finance in the infrastructure sector has been criticised due to budget constraints that limit the extension and improvement of utility networks, due to risks of misallocation, low productivity and rampant corruption.

EVIDENCE FROM INFRASTRUCTURE SECTOR REFORMS

Costs

The budgetary implications of privatisation do not seem to have taken into full consideration a variety of costs arising from, for example, the transition and monitoring process, negative environmental and health effects, unemployment, training and other compensatory measures, and losses from assets sold below market value.

Efficiency

Both private and public management models can be efficient and effective. World-wide, there are examples of both privatised companies and traditional public companies which are successfully competing internationally and expanding world-wide. The success of infrastructure sector reform depends partly on the creation of effective regulatory institutions: establishing regulatory goals, deciding on the structure and organisation of regulatory agencies, crafting regulatory mechanisms that balance efficiency and distributional goals, setting appropriate tariffs, establishing the terms and conditions of access by competitors to bottleneck network facilities, and determining the regulator's role in promoting competition.

CONCLUSION

Infrastructure sector reforms must support regulatory institutions that protect consumers from abuses of market power. Regulation must promote efficient supply behaviour by firms providing residual monopoly services subject to public regulation and must facilitate competition by implementing appropriate rules for access to network facilities.

There is a need to strike a balance between profitable business operations and the provision of cheap, reliable, good quality and widely accessible services. Mechanisms need to be developed to monitor, follow up and regulate the privatisation process according to a broad range of criteria including social, environmental and economic considerations.

Case study VIII. Mining sector

It is interesting to compare the situation of two primary sectors of the economy : agriculture and mines (table II). These differences underscore the radically distinct constraints faced in the process of privatisation and the need to adapt the strategies to the specific conditions of the primary sector involved.

'(1) 'Despite the high level of risk associated with civil and military conflicts, statistics show that mining companies, in particular foreign mining companies, are increasing their involvement both in exploration and in production in Africa (Angola, Sierra Leone, Democratic Republic of Congo, etc). Mining companies, in the absence of state structure tend to rely for example on private security companies to reduce the risks posed to their investments' (Aoul *et al.*, 2000). Aoul *et al.* also note in the case of DRC that 'given the extraordinary wealth of the country's resources and basic in-place mining infrastructure, its difficult political situation did not represent a major obstacle for foreign mining companies.

(2) 'Privatisation of the Zambia's largest enterprise by far, the Zambia Consolidated Copper Mines (ZCCM), proved much difficult. Not only is it a sensitive issue among miners who face widespread job losses, it has also run up against the uncertainties of the world market -- a problem that has plagued mining privatisations in several other African countries. In 1996-97, the price for copper on the world market began to plummet and became worse during the 1997-98 Asian economic crisis' (Africa Recovery)

(3) The mining sector has the advantage of offering readily identifiable and measurable business opportunities; the liberalisation of the African legal and financial environments as well as the promotional efforts of the Multilateral Investment Guarantee Agency (MIGA) with regard to investors has succeeded in convincing foreign businesses to invest on the continent. The strongly recommended liberalisation of this sector resulted in the redrafting of most national laws regulating investment in the field to encourage foreign investment (Aoul *et al.*, 2000). In the case of Zambia, the state made several arrangements: 'To make ZCCM more attractive to investors, the giant enterprise was 'unbundled' into five major and six smaller units. Environmental protection laws were relaxed despite the fact that the company is a major polluter.'

Financial stake in the mining sector may facilitate the process of privatisation (except for the risks on world prices as it is the case in Zambia for the privatisation of the copper company). However, it leads to a risk of weakening of the states (deregulation geared toward attractiveness of FDI, maybe at the expense of local interest, e.g. environment; private security companies or even mercenary may lead the states to forego their obligation to guarantee public security and social order). On the other hand, privatisation in agriculture and commodity-chains in particular face more difficulties due to low profitability and complex organisation of the sector, but an efficient process of privatisation should lead to reinforce the institutional environment.

Table II. Situation of agriculture and mines.

	Mines	Agriculture
Market Supply	Oligopolistic (only few large international companies)	Dispersed among many farmers
Institutional and political environment requirement	Low (1)	High (require public goods : roads, information on prices, access to markets – see main document)
Risks on production	Low	High (climate, pests, etc.)
Risks on international prices	High (2)	High
Profitability	High	Low
Opportunity for FDI	High (3) Rate of return on FDI: 34.2% (UNACTD, 1998)	Low

References

Anon., Zambian copper privatization stumbles, *Africa Recovery on line* vol. 14 (1), 2000. (www.un.org/ecosocdev/geninfo/afrec/)

Aoul, S., K., Revil, E., Sarrasin, B., Campbell, B. *Towards a spiral of violence? Mining activities and the use of private security companies,* Memorandum submitted to the Human Rights Commission of the United Nations and the Minister of foreign affairs and international commerce of Canada, Montreal, Canada, 2000.

UNACTD, World Investment Report, UN, New York, USA, 1998, p. 175.

ANNEX III

Review of literature on existing methods and studies

This brief review of the impact of public sector privatisation on developing countries cannot do justice to the vast literature that exists on the subject after two decades of liberalisation and privatisation. In the following pages, we will try to clarify the terms and the limits of the study, to review what have been the objectives and the evolution in the implementation of the privatisation programs, to summarise some frequently reported benefits and problems and the criticisms of these programs, and finally to go over some of the conclusions drawn in the literature for improving the process of privatisation. The reported results focus on Sub-Saharan Africa (SSA). References to Latin America and Asia are provided more for comparison than for an in-depth analysis of the impact of privatisation in those regions.

Definition and theory of the privatisation

DEFINITION

In developing countries, privatisation is linked with Structural Adjustment Programs (SAPs). Principally a policy tool of the World Bank (WB) and the International Monetary Fund (IMF), SAPs generally entail the reduction of government expenditures and stabilisation of macro-economic imbalances, the privatisation of state-owned enterprises, and the liberalisation of trade regimes - removing price controls and subsidies. For the definition of privatisation, Guislain (1997) distinguishes three levels:

On the first level, it refers to the privatisation of a public *enterprise*, whether through divestiture or other techniques. The World Bank distinguishes (1) privatisation - transfer of operational control of a state-owned enterprise (SOE) from the government to the private sector. Control is most often secured by majority ownership – and (2) divestiture - any transaction by which a government has transferred title in or sold some or all assets or shares in an enterprise, regardless of any transfer of operational control.

On the second level, there is privatisation of a *sector* with the introduction of private entry, often by abolishing public monopolies or other barriers to entry. It often includes, but not necessarily privatisation on the company level.

On the third level, the term privatisation can have an even wider connotation, including the privatisation of an entire *economy* with a conversion from a centralised and bureaucratic to a market economy.

Privatisation can mean selling of SOEs to private parties (1^{st} level), introduction of the private sectors in some sectors of the economy (2^{nd} level) or in a broader sense, conversion to a market economy (3^{rd} level).

Two types of enterprises or sectors can be distinguished: SOEs operating in potentially competitive markets and those in natural monopoly markets (Shirley, 1999). Natural monopoly exists when economies of scale are so substantial that a single firm can produce total business output at a lower cost than two or more firms (*in* Kim, Horn, 1999). It gives rise to a potential conflict between cost efficiency and competition, and regulation may be necessary to protect consumers. This category comprises, for example, utilities (water, electricity, telecommunications, etc.) or train transportation.

EXTENT OF PRIVATISATION

Global phenomenon

Privatisation is now a global phenomenon, adopted in many countries irrespective of their level of development or the political affiliation of their government. As expressed by Guislain (1997), since the launch of the UK privatisation program in the early 1980s, the privatisation wave has swept over the world, touching every continent, every political system, and every sector. In developing countries, it has forcefully been promoted by WB and IMF. Its emphasis has moved gradually from the industrial, agricultural, commercial and financial sectors to the infrastructure sectors; it has recently started to reach social welfare services such as education and health, and administrative services.

Between 1990 and 1996, states in developing and transition economies divested $156 billion of their assets to the private sector (Bangura, 2000). Privatisation programs show considerable regional variation; the bulk (57% by value) of privatisation took place in the Latin American and Caribbean region, while very few have taken place in sub-Saharan Africa, the Middle East and North Africa (Donaldson, Wagle, 1995).

In Africa, although some countries began modest privatisation programs in the 1980s, it was not until the 1990s that the numbers increased significantly. Nowadays, hardly any African country does not have some kind of privatisation program. Namibia is one of the very few with no plans to privatise, largely because its state enterprises are generally operating at a profit, writes Harsh (2000).

Critics on the mode of intervention of WB and IMF

Due to this widespread presence of privatisation programs, NGOs and scholars in particular have underscored the hegemony of the intervention of WB and IMF. Chossudovsky (1997) criticises the false liberalism of these organisations: Whilst supported by neo-liberal discourse, the SAPs sponsored by the Bretton Woods institutions constitute a new interventionist framework. The IMF, the WB and the WTO (World Trade Organisation) are administrative structures that supervise national economies through deliberate manipulation of market forces. A new 'triangular division of authority' has unfolded, based on the close collaboration of the three organisations in the 'surveillance' of the developing countries' economic policies. Many of the clauses of the SAPs have become permanently entrenched in the articles of agreement of the WTO.

George and Sabelli (1994) also wrote 'The WB has managed to make its own view of the world appear the norm. Its real success has not been so much economic – however great the economic power it wields – as cultural, ideological and, in a not entirely metaphorical sense, religious. (Religion cannot, by definition, be validated or invalidated, declared true or false – only believed or rejected)'.

What then are the theoretical bases that have led to this strong support of privatisation by international organisations?

PRIVATISATION THEORY

Much of the debate on privatisation in developing countries focuses on World Bank and IMF positions summarised as the 'Washington consensus'. The WB and the IMF have justified privatisation based on liberal theories. Criticisms of privatisation are built largely in reaction to WB and IMF positions. We briefly report here some of the major ideas supporting or opposing the privatisation process.

1980s: neo-classical economic theory (Galal et al., *1994; Vickers, Yarrow, 1991)*

The widespread adoption of programs of stabilisation, structural adjustment, liberalisation and deregulation in the 1980s has been driven by the recognition that competitive markets and entrepreneurial activities enable a more efficient allocation of resources whereas state intervention was pervasive in many sectors of the economy in the 1970s in the developing countries.

Specifically for privatisation, the theoretical basis relies on the differences between public and private ownership. Hypothesised differences can be assigned to one of the 2 categories:

Differences in objectives: private enterprises pursue maximisation of profit; public enterprises may pursue whatever the government wants and is able to finance (social welfare, personal agenda of the policy makers: high wages and employment levels in particular companies or sectors, redistribution to favoured interest groups, etc.); in competitive market conditions (and in the absence of other market failures) externalities are small, so private profit and social welfare objectives are closely aligned, and private ownership is likely to have the advantage, especially if the public bureaucrats have considerable scope to pursue personal agendas. On the other hand, public ownership may have the advantage if externalities are larger and the pursuit of personal agendas is more constrained, e.g., by a well-functioning political system.

Differences in constraints: public enterprises may face insufficient autonomy, private companies may encounter constraints on access to capital. However, a particular important set of public constraints is that on incentives. When property rights are held by the state, no individual has the incentive to exert the effort to see that resources are used efficiently. Moreover, as a sitting government cannot credibly commit future governments to do or refrain from doing certain things, this leads to inefficiently myopic behaviour on the part of public-enterprise managers.

The most important point to emerge from empirical evidence is the importance of competitive conditions and regulatory policies, as well as ownership, for incentives and efficiency (Vickers, Yarrow, 1991).

Critics of the theoretical basis

OWNERSHIP AND FUNCTIONING OF THE MARKET

Critics of privatisation theory have been held the idea that the conditions of the markets and of the overall economy, particularly in the developing countries, were not those described in the theory.

For Fine and Baykiss (1998), the pressure to privatise comes from:
– an unfounded belief in the superiority of the private over the public sector, a false dichotomy between the state and the market with an undue bias, in theory and evidence, towards the role of the market and private capital;
– a neglect of the pre-conditions required for privatisation to be successfully managed or simple faith that privatisation will itself generate or enhance the appropriate economic and political circumstances required for it to be successful ;

– a neglect of the broader social, political and economic environment in which privatisation is situated.

In the case of developing countries, and SSA in particular, Logan and Mengisteab (1989) argue because a privatised firm relies on the market for its success, privatisation is inappropriate as a mechanism of change in SSA. Indeed, SSA economies are characterised by the absence of market penetration (pre-capitalist segments, traditional segments not dominated by the market, unwillingness of entrepreneurs to expand in the rural sector); the risks of exploitation (privatisation likely to exacerbate inequalities, perpetuating the concentration of resources); the market distortions (oligopolistic or monopolistic structure; real demand –defined by ability to pay- inferior to actual demand).

THE CASE OF THE INFRASTRUCTURE AND WELFARE SECTOR

The risks of the privatisation of natural monopolies have been underscored. In the case of Nigeria, for example, Adejumobi (1999) writes that when the infrastructure and welfare sectors are privatised and subject to market rules (appropriate pricing and financial returns), the result can be reduced access for those who are not prepared to pay, with severe consequences for society. Private firms cannot be a panacea in terms of efficiency of distribution and allocation in the delivery of social welfare services; due to the logic of their objectives, they concentrate only in areas where they can yield maximum profit. In terms of operational efficiency, it does not appear that private firms are better organised. A number of studies confirm that public corporations are no less efficient than private firms. Privatisation may perpetuate monopolistic practices, e.g., in the cases of small market size, purchase by multinational firms that possess technological and financial capacities to manage alone the enterprises, network building. The same ideas are also developed for the health sector in SSA by Logan and Mengisteab (1989).

1990s: New institutional economics (NIE)

In the 1990s, the balance came back towards a more significant role of the state in theory. In particular, some of the latest reports by the WB draw on the theoretical framework of NIE, e.g., WB, 1995, World Development Report, 1997).

NIE (Harriss *et al.*, 1995) starts out in the framework of neo-classical economics but offers answers to what have remained as puzzles in neo-classical theory. One of these puzzles is the problem of the existence of the firm as an administrative and financial organisation. In the context of economic policies in the 1990s, it has challenged the dominant role ascribed to the market; it shows that neither state nor market is invariably the best way in which to organise the provisions of goods and services. It offers a theory of development in terms of appropriate institutional changes (which fosters further economic growth). Institutions are broadly defined as means of reducing information and transaction costs, of reducing uncertainty in human exchanges. NIE contributes to the understanding of development, offering insights into the role of the institutions in shaping patterns of economic activity in the long run, offering understanding of the economic significance of societies and cultures that market-based reasoning might misunderstand or ignore. It emphasises the constraints upon change, subject to limited information, diverse mental models, and the influence of historically rooted norms and conventions.

Countering earlier conceptions of economic reform that included 'an overzealous rejection of government,' since 1995-97, the World Bank argues forcefully that a focused and capable state remains central to economic and social development. 'Development without an effective state is impossible,' declares the Bank's World Development Report 1997. The Bank offers a framework for state reform. Instead of a 'simple message of dismantling the state,' it proposes a two-part strategy. On the one hand, the state's role must be matched to its existing capability. This means pulling back where the state was previously overextended, in order to guarantee 'the economic and social fundamentals.' These include securing property rights and public order so that business is encouraged, and providing essential infrastructure (transport links, communications, energy) when the private sector is unable to do so. In addition, noting that 'markets undersupply a range of collective goods', the Bank argues that states have a legitimate responsibility to ensure clean air, basic literacy, public health, cheap transport and other services that promote people's general well-being. On the other hand, because existing state capability may not be sufficient to cover all these functions, capability must itself be strengthened over time, a priority that is especially important in regions such as Africa. Public institutions can be made more efficient by increasing civil servants' salary incentives, introducing merit-based recruitment and promotion and 'contracting out' certain operations to the private sector or non-governmental organisations. Arbitrary rule and corruption can be reduced by introducing more checks and balances on those in top political positions and by 'bringing the state closer to the people,' says the report. (Africa Recovery, 1997)

This development in the theoretical basis is linked with a change in the concrete approach to privatisation (see paragraph 2.2. below), but it seems that practical implementation is only changing slowly for the moment. In particular, Joseph Stiglitz's and Ravi Kanbur's recent departures from the World Bank show that critical views are not yet accepted, at least from the American side. Stiglitz was vice-president and chief economist at the World Bank and criticised, in particular, Western reform proposals for transition economies, notably shock therapy (Stiglitz, 1999). Kanbur was writing the 2000 annual report of the World bank on poverty and wanted to express that growth does not systematically lead to the reduction of poverty and inequalities (Cassen, 2000).

Objectives and evolution in the implementation of the public sector privatisation

Objectives in terms of growth

The practical implementation of privatisation programs has generally been justified both by theoretical arguments (private efficiency vs. public inefficiency) and by structural factors (decrease of public finance/debt, international competition, need to develop capital market) (see the methods in Box 1).

As expressed by Guislain (1997), from a general point of view, the real challenge of privatisation is not just to sell a company or shares. Much more, it is to seize the opportunity to refocus the role of the government and public administration, increase economic efficiency, and adapt a company, a sector, or the economy as a whole to the fast-changing requirements of the international economy. By shifting the emphasis from productive activities perceived to be strategic to core governmental responsibilities (national defence, security, justice, etc.), governments can become catalysts, promoters, regulators, and redistributors (of wealth).

Enterprise privatisation

Megginson (1999) summarises the governments' objectives: 'Governments have been selling SOEs to private investors in order to improve these firms' performance through the discipline of private ownership, as well as to raise revenue without raising taxes. The specific objectives articulated for privatisation programs are often very ambitious. These objectives are to: (1) raise new revenue for the state; (2) promote economic efficiency; (3) reduce government interference in the economy; (4) promote wider share-ownership; (5) provide the opportunity to introduce competition; and (6) develop the nation's capital markets.'

Campbell and Bhatia (1998) qualify the governments' intentions: 'Although reduction of fiscal deficits is commonly cited as the main objective, the choice of enterprises for privatisation suggests that the primary motivations have been the need for WB, IMF, and donor financial support and the need to generate proceeds and divest some troubled SOE while minimising political fallout.'

Box 1. The methods of privatisation of SOEs

In Africa, up to 1996, 18 different methods of privatisation had been used. They can be grouped by type of transaction: sales of shares, sales of assets, management/employee buyouts, transfers, equity dilutions, joint ventures, restitutions, liquidations, leases, concessions, and management contracts (Campbell, Bhatia, 1998). Megginson (1999) compares the advantages of the most commonly used techniques.

Voucher programs (transition economies): effectively give the SOEs directly to the nation's citizens by giving them the exclusive right (and the means) to purchase shares. The principal drawbacks are threefold: Voucher programs do not raise cash for the SOE or the government; they do not result in an infusion of new technology or managerial expertise; they do nothing to establish an effective monitoring mechanism for newly privatised firms, and the ownership structure that results from their exercise is usually highly flawed. The more unequal the society, the poorer the median class, the less willing they are to buy shares, the greater the necessity of underpricing. When inequalities are large this can lead to voucher privatisation. However, African governments are reluctant to examine mass privatisation further: financial and technical resources are scarce; mass privatisation would raise no capital, and the market value of the privatised firm may be very low (Campbell, Bhatia, 1998).

Direct selling of assets: In a direct sale, all or part of an SOE is auctioned off, either to an existing company (foreign or domestic) or to a group of investors. Where politically feasible, direct sales are superior to voucher programs in that they solve all three of the problems detailed above. Asset sales also compare favourably with SIPs in terms of the speed with which direct sales can be arranged, the ability of governments to sell SOEs piecemeal, and the fact that the direct sale format means that buyers are obliged to engage certain operating standards in their acquired firms. Furthermore, a recent study has shown that asset sales are preferred to SIPs in countries with relatively undeveloped capital markets. The method is straightforward but it can result in the wholesale transfer of the nation's most prized assets to foreign ownership, when only international corporations and investors have the necessary financial wealth and managerial expertise.

Share-issue privatisation: Despite the great popularity of asset sales, share-issue privatisation's (SIPs) have clearly become the divestment method of choice for most privatising governments. In addition to a maturation of the privatisation technology and increasing comfort with capital market tools, there are at least four other reasons why governments have come to see SIPs as their preferred divestment vehicle: (1) from both an operational and a financial perspective SIPs are the only practical method of selling off the largest SOEs; (2) a SIP is by far the most transparent method of selling corporate assets; (3) governments have realised that they can modify the share allocation, pricing and other terms of a public share offering to achieve political—as well as economic—objectives; (4) SIPs marketed to domestic investors have vastly increased the total capitalisation and trading volume of almost every major non-US stock market.

Based on the widespread usage of SIPs for privatising enterprises, it is possible to identify some guidelines for designing successful initiatives: Demand for appropriately priced shares of attractive companies is essentially limitless; most SIPs are enthusiastically received by investors, at least partly because governments deliberately underprice the shares issued. The structure of privatisation share offerings varies tremendously over time and from country to country, depending on the political and economic circumstances of individual countries.

As SIPs have become larger and more common, the competition for international underwriting and advising mandates has become more intense (Megginson, 1999).

Concerning social aspects, privatisation presents opportunities for redistribution of income and wealth. Apart from political decision-makers themselves, major groups might be affected by privatisation: consumers, employees, new shareholders, taxpayers, etc. Consumers will be affected by changes in the level and structure of prices of newly privatised enterprises; the most immediate distributional effect of privatisation comes from the pricing of privatised assets: discounts on the market price are a transfer of wealth to the new owners from the public in general and the taxpayer in particular. Discount are often associated with policies to promote wider share ownership (Vickers, Yarrow, 1991).

Privatisation of economic sectors

In the case of the privatisation of economic sectors, the government must reconsider the entire structure of these sectors. The objective is to discard the public monopolies and to replace them with a sector structure that is more dynamic, competitive and open to the private sector (Guislain, 1997).

This is particularly true for the economic sectors facing international competition. Restructuring is all the more important where, as expressed by Cornia and Helleiner (1994), consensus has been reached on the necessity of increasing exports and, where possible, efficient import substitution in order to respond to worsened international terms of trade and the medium-term prospect of reduced net external resource transfers. This can require productivity improvement, recapturing lost market shares, effective market management and regional economic co-operation.

The case of the agricultural sector

For Cornia and Helleiner (1994), there is a general agreement among donors and policy makers for the development strategy of building primarily on agriculture, and even on smallholder agriculture. Earlier African aspirations to rapid industrialisation, based upon the squeezing of resources from the agricultural sector, no longer carry credibility. The importance of non-price factors – notably rural infrastructures, transportation, marketing and input distribution systems, credit - is fully recognised by all. However, the land reform that would often be necessary to develop smallholder agriculture is rarely part of explicit development strategy (domestic political pressure, reluctance of external agencies to be drawn into domestic political issues, belief in the efficiency of large farms)

The main objectives of the liberalisation of the agricultural sector are to improve producers' incentives and income, to increase production and productivity, and to develop private participation in marketing and export activities while maintaining the country's reputation in international markets as a reliable supplier of quality products for export crops.

In general, the programs seek to reduce the government's role in the production, pricing and marketing of agricultural commodities. If we take the case of the conditionalities of the structural adjustment loans, the major policies areas are:

– agricultural input and output pricing: get prices right, adjusting domestic prices to international market prices to minimise inefficiencies and financial costs of direct price control;

– trade liberalisation: lowering or abolition of tariff and non-tariff trade protections to improve the relative price of exportable commodities and improve the terms of trade between agriculture and the manufacturing sector (manufactured goods generally received higher rates of protection than agricultural tradables); however, the extent of improvement in relative agricultural prices also depends on the changes in non-agricultural prices, including input prices; hence, if price signals for agriculture are to become fully effective, they should become part of an overall strategy that includes prices of both agricultural commodities and non-agricultural goods and services;

– institutional reform: transfer of the functions of the public institutions involved in agricultural production and marketing to the private sector.

There was considerable regional variation in agricultural reforms in developing countries, with agricultural pricing being more important in Africa and trade policy more important in Latin America and the Caribbean (FAO, 1990).

Evolution and extension of the objectives of privatisation

Much of the initial impetus for privatisation in Africa came from creditor institutions, above all the IMF and World Bank, as part of their push for structural adjustment. Prominent component of SAP were launched after the debt crisis of the early 1980s. The main document launching privatisation in Africa is a World Bank document dating from 1981, *Accelerated development in SSA.*

The first waves of privatisation in the 1980s focused on efficiency, competitiveness, and growth. They did not deal specifically with state reform: it was believed that liberalisation and down-sizing in themselves would produce a minimal and market-friendly state.

But WB and IMF rapidly faced sharp criticism from NGOs, e.g., Development GAP, 1992, scholars, e.g., Susan Geoge, Chossudowsky, and other international organisations such as UNICEF (Cornia *et al.* 1987) as the results of SAPs in SSA have generally been disappointing (see section 3.).

Since the mid-1990s, the importance of working consciously to alleviate poverty and to protect and promote human development in adjustment programs, rather than allowing these matters to derive from more productionist growth policies is once again agreed upon after more than a decade of neglect. As expressed by Jolly (1991 *in* Cornia, Helleiner), even the IMF, to which UNICEF rapidly appealed on these issues, purports to take a keen interest in the implications of the programs for welfare; moreover, labour-intensive, publicly-funded work programs, once discouraged at the WB, are now recognised for poverty-alleviating programs.

Some governments and international institutions seek to proceed in a more measured way, avoiding, if possible, the pitfalls, conflicts and setbacks that marked many of the privatisation's carried out in the 1980s and early 1990s. Social and political concerns deal with minimising job losses, paying greater attention to social and political consequences, linking privatisation programs with broader development and private-sector promotion strategies. Information and participation concerns deal with encouraging prospective buyers to outline future investment plans, broadening company ownership to include employees and the general public, ensuring better follow-up and monitoring, and implementing transactions in a more open, transparent manner, with greater involvement by unions and other concerned parties (Harsch, 2000).

In 1995, the World Summit for Social Development organised by the United Nations in Copenhagen fixed priorities for action. One of the commitments agreed upon was the goal to accelerate economic, social and human resources development for Africa and the least developed countries. This included, in particular, implementing structural adjustment programs which integrate social development goals, encourage trade and investment, give priority to human resource development and promote democratic institutions (UN, 1995).

Recently, the latest annual report of the World Bank (2000) defends *Pro-Poor Policy Adjustment*. In Le Monde, L. Caramel (2000) writes 'The famous *'Washington consensus'* is called into question. The general opinion is that the arrival of James Wolfensohn in 1995 at a time when the World Bank was the target of growing criticism, precipitated this conversion. *'He felt that he had been invested with a mission,* explains a source close to the Bank, *and* *wanted to impose a new vision of development for the twenty-first century'*. Firstly, this would be a global approach. It places, in theory, economic and social objectives on an equal footing. Secondly, it intends proposing development plans for which the concerned countries would be fully responsible thanks to the widest possible negotiations, from elected officials to companies, and including civil society. Lastly, it recognises that there is not one unique model and that each country has to construct its own equation to end the crisis situation.

However, even after 1995, privatisation has remained a common and central feature in many World Bank and IMF loan agreements (Harsch, 2000).

How efficient was privatisation in achieving the objectives? The position of different players in privatisation

The general feeling about the results of privatisation can be summarised as in Yarrow (1999): most of the players in the field of development agree on the necessity for reform and on the benefits of balanced liberalisation. However, there is tension between the potential efficiency benefits of SOE reforms and the relatively leisurely pace at which change has occurred in many parts of the world. A wide gap is observed between the visions and realities of reform, between theory and practice. This tension should be explained in order to improve the pace and impact of state reform in many poor countries.

Beyond the general agreement on the slow pace of the privatisation, the impact of privatisation remains controversial; depending on the political/ideological side, positive or negative impact can be declared without any strong proofs of the results on the field.

Donaldson and Wagle (1995) state that the economic benefits of privatisation are now widely accepted, and can include 'improving enterprise efficiency and performance; developing competitive industry which serves consumers well; accessing the capital, know-how and markets which permit growth; achieving effective corporate governance; broadening and deepening capital markets; and, of course, securing the best price possible for the sale.'

Work by Dinavo (1995) based on Zaire and Cameroon concludes that privatisation promotes economic development and democracy in developing countries. Several governments have opted for privatisation to maximise consumer choice, to promote competition, and to improve the quality and efficiency of goods and services. Many governments in Asia, Africa and Latin America are cautiously turning state-owned enterprises over to the private sector because of the benefits resulting from a free market economy and the spirit of free enterprise.

USAID and OECD are examples of bi- and multilateral organisations that also defend the positive impact of the SAPs.

On the other hand, as noted by George and Sabelli (1994), virtually everyone affiliated with a non-governmental organisation in contact with poorer people or concerned about the environment in adjusting countries, says that adjustment is an unmitigated social and ecological disaster. Ariyo and Jerome (1999) declare, for example, that despite widespread privatisation programs, empirical evidence indicates that the benefits of privatisation are yet to be felt in African countries.

What then are in, more detail, the reported results of privatisation?

PROBLEMS OF MEASUREMENT OF THE IMPACT

We must first take into account important problems in measurement faced by most of the studies. Most of these problems concern both those who support and those who criticise privatisation and SAPs.

Availability and quality of data

A World Bank study on impact of privatisation in Africa (Campbell, Bhatia, 1998) reported disturbing findings: not one program in Africa has in place routine procedures for monitoring and evaluating post-privatisation performance. For Africa, the WB found that it was not possible to assess the impact of privatisation on government financial flows: information on relevant financial flows is unavailable; the amount of cash received by the governments from the sale has not been reported in several countries; some of the proceeds have been used by holding companies and privatisation agencies.

Given the scarcity of information, the data used in the studies generally faces the following problems:
– small sample size which makes it impossible to reach definitive conclusions;
– non-random sample which therefore may have been skewed towards successful privatisation;
– measure of short-term gains; it remains to be seen if they will be sustained;
– few case studies in low-income countries; it remains to be seen if the gains can be sustained in poor countries.

Methodology

(1) Counterfactual

As explained by Stewart (1995), taking actual performances, it seems that in Africa and Latin America, but not in Asia, the adjustment programs were mostly associated with poverty creation. Nonetheless, the policies cannot be judged by these actual performances since what the policies achieved also depends on the counterfactual, or what would have happened in their absence. The adjustments were almost always introduced because of major and unsustainable imbalances and consequently some adjustment was unavoidable, which itself would have had implications for output, income distribution and poverty. To cope with this problem of the counterfactual, studies use performances before and after adjustment (see point (2) below), compare adjusting countries with a control group of non-adjusting countries (see point (3) below), use multiple regression techniques (but much depends on how the effects are measured), e.g., Dollar, Svensson, 1998, develop computable general equilibrium models as in Bourguignon *et al.* (1991) and Subramanian *et al.*(1994).

(2) Gains from privatisation not isolated from other factors

In comparing performances before and after adjustment, some studies fail to separate gains attributed to privatisation from gains due to other factors, giving rise to an attribution problem. Much criticism has been voiced concerning the much cited study by Galal *et al.* (1994) in Bangura (2000) or for the performance measure used in WB assessment (Bureaucrats in business; Ramamurti, 1999). Campbell and Bhatia (1998) also report that available data indicate that firms are performing better after privatisation, but no attempt was made to adjust for the effects of economic liberalisation measures that often accompanied or preceded privatisation. In addition, the devaluation of the CFA franc in 1994, combined in some cases, with political upheavals, makes change in company performance difficult to separate.

(3) Grouping the countries for comparisons: who are the 'adjusters' and the 'non-adjusters'?

The WB and UNDP report (1989) that assessed growth in Africa in the 1980s provoked controversy due to positive evaluation and statements that 'Recovery had begun'. Grouping of countries is based on an assessment of the degree of adjustment implemented in the countries. Criticism came, in particular, from ECA (UN Economic Commission for Africa) for biased conclusions and arbitrary division between adjusting and non-adjusting countries. Grouping of the countries can be considered, at best, as arbitrary and, at worst, a result of the better performances of some countries. ECA underlines that the conclusions contradicted those of previous WB reports that concluded that 'adjusters' in SSA had done no better or even worse than 'non-adjusters'.

For Cornia and Helleiner (1994), most studies failed to take into account the variations in policy design and implementation of the SAPs in the different countries analysed. Such differences are critical to an understanding of how structural adjustment works. Without such measures, it is impossible to judge whether the poor performance is due to the fact that the policies have not worked, or have simply not been implemented consistently. However, they agree that the methodological problems in generating such measures are bound to be challenging.

Instead of using the timing and size of adjustment lending to determine the adjustment efforts, Subramanian *et al* (1994) define adjustment as a reversal of an increasing trend in the current accounts deficit, which can be a more objective way to identify the 'adjusters'.

(4) Comparisons, other things equal

Galal *et al.* (1994) underscore that in making comparisons between private and public companies, one must hold other things equal, varying only the ownership dimension. In particular, market structure and size of the enterprises must be kept constant: how many of the problems of public enterprises are due to state ownership and how much to their monopolistic position? Are the problems of public enterprises due to their ownership or to their size?

(5) Alternatives to privatisation

Privatisation policies should be evaluated not only with regard to given objectives but also in the light of alternative ways of attaining those objectives (Vickers, Yarrow, 1991)

As stated by Mosley and Weeks (1993), at the end of the 1980s, in the debate over the African development crisis, it was impossible on the basis of the existing literature, to draw conclusions about the impact of SAPs due to analytical inconsistencies and dubious calculations.

More recently, Ramamurti (1999) stated that the efficacy of privatisation in low-income countries had yet to be established convincingly. For him, the authors' axiomatic beliefs are often couched as scientific findings.

IMPACT, CRITICS AND KEY CONSTRAINTS OF THE PRIVATISATION PROGRAMS

In spite of all the limits in measurement underlined above, we will now present what can be found in the literature concerning the impact of privatisation. The results cannot be taken as scientifically flawless, but they can , nonetheless, indicate some trends in the problems and benefits of the privatisation programs. We follow in the report of the impact the order of the objectives fixed to privatisation programs: efficiency, growth and competition, poverty alleviation and sustainability.

The documents found focus mainly on the first level, i.e., privatisation of companies. Fewer documents are available on sectors (except natural monopolies on utilities and agriculture). We will present some of the results in the agricultural sector. Many things have been written on SAPs; we will rapidly summarise some of the main findings.

Pace of the reform

The slow pace of the reform is one of the key questions regarding privatisation in developing countries. For the World Bank (1995), politics is one of the reasons for the slow pace of privatisation: reform needs to be politically desirable (leaders can realise political benefits that outweigh political costs, the dominant objective being to remain in power), politically feasible (means of retaining support for policy change and withstanding or weakening the opposition), and credible (realistic assessment) (This idea is also found in Wescott, 1999 and in Cook *et al*, 1998). Often, packages failed because they did not take into account the resistance of politically powerful groups to measures that reduced their standard of living (Bourguignon *et al*, 1991).

Ramamurti criticises the narrow view of the WB (Ramamurti, 1999), which underestimates the role of institutional and economic constraints: underdeveloped status of market-support institutions, SOE reform, which has often meant closing down and liquidating rather than revitalising through privatisation, local buyers who lacked money and expertise, etc.

The question of the pace of reform can also come from the fact that the WB's structural adjustment loans have a short disbursement period, usually one to two years, which causes Bank staff to think in terms of quick and deep reform rather than reforms carried out in phases. The notion that faster is better may be true for countries in deep economic crisis, but gradual reform may be a more realistic and preferable choice in other cases. Gradualism spreads out the political costs of privatisation and allows for learning between rounds (Ramamurti, 1999).

Many Asian governments have found that a gradualist approach to improving their competitiveness is preferable to any attempt at 'shock therapy'. The slow pace and specially-tailored sequencing allowed time for adjustments to take place so that there were far more 'winners' than 'loosers' (Wescott, 1999).

Revenue for the state, economic efficiency

In terms of efficiency and growth at the national level, Cornia and Helleiner (1994) report that SAPs failed, as all now agree, to meet original expectations and the evident needs.

By the early 1990s, it was generally agreed that the widespread adjustment efforts produced mixed outcomes, and, in particular, that success was greater in middle-income than in low-income developing countries (Mosley, Weeks, 1993). One finds no compelling evidence that countries with Bank programs did better than other SSA countries. What appeared crucial in economic recovery was not whether recipient countries took the WB's loans and adjusted in strict adherence to conditionality, but rather whether countries had a mutually consistent set of development policies. Mosley and Weeks summarise their general analytical conclusions with regard to structural adjustment programs in Africa as follows: (a) that net damage was incurred by African economies when the burden of adjustment fell upon public development investment (infrastructure, health, education, etc.), (b) that trade liberalisation has done more harm than good if unaccompanied by real devaluation – increasing imports without necessarily assisting export performances - and (c) that policy instability proved especially destructive and had more impact on economic reform than liberalisation in any form, and this policy instability can reasonably be attributed to the inappropriate design of SAPs.

In terms of revenue and efficiency on the company level, we can read in Bangura (2000) that the expenditure reduction goal of privatisation has been important in most countries. The WB (*in* Harsch, 2000) establishes that privatisation has strengthened public finances by reducing the huge subsidies that governments often had to sink into loss-making enterprises and that post-privatisation investment, notably in companies purchased by foreign investors, tends to be greater than the amount paid to purchase the company. The World Bank reports that this commitment to invest has become a major criterion in competitive bidding for the selection of investors (industrial and agricultural enterprises). In many cases, investment has resulted in increased capacity utilisation, expanded capacity, introduction of new technology, product diversification, and expanded markets.

The revenue-raising aspect of privatisation has largely been limited to Latin American (and OECD) countries that have implemented big privatisation's programs, using methods of direct public auctions on stock markets.

Megginson (1999) summarises four recent studies (one is Boubakri and Cosset, 1998; the others are not cited), together examining over 200 companies privatised in over 40 countries, both industrialised and developing. For Megginson, they clearly document significant improvements in the operating performance and financial strength of newly privatised firms. For him, while the empirical evidence on privatisation's effectiveness is still rather limited, comparing the results of the four studies suggests that output, profitability and efficiency increased significantly in the years after firms were privatised. Capital investment spending surged after a firm was privatised. At least three factors seem to cause this investment spree. Firstly, privatised companies are no longer required to borrow from the public sector, instead, they have the freedom to both select and finance necessary capital investments. Secondly, once privatised, the rapid growth that typically follows privatisation is subsequently followed by capital investment in new plants and equipment. Thirdly, privatisation transfers the authority for decision-making from public officials to the firm's shareholders, who are the only stakeholders with the incentive to increase the long-term value of the firm.

In some cases, and especially during the 1980's, the privatisation process was criticised as impeding, in particular, the efficiency of the privatised firms: the ill-prepared and hasty manner with which many of the early privatisation were carried out contributed to the economic and social difficulties that were subsequently encountered. 'Donors have exerted pressure to privatise without sufficient information,' the World Bank's 1998 study acknowledged (Harsch, 2000).

Intervention of the state and the donors

DURING THE PROCESS OF PRIVATISATION

Larsen (September 19, 2000) reports the difficulties in terms of administrative capacities of some governments in the implementation of complex processes: 'certain too detailed adjustment programs proved difficult to apply in countries with limited administrative capacities'.

UNDP (1993 *in* Cornia and Helleiner, 1994) criticises the influence of donors in the privatisation process: 'Foreign donors both 'drive' and 'own' technical co-operation in Africa. It is costly, inefficient and increasingly 'unsettling' device for overcoming domestic budget constraints and government employment freezes. This degree of external intrusion into domestic policy formation and the concomitant failure to develop appropriate local research and decision-making capacity is formally recognised but there are still few signs of serious change.'

For the AFD (1997), the governments and public opinion have not been sufficiently involved in the definition of the privatisation process: 'The slowness often observed underlines both the complexity of the operations and the difficulties in their acceptance by certain political and administrative officials, by the personnel of companies to be privatised and by public opinion. In consequence, it is necessary that the programs be decided by the states themselves and not imposed from without. In many countries, privatisation policy constitutes a part of a structural adjustment plan; due to this fact, the capacity of resistance or propositions by national authorities is generally small. However, these programs use systematic approaches referring to general plans and only partially take into account the realities of the sector or the company to be privatised.

Successful improvements in Asia typically had the credibility of home-grown products. For example, they often departed from orthodox sequencing, and, despite a high fiscal deficit at the outset, delayed unpopular fiscal austerity for later in the process, when the economic benefits of the improvements were obvious to all (Wescott, 1999).

For Campbell and Bhatia (1998), the limited capacities of the states may have led also to an overemphasis on enterprise valuation and a weak effort for mobilising investors. The scarcity of resources has often hindered the process. Governments have shown a strong tendency to shy away from the difficult issues that privatisation brought to the surface, such as retrenchment and related benefits, social safety nets, land ownership reform, retirement of enterprise debts, regulation of privatised utilities. Due to a lack of information, the public's knowledge and perception of public enterprises has led to overestimating their performance, condition, prospects and value.

AFTER PRIVATISATION

Different articles in *Le Monde* and *Le Monde Diplomatique* underscore the risks of privatisation and SAPs on the governance of the state. Sotinel (1999) writes 'By imposing privatisation, liberalisation of the *filières* or decreasing customs tariffs, the international economic organisations deprive local politicians of their usual resources. At the same time, 'democratic conditionality' increases the costs of exercising power. And the officials will draw on resources where they can, even if it means placing the economic balance of their country in peril.' Sotinel also writes (1997) that 'a recent economic enquiry commissioned by industrialists in Côte d'Ivoire has shown that they are continually afraid of the whims of a finicky and unforeseeable administration'.

Bayart (1998), director of the *Centre d'études et de recherches internationales* (CERI), considers that privatisation leads to criminal behaviour by African states: 'In Africa, privatisation of the state is conducive to its criminalisation. Criminalisation of the state is observed due to the failure of structural adjustment combined with a return to authoritarianism. The ruling elite take hold of criminal economic niches: drugs, arms, money laundering, etc. Certain heads of African states govern with people who remain in the shadows and direct both the formal and the informal economies. The more the financial backers pose conditions, the further Africa withdraws behind its masques: the African states systematically bypass the conditions imposed.'

De Sardan (2000) underscores the dramatic decay of the African states: 'As the African states revealed their weaknesses, the financial backers, not wanting to subsidise inefficient national administrative or technical services, instigated a system of 'projects'. Government services, less and less endowed and more and more incapable, lost even their appearance of legitimacy and their exterior forms of authority, faced with projects - whether the heavy projects of the World Bank or those of the NGOs of all types - generously distributing subsidies, credit, salaries, compensation, etc. The project system thus led to a situation where a multitude of parastatal enclaves, under the direct control of the financial backers rather than local companies, assumed an oddly-assorted and uncoordinated piecemeal series of government functions, functions which the state, on the verge of bankruptcy, is less and less capable of correctly and globally fulfilling: education, health, forestry, small hydraulics, agricultural development, etc.'

In spite of the strengthening of the public finance, African states have generally been made fragile by privatisation and SAPs (or remained very weak), and they cannot fulfil the basic roles required of a government (box 2).

Wider share ownership

Privatisation programs in the developing countries are subject to political problems. The frequent secrecy or lack of public information about how buyers are selected lends credence to press reports that some privatisation programs are riddled with corruption or tend to favour political insiders (Harsch, 2000). Privatisation can also affect ethnic relations and stability, especially in deeply divided multi-ethnic societies. In Nigeria for example, there have been worries that privatisation could lead to concentrated ownership of former state enterprises in the hands of members of certain ethnic groups, in a country where historically ethnicity has been extremely sensitive. In order to accommodate the various concerns of different interest groups, an elaborate formula restricted the amount of equity that any individual or region could purchase and allocated a proportion of shares to all states of the federation as well as to employees (for small and medium-scale enterprises) (Obadina, 1998).

Box 2. Burkina - Privatisation's rocky road: Concerns over transparency and jobs bring a mid-stream adjustment.

Burkina Faso implemented its first structural adjustment program in 1991. Of the 44 state enterprises listed for divestment, 22 were privatised by the end of 1999, bringing the government CFA 10.5 billion francs ($18 million) in revenue. Another seven enterprises were on offer, 12 had been liquidated or were in the process of liquidation and three had been transformed into research institutes and placed under the Ministry of Higher Education.

Excessive government involvement in the stages of sales which contributed to delays (1 to 4 years). There was no real policy to keep the public informed, no strategy for specific industrial sectors, nor any distinction made between large and small firms. Shares in an enterprise tended to be sold to a single buyer; small shareholders were not involved. The privatisation commission, moreover, was short-staffed and under-budgeted. A parliamentary inquiry found in 1996 that several privatisations had been carried out in a 'discriminatory' way. It was argued that the frequent reliance on secret negotiations favoured corruption

According to Ms. Geneviève Compaoré, co-ordinator of the PSAP, the first cases of privatisation experienced numerous difficulties. The unions were not involved and little attention was paid to retraining or finding new positions for workers who lost their jobs. Prime Minister Ouédraogo announced a new privatisation strategy in 1996. Different criteria would be used to evaluate large- and small-scale enterprises. More attention would be paid to their specific roles in the economy and to the criteria for selecting potential buyers. The new strategy also emphasised follow-up - ensuring that those who buy the enterprises meet their contractual obligations on staffing levels, benefits and investment plans. The World Bank, meanwhile, has placed greater emphasis on the qualifications of potential buyers and the minimisation of job losses. a larger privatisation commission which now includes a trade union observer. This should help ensure greater clarity. The privatisation commission is now keeping a watch on privatised firms to ensure that the new owners live up to their commitments. However, it has met resistance from some companies which view government monitoring as interference in their business affairs. A survey of business attitudes found that while many potential investors are interested in privatisation, they feel that it benefits only a small group which has sufficient funds to buy large blocks of shares (Sawadogo, 2000).

There are also concerns about the transfer of national assets of a strategic nature to foreigners. Since some of the larger and better publicised cases of privatisation involved sales to foreign companies - often from Britain, France, Portugal or Belgium - such external pressure also spurred accusations that privatisation is in fact a form of 'recolonisation' (Harsh, 2000). In Kenya, there have been allegations that foreigners are concentrated in and dominate the banking sector and that they have captured the economy through their control of this sector (Ariyo, Jerome, 1999). In Mozambique, the government claims that '90 per cent' of privatised companies have been sold to Mozambicans. This is true, but most of the big companies are in the other 10 per cent (Fauvet, 2000).

Larsen (September 19, 2000) expresses the concern of NGOs 'Many NGOs feel that the privatisation scheduled in the adjustment programs deprive the poor countries of their natural resources and their wealth for the benefit of multinational companies'.

Data from the World Bank (1998) suggest that foreign investors accounted for 44 per cent (or $70 billion) of the revenue from privatisation between 1990 and 1996. For the WB, the foreign take-over of national assets may be seen as an inevitable outcome of the process of globalisation; it may help the growth of stock markets in developing countries, provide new sources of capital and contribute to the performances of ailing public enterprises. However, a high proportion of the foreign capital is of the portfolio (not direct investment) type, which has proven to be highly volatile and disruptive of national economies. Indeed, there was a sharp drop (almost 50 percent) of portfolio investment in privatised enterprises in developing countries in 1995 following the Mexican financial crisis (Bangura, 2000).

As expressed by the AFD (1997), foreign investment is often the easiest way to realise a privatisation program; other solutions involving national investment can be more complex and less rapid. 'The simplest privatisation plan is often that which consists in calling for a foreign take-over specialist. Other solutions, probably more complicated to implement should be favoured for a balanced domestic/foreign team of investors.' The AFD/PROPARCO proposes the use of a nominee company subsequently transferred to national investors.

Opportunities for competition

The effectiveness of a privatisation program is enhanced when it is coupled with a (less common) policy of improved entry to markets. In fact, in most countries, the latter policy has a far larger impact on expanding the private sector than does the privatisation of relatively few SOEs (Falcke, 1996). Nonetheless, for the OECD (Bouin, 1992), the privatisation process has not been sufficiently accompanied by economic and financial liberalisation and promotion of competitive environment: recognition of the close links between privatisation operations and measures aimed at exposing an increasing share of the economies of the developing countries to the action of market forces should make it possible to improve the overall coherence of the reform.

The arguments for privatisation seem compelling when enterprises are located in competitive markets and governments do not have to worry about the social or welfare objectives of public enterprises (Bangura, 2000; AFD, 1997).

However, a large number of the enterprises that were privatised in the 1990's operate in monopolistic or quasi-monopolistic markets and produce goods and services that have strong implications for welfare – electricity, telecommunications, water, etc.. It is then necessary to ensure the continuity of access over time, the development of access to all geographic areas in the country and equity of access for the whole population (AFD, 1997).

Privatisation of utilities requires careful regulation. During the last decade, Latin American countries have accumulated extensive experience in the privatisation of infrastructure services and in the institutional and regulatory reforms essential to fostering a suitable environment for private investment. Chile, for example, has undertaken remarkable reforms and transferred publicly-owned utilities to the private sector either by selling the assets or through concession agreements. Due to these reforms, the country has been able to attract private participation in the provision of public services like energy, transportation, telecommunications, and potable water and sewerage. This has resulted in significant efficiency improvements as well as increased coverage. However, more than a decade after the start of the reform process, unforeseen events have provided evidence of the loopholes in the design of the reform. This has called for the use of discretion by regulatory agencies and, in some cases, has led to renegotiations and disputes beyond the authority of the regulatory agencies, causing the intervention of public officials (Basañes *et al.*, 1999).

According to Bangura (2000), data on competitiveness in the global telecommunications industry suggest that even in this increasingly competitive sector, there is no correlation between ownership-type and economic performance. Where regulations are weak – as in the Philippines telecommunications industry - privatisation has led to very high profits for the new owners but less network expansion and poor services to consumers. Regulation must be implemented to protect the consumer, i.e., access, quality of the service, price levels (AFD, 1997).

However, Campbell and Bhatia (1998) note that in not one country with a privatisation program in Africa has there been an effort to develop regulatory framework as an integral component of that program.

On the links between ownership-type and economic performance, we can also cite:
- Stiglitz (1998): 'An enterprise's efficiency is determined not so much by its public or private ownership as by the regulatory structure and the degree of competition under which it operates. China had shown that an economy might achieve more economic growth by focusing first on competition, leaving privatisation until later. In contrast, competition remain thwarted in many of the former socialist countries where privatisation came first. Private rent-seeking can be as powerful and distortionary as public rent-seeking without effective competition and regulatory policies.'
- the work by the World Bank (Shirley, 1999): 'the WB analysed the results in terms of performances of SOEs with privatisation (sale of SOEs' assets) vs. corporatisation (state ownership with efforts to make SOEs operate as if they were private firms introducing competition, cutting government subsidies, holding managers responsible for results while giving them the freedom and incentives to make necessary changes). In the 12 country case studies, where reform was politically desirable, politically feasible, and credible, countries privatised and corporatised successfully. When countries were not politically ready to reform, alternative ownership strategies were not successful in improving performances. Reform under state ownership and privatisation are not trade-offs but complementary reforms. Any serious reform of SOEs, whether through privatisation or corporatisation, is a political and administrative challenge.'

The privatisation process in itself is not enough to insure economic performances of the newly privatised firms. Regulation and political will must accompany privatisation in order to insure a competitive environment.

Development of capital markets

Donaldson and Wagle (1995) observed that there is a symbiotic link between privatisation and the development of capital markets: 'faster rates of privatisation are associated with broadening and deepening the supply of domestic and international capital.' But Campbell and Bhatia (1998) report that capital markets are still underdeveloped in most developing countries.

It is axiomatic that savings are the key to sustainable, long-term growth. In the developing countries, however, low domestic savings have been the handmaiden of weak capital market development leading to a greater reliance on external debt (IDB, 1995). The lessons from recent currency crises that threatened to spread throughout the countries' stock and bond markets, point to the consequences of excessive dependence on foreign portfolio investment, and especially, investments in highly mobile, short-term instruments.

Chossudovsky (1997) severely criticises the development of capital markets relying on foreign investment: the plunge of the new 'peripheral financial markets', e.g., Mexico, Bangkok, Cairo, Bombay, precipitated by 'profit-taking' and the sudden retreat of the large institutional investors shows that these markets have become a new means of extracting the surplus from developing countries. While the 'money managers' play a powerful role in financial markets, they are increasingly removed from entrepreneurial functions in the real economy. Their activities include speculative transactions and manipulation of currency markets. Favoured by SAP and the concurrent deregulation of the financial system, the criminal mafias have expanded their role; in particular, they have acquired large amounts of state property under the WB sponsored privatisation program, e.g., Peru, Bolivia, the former Soviet Union.

Employment

An universal concern in the process of privatisation is the effect it has on labour. Combined with the absence of social safety nets and functioning labour markets, this has often led governments to delay privatisation, particularly that of the large state companies. The lack of information on impact of privatisation on employment has exacerbated the fears and concerns of governments and workers alike (Kikeri, 1998). From the beginning, the most publicly persistent and organised opposition to privatisation in Africa has come from the labour movement. Usually, workers react against threatened jobs or the possibility that benefits might be jeopardised under new management (Harsh, 2000).

As for the overall impact of privatisation, the reported results on employment are also contradictory and often rely on scarce data.

In the short run, privatisation can lead to job losses and wage cuts for workers and higher prices for consumers, declares the IMF (Gupta *et al.,* 1999).

In Campbell and Bhatia (1998), we can read 'There has been almost no follow-up monitoring of privatised enterprises, so accurate figures on pre- and post-privatisation employment levels are generally unavailable. The World Bank conducted a survey of 54 privatised enterprises in Benin, Burkina Faso, Ghana, Togo and Zambia and found that between the time of privatisation and the first quarter of 1996, overall employment in the companies had declined by 15 per cent, ranging from a steep fall of 36 per cent in Benin to a very slight increase of 0.1 per cent in Burkina Faso.'

Harsch (2000) writes that in 1999, 'the Sudan Workers Trade Unions Federation charged that some 40,000 workers had lost their jobs in that country since privatisation began in 1992. More than 150,000 workers (more than 60% of the civil servants) lost their jobs in Ghana's top public enterprises between 1984 and 1991'.

In the Development GAP's document (1995), SAPs' impact on employment is severely criticised: 'In their overwhelming emphasis on production for export and on international competitiveness based on low wages and weak labour standards, SAPs have gutted local productive capacities and local markets. Overall, there has been a trend towards falling wages and poor working conditions in many of the countries that have implemented structural adjustment programs. Governments have been willing to adopt wage-suppressing measures due to their desperation to create jobs. Nevertheless, high rates of joblessness have been another hallmark of SAPs. Women have been especially hard hit by adjustment programs. In the mid 90s, top United Nations officials from UNCTAD, UNDP, UNICEF and other agencies have joined many NGOs and popular organisations in the boldness of their remarks in this regard'.

The IMF-sponsored reforms have played a major role in minimising labour costs and undermining the expansion of consumer markets, which has been conducive to a dramatic contraction of purchasing power (Chossudovsky, 1997).

Bangura (2000) concludes that the unemployment effects of privatisation must be a cause for concern in developing countries, especially low income countries (and economies in transition), which are reputed to have very large public-sector employment outlays.

On the other hand, Megginson (1999) concludes from the four case studies he relies on, that total employment will usually not decline after a firm is privatised. Of course, when an SOE is obviously over-staffed, privatisation will bring layoffs. However, all four studies referred to above, which were based on data from OECD economies (about 66% to 75% of the cases) and transitional and developing economies (the remainder of the cases) document that employment in newly privatised companies, on average, either remains the same or increases after divestiture. These findings suggest that the great fear of those opposing privatisation—that it will lead to large scale job losses—will not generally be founded, unless the state-owned enterprise is clearly over-staffed before being privatised.

Cook *et al* (1998) also report that the limited evidence that is available on the effects of privatisation on employment does not appear to confirm *a priori* expectations of significant reduction in employment levels. However, they give possible explanations for these figures, which do not specifically support the positive conclusions on employment. The positive figure for employment can come from a selection bias (public enterprises with poor market prospects are more likely to remain in the public sector), from the agreements with purchasers to maintain employment levels for a specified period of time, from large-scale retrenchment programs *prior* to privatisation, or they can hide deterioration of the contractual conditions of the workers. To summarise, few generalisations can be made as to the impact of privatisation on employment and social protection, conclude Cook *et al.*

Most governments in Latin America extracted guarantees of job stability from new owners of privatised companies. Petrazzini (1996) argues that companies tended to respect these guarantees because they inherited a monopoly market and did not have to be competitive to make profits.

Privatisation has also resulted in the closure of several privatised firms. From the positive side, WB argues that this is not necessarily undesirable: if an enterprise is inherently non-viable, privatisation, by facilitating closure, eliminates the economic cost of continuing with a non-viable business.

Impact on welfare

The results of the study by Galal *et al.* (1994) are often cited: they show gains in welfare as a result of privatisation after controlling for non-ownership factors in 11 out of a sample of 12 privatisations. Privatisation usually made winners of all groups (governments, investors, customers, workers). They conclude that ownership matters: divestiture overwhelmingly enhanced domestic and world welfare. However, the methodology of this study has been challenged, encountering most of the problems cited in 3.1.

Other voices have been heard regarding the impact on welfare. The privatisation process has been criticised, particularly in the 1980s for the absence of social safety-nets and problems associated with employee end-of-service benefits (Campbell, Bhatia, 1998).

Stewart (1992) assesses how the poor in Latin America are affected by debt, stabilisation and adjustment during the 1980s, and considers how adequate the WB response is. The incidence of urban poverty rose in most countries, due to declining national income and rising inequality. These adverse developments occur both in adjusting and non adjusting countries. Rural poverty incidence is broadly unchanged. Cuts were made in government expenditures per capita on health and education. For Stewart, the WB paid little special attention to the poor in the first half of the decade. Later it supported reallocation of social expenditure, targeted projects and nutrition intervention, and social funds to protect the poor. The evidence suggests that none of these efforts had significant effects in relation to the size of the problem. Poverty elimination requires a greatly reduced debt burden and adjustment through expansion of exports rather than deflation and import contraction, structural changes including asset and land redistribution, meso policies focusing on distributional issues and development of human and physical capital of the poor. WB efforts were too little and too late (Stewart, 1992; Stewart, 1995).

An early warning had been issued by Cornia *et al.* (1987) from UNICEF regarding health, in particular for women and children: After three decades of remarkable progress in improving child welfare, there was a marked reversal in many parts of the world in the 1980s, associated with deteriorating economic conditions. It has been the women and children from poor families who have been hardest hit as stabilisation and adjustment policies have been applied. They drew several lessons from the country case studies they conducted: adjustment is clearly necessary; growth is necessary, but growth-oriented adjustment is not enough; the most vulnerable can be protected during adjustment, even in the absence of economic growth, by the adoption of targeted programs. However, there are limits to what this approach can achieve in the medium term, when growth becomes essential; there are successful examples of alternatives approaches both in the area of adjustment with economic growth and for welfare, at the macro- and micro-economic levels; a strategy which protects the vulnerable during adjustment not only raises human welfare but is also economically efficient.

For them, adjustment with a human face consists of six main policy components (that have been successfully adopted by some countries): more expansionary macro-economic policies (gradual timing, larger amounts of medium term external finance); use of meso-policies (policy instruments for prioritising and the restructuring of resources and activities in favour of the poor, protecting basic needs); sectoral policies aimed at restructuring within the productive sector (focus on employment, income, productivity, in particular, for small farmers and the informal sector); improving the equity and efficiency of the social sector (targeting and cost-effectiveness of intervention); compensatory programs (limited duration) to protect basic health and nutrition of low-income groups (public works employment, nutrition intervention); monitoring of the human situation (living standard, health, nutrition). Changes are also required on the international scene: the main industrialised countries should promote the creation of a world environment more friendly to developing countries; buffer mechanisms (such as STABEX or innovative systems); special support for countries following policies on a human scale (extra funding and integration of ministries and international organisations concerned with social sectors in discussions with WB and IMF).

In terms of debt, de Sardan (2000) underlines the importance of the internal debt of the state. 'The payment of the domestic debt is often forgotten in favour of outside debt whereas it is much more destabilising for the country: payment of back salary to government employees, payment of local businessmen.'

Sustainability

In Africa (*in* Cornia, Helleiner, 1994), on the one hand, agricultural and export growth has recovered remarkably (notable increase in agricultural output in Benin, Burkina-Faso, Tanzania, Nigeria, Ghana, Guinea-Bissau, Kenya), and current account deficits have been reduced. On the other hand, the debt overhang and its servicing have yet to be dealt with adequately, countries in the region seem as dependent on external aid flows as they ever were, export diversification is slow, investment has dipped, and domestic resource mobilisation remains weak.

In 1991, Bourguignon *et al.* wrote, based on simulations with general equilibrium models on country case studies, that adjustment programs will fail when they do not recognise the interdependence of the three criteria of efficiency, welfare and political feasibility. These programs must be tailored to both the political and economic environments of each country.

PRIVATISATION OF THE AGRICULTURAL SECTOR – SPECIFIC IMPACT, CRITICISMS AND KEY CONSTRAINTS

Efficiency, competitiveness and growth, and the role of infrastructure and other non-price factors in agriculture

AGRICULTURE, PRICE FACTORS AND PUBLIC GOODS

Privatisation does not necessarily mean development of the private sector. As analysed by Harsh (2000), in the late 1980s, agricultural marketing boards and rural development agencies were dismantled or partly privatised in a number of African countries. Farmers generally welcomed the removal of price controls on their crops but they soon found that credit and agricultural inputs became more expensive or simply disappeared. The private sector did not rush to fill the gaps in the marketing chain, especially in poorer or more remote rural areas where profit margins were small. For Subramanian et al.(1994), the private sector has atrophied, due to the fact that before privatisation, it had been crowded out by public agencies.

Successful adjustment must go beyond simple market liberalisation and 'state compression'. This is of particular relevance to agriculture which depends greatly on the supply of 'goods' by the state such as infrastructure investments, inputs, credit and new technology.

Griffon and Hilmi (1996) estimate that territorial coverage by private services appears to be less significant than that accounted for by public services, and the number of farmers using inputs seems to have decreased everywhere, reflecting a certain decline in the volume of trade.

In Africa, stabilisation programs have been largely ineffective in stimulating output growth. This is because they, have focused on price reforms and price incentives while state support was cut back, whereas African agriculture is relatively unresponsive to the price (due in particular to shortages of resources such as land and labour, protection of other sectors and overvalued exchange rates, self-consumption of food crops by smallholders, risk-aversion of the farmers (FAO, 1990)). On the other hand, agriculture is highly sensitive to the delivery of public goods (Subramanian *et al.* 1994).

The case of the liberalisation of the agricultural markets in Madagascar, analysed by Minten and Zeller (2000), shows mixed results of the liberalisation: input and output markets seem to have responded to the liberalisation measures as shown by an increased participation of traders. However, constraints remain for the growth and efficiency of the sector: limited demand for inputs, high and unstable import prices, lack of high-yield rice varieties, high transportation costs, high costs or unavailability of credit, poor marketing institutions. This leads to 'flea market' economies, high reliance on social capital to overcome transaction costs and poor market institutions, high price variability and low market integration. The hoped-for effects of liberalisation (economic growth and reduced food prices) were not seen because of the price inelastic aggregate production response of the farm sector. While wealthy farmers were found to have significant price response, the majority of the semisubsistence farmers did not produce significantly more for the market as changes in prices (higher and more variable) not only affected their profits, but at the same time their food budget. The importance of non-price factors in influencing agricultural technology adoption and intensification, e.g., access to education, financial institution, road infrastructure, agricultural extension and irrigation, calls for a continued role of the state.

AGRICULTURE, DEVALUATION AND INTERNATIONAL COMPETITIVENESS

In West Africa, SAPs has been accompanied by a major devaluation of the CFA in 1994. USAID research reports the following analysis: 'Taking the devaluation of the CFA franc as the culmination of the SAPs and 1994 as the cut-off point between the pre- and post-SAPs, the results of the analysis suggest that the SAPs have had a marginal impact on the productivity and competitiveness of coarse grains in West Africa. The reason for this marginal impact is rooted in the fact that regional production of coarse grains uses virtually no chemical inputs. The most dramatic change triggered by the devaluation is in the rice subsector. Contrary to the argument of the opponents of the SAPs, the productivity and competitiveness of rice have improved markedly, and rice trade has increased after the devaluation. Similar results were obtained for livestock and fruits and vegetables after the devaluation. Thus, the SAPs have had generally positive effects on intra-regional trade and regional food security.'

Bourguignon *et al.* (1991) report that the evidence from various simulation exercises suggests that devaluation in real terms is beneficial since in the short run it avoids the recessionary impact of adjustment through fiscal expenditure cutting. The simulations also indicate that this policy usually had favourable short-term effects on the distribution of income. However, when longer-term effects of devaluation, including inflation and higher real interest rates, are taken into account, the results are more diverse. Alternative adjustment instruments could become superior.

For cash crops, reforms to liberalise trade and thus raise the real exchange rate have been partially frustrated by failing international market prices. As for food crops, many of the African crops are not competitive with imports.

The FAO (1990) also noted that the reduction of trade restrictions and devaluation could lead to the so-called 'fallacy of composition', that is that markets would be incapable of absorbing the volume of exports of a commodity without a significant fall in its price if a large – or sufficient – number of countries producing the same commodity jointly undertook such an export-led structural adjustment strategy.

In the case of major export crops, governments sometimes worried that privatisation of marketing boards would lead to a decline in the quality of the crops sold abroad. This was the case for cocoa in Nigeria. Reluctance of countries to privatise has been observed for cotton in West Africa and for cocoa in Ghana, for example. Côte d'Ivoire sold portions of its cotton company in 1998 but most other countries have been very reluctant to privatise. Critics charge that the cotton companies oppose privatisation because they simply want to preserve their semi-monopoly position. However, both the companies and government officials point to major economic and development considerations. As with other export crops, they worry that liberalisation could lead to a decline in the quality of cotton exports. More significantly, in Burkina Faso, Central African Republic, Mali and elsewhere, cotton enterprises provide subsidised inputs and guaranteed markets for many rural farmers. They limit the impact of world market fluctuations on some of the poorest farmers. If privatisation becomes necessary, Mr. Jean-Luc Lecorre, deputy director of the Africa Merchant Bank which manages investments in agro-industrial enterprises undergoing privatisation, suggests that governments try to bring in established agro-industrial companies willing to make long-term investments as opposed to commercial enterprises simply after quick profits. Another option is to sell or turn over portions of these cotton enterprises to the producers themselves. This already is under way in Senegal where 30 per cent of the shares in the state cotton company are being ceded to farmers' associations, with plans to subsequently sell other portions to employees, the general public and a 'strategic investor' (Harsh, 2000).

John H. M. Newman, Chief Executive of the Ghana Cocoa Board, expressed his opinion in Forbes Magazine (1999): 'We believe that the private sector will be able to operate more efficiently than the public sector. This depends however on whether the private sector personnel have the right orientation in respect of creating wealth and looking at the bottom line. We will need to build the capacity of the private sector which should assume the role that Cocoa Board plays now. With the appropriate know-how and finance the private sector should be able to do it but without these basic capacities of efficiency and resource availability they will not do it well.'

As expressed by the AFD (ex-CFD), (a public institution in charge of the financial side of French development policy), privatisation of the market chain must be gradual: During privatisation of the *filières*, a controlled, progressive transfer is necessary to avoid an exclusive take-over of marketing of the production, to guarantee the vertical integration of the *filières* (to privatise or subcontract to the private sector certain functions and activities of the state monopolies, to favour opening the capital of the monopolies to private capital, to adapt to the international market by improving competitiveness and the capacity to resist crises. In the case of the *filières*, the AFD advocates liberalisation with dismantling the *filière* in order to preserve a medium-term industrial logic as opposed to a purely short-term financial logic (sell-off by pieces of a production *filière* in order to obtain a maximum price at each stage). Taking into account the specific character of the international market for certain products, e.g., sugar, the privatisation of the sector must be preceded by governmental decisions concerning policies for protecting regional industry (and in the case of sugar, the distribution of ACP export quotas). This industrial logic also applies within the framework of activities producing public good services in order to avoid the uncoupling of services that could lead to favouring only profitable sectors without perpetuating the means needed for other public service missions (AFD, 1997).

COMPARISON WITH ASIAN AGRICULTURE

In sharp contrast to Africa, agricultural policy reforms in low-income Asian countries have often originated from an internal policy dynamic, although they may have been reinforced by external support. However, the effects on agriculture have been mixed in the region. One reason for the differences is that gains in productivity are more easily achieved in crops such as rice through investment in irrigation, research and extension than from plantation crops. Another reason is that producers of some crops have played an important role in the ruling coalition, and policy reforms were thus biased in their favour. A third reason is that changes in the international price environment proved beneficial for some crops and harmful for others.

The involvement of Asian governments in providing public goods to agriculture is qualitatively different from that of governments in Africa: historically, governments in Asia have long been involved in developing irrigation facilities. Prospective returns to public investments in irrigation, research and extension have been larger than in Africa because technical changes in rice and wheat have proved easy to transmit and adapt to local conditions (Subramanian *et al.* 1994).

A key difference between Asia and Africa is that landless rural households are a substantial part of the agricultural population in Asia, unlike in Africa where even those households with the least land obtain most of their income from self-employment and produce most of their own food. Policy reform in Asia has to be mindful of this fact, which means that gains from increased producer prices or increase in productivity can be unevenly distributed, unlike in Africa (Subramanian *et al.* 1994).

The key to restoring agricultural growth in Africa is to stimulate the emergence of private agents and to redefine the role of the state and improve its efficiency in the delivery of public goods, the regulation of competition, the provision of social welfare, the internalisation of externalities (Subramanian *et al.* 1994).

Poverty reduction

On the agricultural sector, WB and UNDP's report (1989) argues that SAPs increase agricultural prices relative to other prices. It concludes that they increase the income of the poor as the poorest in sub-Saharan Africa are agricultural households, but this rapid conclusion has been criticised from within by WB experts: (a) it is not possible to predict relative price movements in response to liberalisation except at the most general level, (b) whether the poor benefit from agricultural price increases depends on factors which vary across countries, e.g., whether they are net food producers or consumers.

However, case studies in Zimbabwe and Nigeria (Bryceson, Jamal, 1997) show that SAP policies, to date, have primarily benefited large-scale farmers. For the majority of African peasant farmers, SAP has amounted to a price squeeze in which the prices of agricultural inputs and consumer goods are rising faster than the prices of agricultural produce. Governments cutbacks, resulting in the elimination of producer input and transport subsidies, mean that only large-scale farmers buying and selling in bulk can overcome the high costs of transport. African traders who have taken over produce marketing from government parastatals in rural areas cannot offer cost-effective marketing services to far-flung, small-scale farmers. They must concentrate on bulk producers.

Environmental sustainability

Since 1989, the Bank has begun to take environmental issues more seriously but its dominant culture is extremely slow to change. A screening process classes projects A, B, or C depending on their expected degree of environmental impact. However, structural adjustment loans – about a quarter of all Bank lending – are not assessed. Their numerous, if indirect, environmental consequences therefore go officially unrecognised by the Bank (George, Sabelli, 1994). An example of this indirect impact is cited in Draisma (1998): 'Environmental protection laws were relaxed despite the fact that the company is a major polluter to attract new investments by foreign companies in the privatisation process of the Zambia Consolidated Copper Mines.'

For Chossudovsky (1997), the WB's support for large-scale hydroelectric and agro-industrial projects has speeded up the process of deforestation and the destruction of the natural environment.

How to improve the impact of privatisation?

SUMMARY OF THE KEY CONSTRAINTS AND NEGATIVE IMPACT OF THE PRIVATISATION PROCESS: DEFINITION OF OBJECTIVES, MARKET AND GOVERNMENT FAILURES

- Definition of objectives

– lack of analysis of the pre-conditions, uniform process not tailored to each country's situations, blueprint of privatisation, inconsistent set of development policies;
– lack of integration of the social consequences of the privatisation: the most vulnerable groups are worse off after the privatisation process;.
– lack of integration of the political consequences: some powerful interest groups can slow down or block the privatisation process.

- Public good

– cuts in public development budget: governments no longer provide the public goods necessary for economic growth (transportation, marketing system, health and education services, in particular).

- Imperfect competition

– natural monopolies: privatisation can perpetuate monopolistic practices, or vulnerable groups can loose access to infrastructure and welfare services;
– lack of private firms to replace state enterprises when private sector is risk-averse or when its development has been hampered by previous state monopolies;
– lack of support for emerging private enterprises (at the first stages of development, profitability and competitiveness can be low but economies of scale and time can lead to long-term financial sustainability, which can justify temporary state intervention).

- Imperfect information

– the dominant role of WB and IMF limits the in-depth study and possible implementation of alternative paths for reform;
– lack of clarity and sufficient information in the privatisation process: potential buyers may be excluded, political pressure against the process due to fear of future losses, poorly-prepared process of privatisation, lack of consensus in favour of privatisation;
– ethical risks: when quality cannot be assessed there are incentives for selling bad quality products, e.g., inputs in agriculture.

- Incomplete markets

– underdeveloped capital markets relying on volatile foreign investment; lack of mobilisation of national savings;
– underdeveloped labour markets to compensate for job losses in privatised firms;
– underdeveloped credit and products markets in rural areas due to high transaction costs that the private sector does not want to bear.

- Government failure

– outside intrusion and failure to develop national capacities of governments faced with a very complex process;
– scarcity of resources.
– lack of democracy to offset the power of interest groups and risks of predatory behaviour of the state during and after the privatisation process;

As summarised by Petit (1993), in every country in the process of privatisation, the balance between public and private interventions must be decided according to the characteristics of each economic sector and company, i.e., according to the degree of market and government failures. It must be decided where the public sector can withdraw in the short run (the private sector can efficiently operate), where the public sector should gradually withdraw (public support is needed to insure a conducive economic and institutional framework for the private sector to intervene), where the public sector should remain responsible for action.

PROPOSAL FOR IMPROVING THE PROCESS OF PRIVATISATION

There has been a lack of consensus in favour of privatisation. This has been the main factor inhibiting its pace. Campbell and Bhatia (1998) feel that the picture is changing: 'privatisation is widespread and is regarded as inevitable, and consensus is growing as governments become more open and the public becomes more informed, expressed. However, important steps still need to be taken to improve the process of privatisation and careful implementation still needs to be applied in order to limit the drawbacks of such reforms.'

Design of the privatisation process

There is now an increasing realisation by the IMF, WB, and other organisations that local 'ownership of economic policy is the surest basis for effective and sustained reform. This leads to increased pressure for a clearer, more transparent, participatory and democratic process of privatisation. The *manner* in which key economic (and other) policy decisions are made becomes as important as that of their content. A participatory approach to privatisation by providing public information and encouraging debate can be an important way to secure consensus (Cornia, Helleiner, 1994). In order to promote the transparency of operations and the fairness of tender procedures while minimising the bureaucratisation of the process, OECD (Bouin, 1992) encourages administrative decentralisation in the preparation of dossiers and the technical aspects of the operations.

To encourage this process, efforts must be directed towards the development of local capacities through education and training, hiring national consultants, developing professional and analytical skills in public policy, encouraging greater pluralism of approaches, institutions and personnel, increasing direct interchange among analysts in developing countries, unmediated (and unfiltered) by the IMF/WB (Cornia, Helleiner, 1994).

Although not yet a widespread practice, employee shareholding schemes are becoming more common as governments try to win workers' acceptance of privatisation by giving them an ownership stake (Harsch, 2000).

Employee equity schemes, floating of shares on local stock markets can be developed, but many African stock markets are still in their infancy. Encouraging the strengthening of African stock markets can be a long-term route to broader ownership. This involves also offering equity shares at discounted prices or on deferred terms to people who have little capital but are directly involved in a particular production sector.

Implementing agencies generally suffer from a lack of sufficient legal authority and insufficient resources, on the one hand, and from government interference and delay, on the other. The case studies in Africa indicate that, if the process is to be efficient and transparent, a strong central agency should be established that is empowered, independent and provided with adequate resources.

Time and money spent on thorough program design and preparation are wise investments so that effective action can be taken to deal with known constraints. The program should carefully take into account efficiency, welfare and political feasibility (Campbell and Bhatia, 1998).

The privatisation process must be well prepared in terms of legal and organisational structures, managerial arrangements, and absolutely clarity of purpose on part of the government. Natural monopolies require strong and fair regulatory framework (Falcke, 1996). For OECD (Bouin, 1992), effective privatisation implies also that the private purchaser bears the financial costs (and possible losses) associated with the modernisation and development of the enterprise.

However, the political feasibility of reform has often been stressed. In particular, Dollar and Svensson (1998) conclude from econometric analysis of over 220 reforms programs that domestic political and economic factors strongly influence the success or failure of reform programs supported by adjustment loans, whilst they find no evidence that any of the variables under the WB's control (resources devoted to analytical work prior to reform, preparation, supervision, number and sequencing of conditions, etc.) affect the probability of success of an adjustment loan. The key to successful adjustment lending is to find good candidates to support; adding more conditions to loans or devoting more resources to manage them does not increase the probability of reform in countries unready for reform.

Fostering the development of the private sector

Governments need to address the range of constraints that can inhibit private enterprise growth (Cook et al, 1998): 'distortions caused by incentive policies and the rationing of resources; excessive government production and regulation; weak support systems for private enterprises due to imperfect markets or the incapacity of institutions; economic uncertainty that affects business decisions.'

The limited impact of privatisation in shifting significantly the balance between the public and the private sectors encourages more attention to be given to public enterprise reform, without necessarily a change of ownership, as a means of fostering private sector development. Private sector's involvement can grow by privatising management through contracts, increasing the scope of contracting out, and encouraging private investment in the public sector.'

Governments must also encourage the development of small and medium sized enterprises with direct support mechanisms at the micro-level (business training, micro-finance, development of infrastructures, etc.).

The challenge to policy-makers is to devise and implement an integrated and coherent set of country-specific policy measures that will enable the private sector to grow: market-based measures (focus of the WB) and incentives, capabilities and institutions (direct but selective government intervention).

We can cite the example given by the WB, which emphasises the success of Zambia's program and, the authors' ideas that can provide best-practice guidelines for other countries (Campbell, Bhatia, 1994):

- sufficient resources invested in careful program design and preparation;
- full support of privatisation by appropriate legislation;
- active involvement of the private sector;
- establishment of a well-financed, legally-mandated agency that is free to undertake its mission as the sole privatisation institution, with minimal political interference;
- a totally clear-cut process that has depoliticised the privatisation process;
- adequate support by donors, who co-operate fully and co-ordinate their assistance;
- a government and privatisation agency that takes decisive action to eliminate constraints, notably in addressing the weak capital market and the delaying manoeuvres of holding companies;
- major efforts to inform the public about the process and to encourage participation.

However, the social consequences are not clearly and forcefully taken into account, or other WB publications, such as Dollar, Svensson (1998), and reports from the independent Operations Evaluation Department within the WB report that the reform measures supported by three out of four loans were not satisfactorily implemented in this same country).

Some authors also underline the role that can and must be played by civil organisations. Civil organisations have been systematically undermined by the state (Africa, Eastern Europe) or neglected in development strategies (Latin America). Janvry (de), *et al.* (1995) call for focusing on the development role of indigenous, grassroots, intermediary and non governmental organisations as complements to governments and markets. Sahn and Sarris (1994) point out that indigenous institutions which have evolved mostly in response to local market failure and conditions now need to be legitimised and supported by SAPs. In agriculture, for example, these organisations can be effective in reducing transaction costs for peasant households and serving as mediating institutions in contracting with agro-industry (Janvry (de) *et al*, 1995).

Moderate the social costs

We can repeat here the proposals already made by UNICEF (Cornia et al) in 1987 in order to implement adjustment on a human scale. They seem to remain absolutely necessary and still poorly integrated in the reform process:
– more expansionary macro-economic policies (gradual timing, larger amounts of medium term external finance);
– use of meso-policies (policy instruments for prioritising and the restructuring of resources and activities in favour of the poor, protecting basic needs);
– sectoral policies aiming at restructuring within the productive sector (focus on employment, income, productivity in particular for small farmers and informal sector);
– improving the equity and efficiency of the social sector (targeting and cost-effectiveness of intervention);
– compensatory programs (limited duration) to protect basic health and nutrition of low-income groups (public works employment, nutritional education);
– monitoring of the human situation (living standards, health, nutrition).

Changes are also required on the international scene: the main industrialised countries should promote the creation of a world environment more friendly to developing countries, buffer mechanisms (such as STABEX or innovative systems), special support for countries following policies on a human scale (extra funding and integration of ministries and international organisations concerned with social sectors in discussions with WB and IMF).

Role of the state

As emphasised by the previous tasks in improving the privatisation process, privatisation makes government regulation more important and government remains crucial in stimulating economic development and social transformation. Regulation of monopolies and rigorous quality control, in particular for agricultural input and output, is a necessary task for public authorities (Petit, 1993).

Griffon and Hilmi (1996) summarise their view of the role of the state: 'By giving up its role as a direct operator, the state must now take on new obligations: 1) create conditions for markets to function and 2) create conditions for business to start-up. To this end, it must first become a 'strategic state', with administrations capable of surveying the evolution of the economy, experimenting with solutions, developing new modes of intervention, intervening in a relevant way, and permanently evaluating its own actions. It must also be able to propose future visions and anticipate. It must also become a 'negotiating state', capable of bringing economic actors to the 'negotiating table'. For instance, the state could take steps to define its own agricultural policy by using a mechanism of annual consultations.'

For Subramanian *et al.* (1994) and as the reported results of privatisation have shown, in the short-run, adjustment policies can be expected to produce more losses than gains and it is only in the long term that these losses may be reversed, creating the possibility that all groups gain from adjustment. Ensuring at least short-term sustainability requires compensating influential losers (Subramanian *et al* talk about influential losers with the idea of making the reform process politically feasible; the compensations can also be directed to vulnerable loosers to make the reform process socially feasible).

In the case of the agricultural sector, as Subramanian *et al.* (1994) conclude from their simulations, of key importance for growth in Africa is the delivery of public goods to the agricultural sector, a major task for the state to undertake (and that the Asian states have never disengaged themselves from). Thus, a precondition for the resumption of agricultural growth is the redefinition and consolidation of the state's economic role, with a focus on the provision of public goods and efficiency-enhancing interventions. Due to the underdeveloped financial system, it must be recognised that the African states are the major sources of credit (money creation or foreign borrowing) and will remain so for some time to come, even on the post-stabilisation context, and that undiscriminating curbs on credit expansion have an adverse impact on investment and growth.

In low-income countries, building state capacities remains a central task.

Lessons for donors

As underlined by Campbell and Bhatia (1994), donors should understand initial conditions better, place less emphasis on the number of transactions, recognise the complexity of privatisation (constraints, resource and time needed), provide more hands-on support earlier, provide early assistance to meet end-of-service benefits, pay more attention to monitoring and evaluation, demonstrate the benefits of privatisation, improve co-ordination among themselves (also in Wescott, 1999), provide more assistance to mobilise investors and sharpen the focus on who benefits.

Donors fix very ambitious objectives, while intermediary steps and more realistic objectives should be defined (Naim, 2000): 'The financial backers recommend honest governments, an impartial judicial system, well-trained and well-paid government employees, clear-cut regulatory mechanisms, etc. The problem is that a country that meets these very strict criteria is already a developed country. Thus, the challenge consists in learning the lessons of decades of effort in favour of development in order to propose programs with intermediate stages and realistic objectives.'

In order to be able to define efficient policy framework for reform, impartial and independent studies are still necessary to understand in detail whether the disappointing outcomes of SAPs are due to the failure of the policies themselves, or of the governments to implement them.

However, the results already show that a simple privatisation process is not enough to lead to sustainable and equitable growth. Careful studies in each country and sectors that have to be reformed should help design well-tailored and complete sets of policies for step-by-step and realistic reform.

Improved benchmark and indicators of progress towards the objective of poverty alleviation and fiscal sustainability are also required.

References

Adejumobi, S, Privatisation policy and the delivery of social welfare services in Africa: a Nigerian example. *Journal of Social Development in Africa* 14 (2), 1999, p. 87-108.

Anon.,World Bank urges greater role of the state, *Africa Recovery* online, 1997, vol 11 (1), (www.un.org/ecosocdev/geninfo/afrec/).

AFD, Agence Française de Développement, *Privatisations et développement,* Ouvrage collectif de l'AFD, Agence Française de Développement, Editions de la Documentation Française, Paris, France, 1997.

Ariyo, A, Jerome, A, (Jan). Privatisation in Africa: An appraisal, *In* R Ramamurti (ed), Privatisation revisited, University of Ibadan, Nigeria*, World development,* vol 27 (1), 1999, p. 201-213.

Bangura Y, 2000. *Public sector restructuring,* Occasional Paper 3, UNRISD, Conference Geneva 2000, Geneva, Switzerland.

Basañes, F., Saavedra, E., Soto, R., *Post-Privatisation Renegotiation and Disputes in Chile,* IFM-116, International Monetary Fund, Washington DC, USA, 1999.

Bayart, J.F, Faujas, A., En Afrique, la privatisation de l'Etat est propice à sa criminalisation, *Le Monde 10 mars 1998*, Paris, France, 1998, (March, 10).

Bouin, O., *Privatisation in developing countries : reflections on a panacea,* OECD, Paris, France, 1992.

Bourguignon, F., de Melo, J., Morisson, C,. *Poverty and Income distribution during adjustment. Issues and evidence from the OECD project,* Policy research working paper, The World Bank, USA, 1991.

Bryceson, D., F., Jamal, V., (eds). *Farewell to farms, De-agrarianisation and employment in Africa,* African studies centre Leiden, Netherlands, Research series, 1997/10, Ashgate, Aldershot, England, 1997.

Campbell White, O., Bhatia, A., *Privatisation in Africa. Directions in Development,* The World Bank, Washington DC, USA, 1998.

Caramel, L., Le lent aggiornamento de la Banque mondiale, *Le Monde,* Septembre 2000, Paris, France.

Cassen, B, Les institutions financières sous le feu de la critique, *Le Monde Diplomatique,* Septembre 2000, Paris, France, p.18-19.

Chossudovsky, M., *The globalization of poverty, Impacts of IMF and World Bank reforms. Zed books,* Third World Network, London, UK, 1997.

Cook, P, Kirkpatrick, C, Nixson, F., (eds), *Privatisation, enterprise development and economic reform – Experiences of developing and transitional economies.* Edward Elgar, Northampton, MA, USA, 1998.

Cornia, G,A, Jolly, R., Stewart, F., *Adjustment with a human face, Protecting the vulnerable and promoting growth,* A study by UNICEF, Clarendon Press, Oxford, UK, 1987.

Cornia, GA, Helleiner, G.K., (eds), *From adjustment to development in Africa. Conflict, controversy, convergence, consensus?* St Martin's Press, NY, USA, 1994.

Development GAP (ed), *The other side of the story: the real impact of WB and IMF structural adjustment programs,* Development Group for Alternative Policies, Washington DC, USA, 1992.

Development GAP, *Structural Adjustment and the Spreading Crisis in Latin America.* The Development Group for Alternative Policies, Washington DC, USA, 1995. (http://www.igc.org/dgap/).

Dinavo, J.V., *Privatisation in Developing Countries : Its Impact on Economic Development and Democracy,* Praeger Publishers. Westport, Conn., USA, 1995.

Dollar, D., Svensson, J., *What explains the success or failure of SAPs?* Policy research working paper no 1938 (temporary results), World Bank, Washington DC, USA, 1998.

Donaldson, D,Wagle, D, Privatisation: Principles and Practice, World Bank, Washington DC, 1995.

Draisma, T., *Mining and ecological degradation in Zambia: who bears the brunt when privatisation clashes with Rio 1992?* Discussion Paper, State University of Leiden, The Netherlands, 1998.

Falcke, C.O., *et al.*, 1996. *Recent experience with alternative forms of privatisation,* UNIDO, Vienna, Austria.

FAO, *The state of food and agriculture, World and regional reviews, Structural adjustment and agriculture,* Food and Alimentation Organization of the United Nations, Rome, Italy, 1990.

Fauvet, P., Privatisation pluses and minuses in Mozambique, *Africa Recovery* online, vol 14 (1), 2000, (www.un.org/ecosocdev/geninfo/afrec/).

Fine, B, Baykiss, K, Beyond Bureaucrats in Business: a critical review of the World Bank approach to privatisation and public sector reform, *J of Intern Dev*, vol 10 (7), 1998, p. 841-856,.

George, S, Sabelli, F., *Faith and Credit: The World Bank's secular empire*, Penguin books, London, UK, 1994.

Galal, A., Jones, L., Tandon, P., Vogelsang, I., *Welfare consequences of selling public enterprises. An empirical analysis*, Oxforf University Press, The World Bank, Washington DC, USA, 1994.

Griffon, M., Hilmi, A., (eds.), *Institutional changes for sustainable agricultural and rural development. Liberalisation, privatisations, role of the private and public sector, new roles for the state and decentralization*, CIRAD, Montpellier, France, 1996.

Guislain, P., *The Privatisation Challenge: A Strategic, Legal and Institutional Analysis of International Experience*. Regional and sectoral studies, The World Bank, Washington, DC, USA, 1997.

Gupta, S., Schiller, C., Ma., H., *Privatisation, Social impact and social safety nets,* Working paper 99/68. Fiscal affairs department, IMF, Washington DC, USA, 1999.

Harriss, J., Hunter, J., Lewis, C., (eds), *The New Institutioal Economics and the Third World development, Routledge*, London, UK, 1995.

Harsch, E, , Privatisation shifts gears in Africa, *Africa Recovery online*, vol 14 (1), (www.un.org/ecosocdev/geninfo/afrec/), 2000.

IDB, *Capital Market Development in Latin America and the Carribbean,* Sustainable Development Department, Inter-American Development Bank, Washington DC, USA, 1995.

Janvry (de), A., Radwan, S., Sadoulet, E., Thorbecke, E.,. State, *Market and civil organizations: new theories, new practices and their application for rural development,* Macmillan Series of ILO studies, Geneva, 1995.

Kikeri, S., *Privatisation and Labor, What happens to workers when government divest?* TheWorld Bank, technical paper no. 396, 1998.

Kim, S.R., Horn, A., *Regulation policies concerning natural monopolies in developing and transition economies,* Discussion Paper no. 8, UNDESA, United Nations Department of economic and social affairs, New York, USA, 1999.

Larsen, F., La mondialisation, les ONG et le FMI: un nouveau dialogue. *Le Monde,* 19/09/2000, Paris, France.

Logan B L, Mengisteab, K., 1989. The potential impacts of privatisation on health care delivery in SSA, *Scandinavian Journal of development alternatives*, vol 8, no 1, p. 133-152.

Megginson,W.L., *The Impact of Privatisation,* Center for International Private Enterprise, (www.cipe.org/ert/e27/megge27.html), 1999.

Minten, B., Zeller, M., (eds), *Beyond market liberalisation : Welfare, income generation, and environmental sustainability in rural Madagascar*, International Food Policy Research Institute, Ashgate, Aldershot, England, 2000.

Mosley, P., Weeks, J., Has recovery begun? "Africa's adjustment in the 1980's" revisited, *World Development,* vol 21 no. 10, 1993, p. 1583-1606.

Naim, M., Avatars du "Concensus de Washington", *Le Monde Diplomatique,* Paris, France, Mars 2000, p. 20.

Narjess B., Cosset, J.C., The Financial and Operating Performance of Newly Privatized Firms: Evidence from Developing Countries, 1998, forthcoming issue of *Journal of Finance.*

Obadina, T., Nigeria unveils new privatisation plan, *Africa Recovery online,* vol 12 (3), 1998, (www.un.org/ecosocdev/geninfo/afrec/).

Petit, M., 1993. Rôle du secteur public et du secteur privé dans la fourniture de services d'appui à l'agriculture *In* WB, IICA, CIRAD, DANIDA. *Services à l'agriculture, Rôle du secteur public et du secteur privé,* Actes du Symposium international, San José, Costa-Rica, 17-19 mai, CIRAD, Montpellier, France, 1993, p. 270.

Petrazzini, B.A., The labour sector : A post-privatisation assessment, *In* Glade, W (ed), *Bigger economies, smaller governments: Privatisation in Latin America,* Westview Press, Boulder, Colorado, 1996.

Ramamurti, R., 1999. Why haven't developing countries privatized deeper and faster? *In* R Ramamurti (ed), Privatisation revisited, *World development,* vol. 27 (1), p.137-155.

Sahn, D.E., Sarris, A., Evolution of the states, markets and civil institutions, *Journal of Modern African Studies,* vol 32, No 2, Cambridge University Press, 1994, p. 279-303.

Sardan (de), J.P, O, Dramatique déliquescence des Etats en Afrique. *Le Monde Diplomatique,* Paris, France, Fevrier 2000, p.12-13.

Sawadogo, J.M., Burkina: privatisation's rocky road, Concerns over transparency and jobs bring a mid-stream adjustment, *Africa Recovery online,* vol 14 (1), 2000, (www.un.org/ecosocdev/geninfo/afrec/).

Shirley, M., 1999 (Jan). Bureaucrats in Business: the roles of privatisation versus corporatization in SOEs reform, *In* R Ramamurti (ed), Privatisation revisited, *World development* vol 27 (1), p.115-136.

Sotinel, Le processus de privatisation ivoirien touche à sa fin, *Le Monde* Feb 25 1997, Paris, France.

Sotinel, Mauvaises gouvernances africaines, *Le Monde,* May 4, 1999, Paris, France.

Stewart, F., *Protecting the poor during adjustment in Latin America and the Carribean in the 1980s. How adequate was the World Bank response?* Development studies working papers, Centro Studi Luca d'Agliano, no. 44, 1992.

Stewart, F., *Adjustement and Poverty: Options and Choices,* Routledge, London, UK, 1995.

Stiglitz, J., *Quis Custodiet ipsos custodies,* (Who is to guard the guards themselves), Annual World Bank Conference on Development Economics, Paris, June 21-23, 1999, *In Challenge,* vol 42, no. 6, 1999, p. 26-68.

Subramanian, S., Sadoulet, E., de Janvry, A., *Structural Adjustment and agriculture: African and Asian experiences,* FAO Economic and Social Development Paper 124, Rome, Italy, 1994.

United Nations, International Council on Social Welfare, *The Copenhagen Consensus, A summary of principal commitments of the World Summit for Social Development,* ICSW, London, UK, 1995.

USAID, Privatisation in West Africa, Africa-wide USAID Equity and Growth through Economic Research Program, (EAGER),

Vickers, J., Yarrow, G., Economic perspectives on privatisation, *Journal of economic perspectives,* vol. 5 (2), 1991, p. 111-132.

Wescott, C., Learning to compete: improving the public service in developing Asia. Workshop on *public administration strategy,* 10 December, 1999. Hanoi, Vietnam. http://www.adb.org/work/governance/, 1999.

World Bank, *Accelerated development in SSA,* Washington DC, USA (Berg report), 1981.

World Bank and UNDP, *Africa's adjustment and Growth in the 1980's,* World Bank, UNDP, Washington DC, NY, USA, 1989.

World Bank, *The East Asian Miracle: economic growth and public policy,* A World Bank research report, Oxford University Press, Oxford, UK, 1993.

World Bank, *Bureaucrats in Business: the economics and politics of government ownership,* Oxford University Press, Oxford, UK, 1995.

World Bank, *The state in a changing world,* World Development Report, The WB,Washington DC, USA, 1997.

World Bank, Attacking poverty, World Development Report,The World Bank, Washington DC, USA, 2000.

Yarrow, G., A theory of privatisation, or why bureaucrats are still in business *in* R Ramamurti (ed), Privatisation revisited, *World development* vol 27 (1), 1999, p.157-168.

1. Education

Indicators of education	Rate of illiteracy (more than 15 years)					Public expenditure (% GNP)					Gross enrollment ratio (primary level)					Ratio of pupils to teachers (primary level)				
Year	80	85	90	95	96-97	80	85	90	95	96-97	80	85	90	95	96-97	80	85	90	95	96-97
Benin	..	78	74	68	66	..	..	..	3.2	..	67	68	58	73	78	47	33	36	52	..
Burkina-Faso (1991 – SAP)	..	87	84	81	79	2.2	2.0	2.7	1.4	1.5	17	27	33	40	..	54	58	57	51	..
Cameroon	..	45	38	31	28	3.6	3.0	3.5	2.9	..						52	51	51	..	..
Central Africa Republic	..	72	67	60	58	..	2.2	2.2	..	..	71	75	65	..	..	60	66	77	..	..
Cote d'Ivoire (1991)	..	72	67	60	57	7.2	..	7.7	5.2	5.0	75	72	67	69	71	39	36	36	41	..
Ethiopia	..	76	72	69	65	3.1	3.0	3.4	4.0	4.0	37	38	33	37	..	64	48	36	38	..
Ghana	..	50	43	36	34	3.1	2.6	3.3	..	..	79	75	75	..	..	30	24	29	..	..
Indonesia (1983-84)	..	25	18	16	15	1.7	..	1.0	1.4	1.4	107	117	115	115	..	32	25	23	23	..
Kenya	..	36	29	23	21	6.8	6.4	7.1	6.8	6.6	115	99	95	85	..	38	34	31	30	..
Mali	..	81	75	68	65	3.7	3.2	..	2.2	..	26	24	26	40	45	42	34	42	70	..
Mozambique	..	71	67	62	59	4.4	4.2	6.0	..	..	95	87	67	60	..	69	61	54	58	..
Nigeria	..	59	51	43	40	6.4	1.2	1.0	0.9	..	109	104	91	98	..	37	42	41	37	..
Senegal (1984 – agriculture)	..	75	72	67	65	..	..	4.1	3.6	3.5	46	56	59	64	68	46	46	53	58	58
Tanzania	..	44	37	31	28	..	..	3.4	..	..	92	75	70	67	66	41	34	35	37	36
Zambia	..	37	32	27	25	4.5	4.7	2.2	2.2	..	90	104	99	88	..	49	49	44	39	..
Zimbabwe	..	17	13	10	9	6.6	8.8	10.4	8.4	8.3	85	136	116	114	113	44	39	36	39	39

2. Health

Indicators of Health	Life expectancy at birth			Infant mortality (per 1,000 live births)			Immunization rate DPT (% under 12 m)			Access to safe water (% of pop)		
Latest single year	70-75	80-85	92-97	70-75	80-85	92-97	70-75	80-85	92-97	70-75	80-85	92-97
Benin	45	49	53	136	115	88	..	17	78	34	14	72
Burkina-Faso (1991 – SAP)	41	45	44	137	117	99	..	2	70	25	35	..
Cameroon	46	51	57	119	88	52	..	50	44	32	36	41
Central African Republic	43	47	45	132	114	98	..	20	53	..	16	23
Cote d'Ivoire (1991)	45	50	47	129	105	87	..	25	70	44	20	72
Ethiopia	41	42	43	155	159	107	..	6	63	8	4	26
Ghana	50	54	60	108	90	66	..	19	60	35	..	65
Indonesia (1983-84)	49	56	65	114	80	47	..	15	91	11	39	65
Kenya	51	56	52	98	66	74	..	70	36	17	27	45
Mali	39	43	50	203	180	118	..	..	52	..	..	48
Mozambique	42	44	45	168	133	135	..	29	61	..	9	24
Nigeria	43	46	54	135	96	77	..	9	45	..	36	50
Senegal (1984 – agriculture)	42	46	52	149	104	70	..	50	65	..	44	50
Tanzania	46	51	48	125	102	85	..	67	74	39	52	49
Zambia	47	51	43	100	88	113	..	58	70	42	48	53
Zimbabwe	52	56	52	93	76	69	..	72	78	..	52	77

3. General indicators

General Indicators	HDI (%)					GNP per capita (constant 1995 US$)					GDP per capita (purchasing power parity, USD)					Fertilizer consumption (100 gr per ha of arable lands)				
Year	Rank (1998)	80	85	90	98	80	85	90	95	97	80	85	90	95	97	80	85	90	95	97
Benin	157	0.322	0.349	0.358	0.411	660	820	960	1170	1260	660	840	980	1200	1270	6	83	78	252	..
Burkina-Faso	172	0.247	0.270	0.280	0.303	480	610	780	930	1000	490	610	780	940	1010	16	41	60	72	
Cameroon	134	0.452	0.504	0.519	0.528	1050	1980	1910	1690	1770	1260	2050	1990	1810	1890	54	96	28	50	
Centra Afr. Rep.	166	0.350	0.371	0.372	0.371	950	1100	1220	1300	1310										
Cote d'Ivoire	154	0.398	0.405	0.406	0.420	1300	1230	1370	1540	1690	1370	1360	1610	1710	1840	272	174	147	221	
Ethiopia	171	..	0.265	0.287	0.309	..	290	400	450	500	..	290	400	450	510				119	
Ghana	129	0.465	0.480	0.510	0.556	940	920	1250	1540	1610										
Indonesia	109	0.526	0.578	0.619	0.670	850	1200	1980	3050	3390	890	1260	2070	3200	3490	652	1011	1179	1492	
Kenya	138	0.487	0.509	0.530	0.508	660	740	1030	1120	1160	680	770	1090	1160	1190	162	273	290	188	
Mali	165	0.277	0.293	0.314	0.380	420	450	610	690	720	420	450	620	710	740	70	97	74	84	
Mozambique	168	0.302	0.297	0.328	0.341	410	330	490	580	690										
Nigeria	151	0.373	0.388	0.411	0.439	520	530	690	840	860										
Senegal	155	0.327	0.352	0.376	0.416	940	1110	1450	1580	1690	970	1170	1500	1640	1730	83	88	51	71	
Tanzania	156	..	..	0.406	0.415	..	..	510	600	620										
Zambia	153	0.456	0.470	0.451	0.420	700	680	840	850	910										
Zimbabwe	130	0.546	0.606	0.599	0.555	1250	1520	2020	2100	2240	1260	1550	2090	2200	2350	704	630	650	475	

4. Trends in improvement for welfare since the period of saps

Trends in terms of improvement for welfare	HDI	GDP pc 95	Literacy	Public exp educ	Enroll	Teach for pup	Life exp	Decrease infant mort	Immu DPT	Water
Benin	↑	↑	↑	..	↑	→	↑	↑	↑↑	↑↑
Burkina-Faso	↑	↑	→	↓	↑	→	→	↑	↑↑	..
Cameroon	↑	→	↑	→		..	↑	↑	↓	↑
Central Afric. Republic	→	↑	↑	..	..	..	→	↑	↑	↑
Cote d'Ivoire	→	↑	↑	↓	→	→	→	↑	↑↑	↑↑
Ethiopia	↑	↑	↑	↑	→	↑	→	↑	↑↑	↑↑
Ghana	↑	↑	↑	..	..	..	↑	↑	↑↑	..
Indonesia	↑	↑↑	↑	↓	→	↑	↑	↑↑	↑↑	↑
Kenya	→	↑	↑	→	↓	↑	↓	↓	↓	↑
Mali	↑	↑	↑	↓	↑	↓	↑	↑	..	..
Mozambique	↑	↑	↑	..	↓	↑	→	→	↑↑	↑
Nigeria	↑	↑	↑	↓	→	→	↑	↑	↑↑	↑
Senegal	↑	↑	↑	↓	↑	↓	↑	↑	↑	↑
Tanzania	..	↑	↑	..	↓	→	↓	↑	↑	→
Zambia	↓	↑	↑	↓	→	↑	↓	↓	↑	→
Zimbabwe	→	↑	↑	→	→	→	↓	↑	↑	↑

Sources: UNDP, 2000, Report on Poverty; World Development Indicators (World Bank)

The data at the national level do not give clear trends in improvement of the situation for the households' welfare. Moreover, the observed improvement can be due to the intervention of the state but also to the role of projects and the action of NGOs (for example for access to potable water or for the immunization of children). However, we can observe a general trend in the decrease of public expenditure for education as a percentage of GDP. There is no sufficient data available to follow the trend on public expenditure for health but the figures give a general decrease in infant mortality, a better access to potable water and a more and more important rate of immunization for DPT. Life expectancy and death rate are stagnant in some countries (BF, Cote d'Ivoire, Ethiopia, Kenya) but this may be mainly due to HIV epidemics.

Indicators of health	Pop who risk to die before 15 (%)					Pop who risk to die before 40 (%)					Death rate per 1,000 people					Hospital beds per 1,000 people				
Year	80	85	90	95	97	80	85	90	95	97	80	85	90	95	97	80	85	90	95	97
Benin					18					29	19	..	15	..	13	1.5	0.4	0.8	..	..
Burkina-Faso (1991 – SAP)					23					40	20		18		19			0.3		
Cameroon					15					27	16		13		11			2.6		
Central African Republic																				
Cote d'Ivoire (1991)					18					37	17		15		16			0.8		
Ethiopia					24					42	22		20		20	0.3		0.2		
Guinea					26					38	24		20		17			0.6		
Indonesia (1983-84)					7					13	12		9		8		0.6	0.7		
Kenya					14					30	13		10		13		1.7	1.6		
Mali					26					34	22		18		16					
Senegal (1984 – agriculture)					16					29	18		14		13			0.7		
Tunisia					4					8	9		7		7	2.1		1.9		
Zimbabwe					15					40	12		11		12	3.0	1.4	0.5		

Objective	Indicator expected value	Observed impact : conform or contrary	Explanation (failures etc.)	Limits	Conclusion
SO1 Farmers income	↑ price ↑ margin/income ↓ volatility	Cocoa, cotton, rice, vet. Cotton, rice, vet.	Imperfect competition (cocoa) ↓ Non agr income ↑ input prices	Exchange rate ↓ World prices & Chging volatility Obs. period	Privat. impacts entangled with PAS impacts (deval.) ↑ price ≠ ↑ income Priv. does not imply a competitive market pre-exists
SO2 Soc. Services. & infrastr.	Budget + Perception	Transport and education provided by private companies (rubber, palm) Senegal : Zimbabwe :		Micro perception) ≠ Macro (Δ budget)	Qualitative : 'merchandisation' and 'monetarisation' of health. How can public spending increase with budget constraints ? Privat. unpopular when associated with greater risk, uncertainty and cost
SO3 Environment		Cotton, rice	Imperfection information Opportunistic behaviour (no internalisation of environment. costs)	Externalities assessment Internalisation : cost and politic choice	
S04 Volume	↑ Vol.	Cotton, rice, finance, vet.	Risk (price, incompl. mkt) leading to diversification Supply response to world prices (↓ surfaces)	Entangled effects privat/deval. Obs. period	Price and quality competitiveness explain Δ volume ↑ not always expected Supply flexibility
Quality	↑Qual./adjustment to demand requirements.	Cotton, cocoa, rice, vet.	Imperfect information Imperfect competition		Isolate Δ qual. And response to solvent demand (cotton) + Δ income
SO5 Costs	↓ Costs (accountancy) ↑ Productivity	Cotton, rice.	Incomplete market (inputs) Imperfect information		↑ costs (even disappearing of some functions) Competition fruitful Income effects sometimes contradictory (rice)
SO6 Flexibility	Diversification	Cotton, Veterinary, cocoa, rice.	Incomplete /imperfect mkt (input, risk)		Diversification concerns monetarised production Limits to mkt capacity (shortage of intrans) = limits to diversification
SO7 Financial sustainability		Cotton	Eco of shortage (low monetariation level, narrow solvent demand) No legal sanction (gov. fail.) nor moral/social sanction		Instability of private operators activity hampers capital accumulation Legal/moral/social sanction schemes required

ANNEX VI

Glossary

ACP	Africa-Caribbean-Pacific
AFD	Agence Française de Développement
CIRAD	Centre de Coopération Internationale en Recherche Agronomique pour le Développement
CFDT	Compagnie française pour le développement des fibres textiles
EU	European Union
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
NIE	New Institutional Economics
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
SAP	Structural Adjustment Program
SIP	Share-Issue privatisation
SOE	State-owned enterprise
SSA	Sub Saharan Africa
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNICEF	United Nations Children's Fund
UNRISD	United Nations Research Institute for Social Development
WB	World Bank
WTO	World Trade Organization