EUROPEAN PARLIAMENT

Directorate-General for Research

WORKING PAPER

IMPACT OF PRIVATISATION OF THE PUBLIC SECTOR ON DEVELOPING COUNTRIES

Development Series

DEVE 102 EN

This edition is only available in English (DEVE 102 EN).

Publisher: European Parliament
L-2929 Luxembourg

Author: Bruno Losch
Centre de Coopération internationale en recherche agronomique pour le développement, Département territoires, environnement et acteurs (Cirad-Tera)
Montpellier, France

Editor: Adriaan Talsma
Directorate-General for Research
Division for Agriculture, Regional Policy, Transport and

Development
Tel: (00 352) 4300 22639 /22792
Fax: (00 352) 43 40 71
E-mail: atalsma@europarl.eu.int

Manuscript completed in February 2001.

EUROPEAN PARLIAMENT

Directorate-General for Research

WORKING PAPER

IMPACT OF PRIVATISATION OF THE PUBLIC SECTOR ON DEVELOPING COUNTRIES

BENEFITS AND PROBLEMS

Development Series

DEVE 102 EN
02-2001

TABLE OF CONTENTS

INTRODUCTION **5**

EXECUTIVE SUMMARY **7**

1- WHY PRIVATISE? **13**

1.1. The donor's rationale for privatisation 13
  1.1.1. Failure of inward-looking, state led development 13
  1.1.2. The proposed remedy or “Washington Consensus” 14
  1.1.3. The objectives of privatisation 16
1.2. Assessing the impact of privatisation in developing countries 18
  1.2.1. Scale and scope of privatisation 18
  1.2.2. Methodological issues 20
  1.2.3. Results 22
1.3. What explains possible discrepancies between expected and observed impact? 24
  1.3.1. Remaining market failures 24
  1.3.2. Shortage of saving and domestic capital 25
  1.3.3. History 25

.

2 - METHOD AND SCOPE **27**

2.1. Key issues on privatisation 27
  2.1.1. Success of privatisation 27
  2.1.2. Key constraints 27
2.2. An operational framework for the analysis 28
  2.2.1. Step 1: definition of general objectives and performance criteria 28
  2.2.2. Expected impacts of privatisation: a review by objectives 31
  2.2.3. Step 2: Identification of possible risks and constraints hindering privatisation's efficiency 34

3 - RESULTS **37**

3.1. Market impacts: A review by objectives 37
  3.1.1. Instability of farmers' income..37
  3.1.2. Reduced provision of social services and infrastructure..........................43
  3.1.3. Negative environmental impact 44
  3.1.4. Unstable output increase and, with exception, higher quality response ..44
  3.1.5. Higher cost due to higher import duties 46
  3.1.6. Higher flexibility in production 46
  3.1.7. Fragile financial sustainability 47

4 - CONCLUSIONS ON CASE STUDIES 51

Glossary 55

Bibliography 57

List of further publications in the Development Series 63

INTRODUCTION

Privatisation is a critical component of structural adjustment programs carried out since the early 1980s in developing countries. Whereas donors argue that "by and large, privatisation has been really a great success. But unfortunately, people do not 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 remain entangled. This study aims at isolating, in a comparative

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

framework derived from political analysis and economic theory, the impacts of privatisation on developing countries economies by distinguishing the benefits it provided from the problems it may have generated.

Yet the scope of the topic is large, which advocates for limiting the analysis in the first chapter to the definition of terms, recalling the historical process as well as the economic background of privatisation in developing countries over the last decades. The second chapter focuses on the methodology used for the analysis, the definitive scope of the study and the sectors selected. A practical definition of an operational framework, through the definition of performance criteria and measurement indicators applicable to the wide range of situations is also provided. This operational framework, hinging on economic theory, will provide the basis for the analysis of privatisation's impact in three key commodity chains and two services, representing part of the heterogeneity of situations encountered in developing countries (chapter three). Chapter four presents a synthesis of impact's evaluation whereas the conclusion draws some possible recommendations for donors.

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 have 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 protectionism 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 conferred a major role on the State.

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 by 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 broad 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 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, the opportunistic behaviour of the agents, the insufficient supply of public goods, and on the other hand, to the evident effects of deregulation and the end of protection concerning income redistribution and the use of natural resources. These results

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 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, have also frequently led to take-over of control 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 highlight the fact that it is necessary to provide an accompaniment to 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 proportion 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 in 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 in 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 by 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 which weigh heavily on 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 such people**.**

Privatisation and sustainable development

17. Externalities constitute one of the main market failures. Thus, privatisation presents no direct advantages compared with 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 these countries are confronted with difficult choices in the allocation of resources between immediate and future goods and public services. This factor was why the accent was put on sustainability in the recent phase of reform.

18. At the present time, the 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 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 important, in effect, 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 of 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 on 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 the local history.

The need for reinforced markets

21. The operational conditions of the markets are not satisfactory; their numerous failures make it impossible to attain the objectives of reinforcing competitiveness, alleviating poverty and preserving the environment. The markets are a means 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 on which all the efforts of the authorities, the international agencies and private funds must be concentrated.

22. The success of privatisation programmes implies the existence of a good economic and institutional environment. The rule of law is 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

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 of 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 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 (at 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. Reforms can only become anchored sustainably 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 adaptability of the general principles of reform in each specific context. Ready-to-use recipes must be banished!

27. Local opportunities and constraints must be taken into consideration in the joint formulation of operational programmes. For the European Union this implies concentrating its efforts on:

- (i) reinforcing the capacities of the players through the adoption of suitably 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 sectoral development strategies.

28. This type of approach takes time and must be considered carefully. It would include critical evaluation mechanisms that would make it possible to adjust 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 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 step-by-step 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 building on the achievements and the originality of the European approach to consultation, negotiation and the preparation of collective projects.

1 - WHY PRIVATISE?

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 80s, the privatisation wave swept over the world, touching every continent, every political system, and every sector. Its emphasis 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 US dollars 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 occurred in sub-Saharan Africa and the Middle East and North Africa (Donaldson, Wagle, 1995) although "second-generation" reform is now taking place. Donor's theoretical background is presented first, followed by a survey of literature on existing impact analysis, their methodologies and their results. Third, an historical brief survey gives some ideas of the peculiar situation of developing countries

1.1. The donor's rationale for privatisation

Privatisation, simply defined as the process of selling state-owned enterprises (SOEs) to private owners[2], has been a prominent component of structural adjustment programs (SAPs) in developing countries, launched after the debt crisis of the early 1980s, when US interest rates suddenly rose and major commodity prices collapsed. Growing public deficit and insolvency of many governments in developing countries, whose economies were widely nationalised in the wake of Independence two decades earlier, gave then privatisation a first, and rather restricted objective. Why privatise? The issue was at the time to quickly cut waste and provide the divesting government the much-need cash though the sell of SOEs. This short-term objective of macro-economic stability, dictated by the IMF, was encompassed in the broader and long-term goal, formulated by the World Bank (WB), of fostering higher economic efficiency and stimulating the economic growth.

1.1.1. Failure of inward-looking, state led development

After the Second World War, many governments in developing countries (DCs), as well as in developed countries, believed that economic development and poverty reduction required active participation of the state and protection of local industry. Following a Keynesian approach, an inward-looking, state-led development path was adopted, leading many

[2] In the following pages the acknowledged definition of privatisation is a process freeing market forces and competition, with individual initiative and responsibility as well as private property for pillars.

countries to implement protectionism, government control of investment, and state monopolies in key sectors. For DCs, public investment was also presented as a way to make up for the lack of domestic capital.

DCs tried to finance their growth by tapping financial resources from agriculture and direct them toward industry and services, following the so-called "import-substitution" strategy. High volatility and high level of commodity prices in the 1970s, combined with irrational borrowing in international markets from exporting DCs (prices were expected to continuously increase), along with "cronyism" and rent-seeking strategy, resulted in high level of public debt, inflation and finally a waste of national resources in most of the "inefficient" state-owned enterprises. Furthermore, high level of taxes on producers' output significantly reduced farmers' income. All these negative effects, among which the insolvency of states ranked first for donors like the World Bank, generated an "increasing disenchantment with inward-looking development", as the World Bank cautiously stated (World Bank, 2000: 61).

This "increasing disenchantment" led DCs to implement reforms (and donors to impose conditions) that replaced state intervention on markets with private incentives, public ownership with private ownership, and protection of domestic industries with competition with foreign producers and investors. The most important point emerging from empirical evidence is the importance of competitive conditions and regulatory policies, as much as ownership, for incentivation and efficiency seeking (Vickers, Yarrow, 1991).

1.1.2. The proposed remedy or "Washington Consensus"

The shift of paradigm from state-led/inward looking development to market-led/outward-looking development was strongly supported (some prefer to say "imposed") by International financial institutions, namely the IMF and the World Bank, which agreed on a package of best policies aimed at stabilising the economy through the reduction of inflation, moderation of chronic budget deficits, and dismantling of the most egregious trade barriers[3]. Consensus on best practices gave rise to the so-called "Washington consensus" (Williamson, 1990), based on the application of the neo-classical theory paradigms and of policy experiments in UK and USA as of early 1980s. This consensus inspired most of Structural Adjustment Plans (SAP), conditioning the contribution of international donors. Privatisation within the package is one of the "remedies" (see box 1 below).

---

[3] Indeed much of the initial impetus for privatisation in Africa came from creditor institutions, above all the IMF and the World Bank, as part of their support for structural adjustment. The main document launching privatisation in Africa is from the World Bank (1981), *Accelerated development in Sub Saharan Africa,* ie the Berg Report.

BOX 1: Washington consensus on best practices

- Fiscal discipline;
- Redirection of public expenditure priorities toward fields offering both high economics 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.

Privatisation rests upon the same logic as liberalisation and pursue the same goal: 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 sectors where they are mostly required, and the higher the gains in term of welfare for one economy[4].

1.1.3. The objectives of privatisation

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 downsizing in themselves would produce a minimal state. To summarise privatisation goals, we must refer first to Megginson (1999) who recalls the six core objectives laying behind the Washington consensus (Box 2).

---

[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 cover). 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).

BOX 2: The permanent objectives of privatisation, or Why privatise?

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

Source: W. L. Megginson (1999).

However, the World Bank and the IMF rapidly faced sharp criticism from NGOs (e.g. Development GAP, 1992), scholars (e.g. Susan George and Sabelli, 1994; Chossudovsky, 1997), other international organisations such as Unicef (Cornia *et al.,* 1987) because the results of SAPs in sub-Saharan Africa were generally considered disappointing (see next section). Besides, changes in the macro-economic context and possible recovery in national accounts did not lead to any adoption of changes in "good practices", referring to the recipe book of Bretton Woods Institutions. Their answer was to broaden the primary objective of economic efficiency, competitiveness and growth, and recommend privatisation from the late 1980s for achieving social objectives, then followed by environmental concerns in the first 1990s and by a return to the top-objective of poverty alleviation on the eve of 2000[5].

BOX 3: Objectives of privatisation: A summary

(1) efficiency, competitiveness and growth (1 to 6 in Box 2)

(2) sustainability of development

(3) poverty reduction

Source: World Bank (2000).

[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).

These "second-generation" reforms are now set to be implemented in DCs. "Consolidating the gains from these [first-generation] reforms often requires institution 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).

1.2. Assessing the impact of privatisation in Developing Countries

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

1.2.1. Scale and scope of privatisation

1.2.1.1. Enterprise privatisation

Campbell and Bhatia (1998) qualify the governments' intentions on privatisation: 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 income and divest some troubled SOE while minimising political fallout.

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

1.2.1.2. Privatisation of economic sectors

In the case of the privatisation of economic sectors, the government has to reconsider the entire structure of sectors concerned. The objective is to discard the public monopolies and to replace them by a sector 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.

1.2.1.3. The case of the 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 Latin America and the Caribbean (FAO, 1990).

For Cornia and Helleiner (1994), there is a general agreement among donors and policy makers for building the development strategy basically on agriculture, and even more, on smallholder agriculture. Earlier African aspirations to rapid industrialisation, based on resources 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 (albeit 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, the major policy areas are:

(1) agricultural input and output pricing: "get prices right", e.g. eliminate price fixing policies to minimise inefficiencies and financial costs of direct price control,

(2) 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).

(3) institutional reform: transfer of the function of the public institutions involved in agricultural production and marketing to the private sector.

However markets possess some characteristics which make market mechanisms often 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;

- Supply adjustment to demand neither immediate nor automatic. Perennial crops are peculiarly concerned. Supply shows reduced flexibility while demand has strong inertia or “rigidity”; both rigidity and inertia magnify price reactions and foster price instability.

- Markets segmentations, 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 agricultural markets' structural characteristics explained that improved stability of agricultural prices cannot be obtained through a free market only (Gérard, 1991; Boussard, 1994). Another reason of 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 are to be experimented, especially in developing countries.

1.2.1. Impact assessment: Methodological issues

(1) Counterfactual

According to Stewart (1995), who compared SAPs performances in Africa, Latin America, and Asia, and showed that the adjustment programs were mostly associated with poverty increase, the impact of the policies cannot be estimated only by the actual performances but also include the counterfactual effects, or what would have happened in their absence. To deal with this problem of counterfactual, studies concentrate on performances before and after adjustment (see point (2) below), or they compare adjusting countries with a control group of non adjusting countries (see point (3) below), or use multiple regression techniques (e.g., Dollar, Svensson, 1998), or 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 identify gains attributed to privatisation from those due to other factors. The critics have been voiced for example for the much cited study by Galal *et al.* (1994) in Bangura (2000) or for the performance measure used in WB assessment (Ramamurti, 1999). Campbell and Bhatia (1998) report also that available data indicate that firms are performing better after privatisation, but no attempt was made to adjust for the effects of other economic liberalisation measures that often accompanied or preceded privatisation. For example in African countries, the devaluation of the CFA franc in 1994, combined in some cases with political upheavals, makes change in enterprise performance difficult to disaggregate.

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

The WB and UNDP report (1989) assessing growth in Africa in the 80's provoked controversy due to a positive evaluation and the statement that "Recovery had begun". The grouping of countries is based on an assessment of the degree of adjustment implemented in the countries. Critics came in particular from ECA (UN Economic Commission for Africa) for arbitrary division between adjusting and non-adjusting countries. It underlines that the conclusions contradicted some previous WB reports that concluded that "adjusters" in SSA had done no better or even worse than "non-adjusters".

According to 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 which appear to be critical to understanding the way structural adjustment works and to judge their performance.

(4) Comparisons, other things equal

Galal *et al.* (1994) underscore that in making comparisons between private and public enterprises, 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 much of the problems of public enterprises are due to state ownership and how much to their monopoly position? Are the problems of public enterprises due to ownership or size? Are open questions.

(5) Alternatives to privatisation

Privatisation policies should be evaluated not only on the performance of the 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 80s, on 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 efficiency of privatisation in low-income countries had yet to be established convincingly. For him, the different authors' axiomatic beliefs are often couched as scientific findings.

(6) Availability and quality of data

The World bank study on the impact of privatisation in Africa (Campbell, Bhatia, 1998) reports disturbing findings: not one program has net routine procedures for monitoring and evaluating post-privatisation performance, in particular on government financial flows: information is unavailable; the amounts of cash received by the governments from privatisation have not been reported in several countries; some of the proceeds have been used by holding companies and/or privatisation agencies.

Given the scarcity of information, the data used in the studies generally face the following problems:

- small sample size which makes it difficult to reach meaningful conclusions;
- non random sample which therefore may have been biased towards successful privatisation;
- measure of short-term gains; their sustainability remains to be proven.

1.2.1. Results

In spite of all the limits in measurement underscored above, the literature concerning the impact of privatisation identifies, even if not scientifically flawless, some trends on the benefits and problems of the privatisation programs. Literature mainly focuses the analysis on the first level, i.e. privatisation of enterprises and few studies are available on sector analysis (except natural monopolies on utilities and agriculture). The presentation will be focused on some of the results in the agricultural sector.

1.2.3.1. Pace of reforms

The slow pace (or rate of occurrence) of the 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: reforms need to be politically acceptable (leaders can obtain political benefits that outweigh political costs, the dominant objective being to remain in power), politically feasible (means of retaining support for policy change and withstand or weaken opposition), and credible (realistic assessment) (The 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 on the pace of the reform can also be the fact that the WB's structural adjustment loans have a short disbursement period, usually 1-2 years, which causes Bank staff to think in terms of quick and deep reforms rather than phased-out 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 gradual approach to improving their competitiveness is preferable to a "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).

1.2.3.2. 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). 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 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 has done more harm than good when 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 can reasonably be attributed to the inappropriate design of SAPs.

In terms of revenue and efficiency at the enterprise 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 enterprises and that post privatisation investment, notably in enterprises purchased by foreign investors, tends to be greater than the amount paid to purchase the enterprise. 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 installed capacity, introduction of new technologies, product diversification, and expanded markets, reports the WB.

Megginson (1999) summarises four recent studies together examining over 200 companies privatised over 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 due mainly to three factors. First, 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. Second, once privatised, the rapid growth that typically follows privatisation is subsequently followed by capital investment in new plants and equipment. Third, 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 for the 80s, the privatisation process has been criticised to impede 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

[6] One is Boubakri and Cosset, 1998; the others are not cited.

social unrest that were encountered. "Donors have exerted pressure to privatise without sufficient information", the World Bank's 1998 study acknowledged (Harsch, 2000).

1.3. What explains possible discrepancies between expected and real impact ?

1.3.1. Prevailing market failures

Since the mid-90s, 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 agreed again after more than a decade of being neglected. 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 again recognised as useful for poverty-alleviating programs.

Renewed consideration of social impacts of privatisation derives from the basic observation that hypothesis underlying markets reform was not fulfilled in DCs:

"Job loss in one sector will be offset by job creation in another, and the new jobs will be higher-productivity than the old. It is this movement from low- to high- productivity jobs that represents the gain from the national perspective, and explains why, in principle, everyone can be made better off as a result liberalisation. This economic logic 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 contribute 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).

In the case of 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); the market distortions (oligopolistic or monopolistic structure; real demand –defined by ability to pay- inferior to actual demand).

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. A number of studies confirm that public corporations are no less efficient than private firms are. Privatisation may perpetuate monopolistic practices (for example in the case of small market size, purchase by multinational firms that possess technological and financial capacities to manage alone the enterprises, network building). Logan and Mengisteab (1989) also develop the same ideas for the health sector in SSA.

1.3.2. Shortage of saving and domestic capital

Many analysis, starting with Dumont (1966) and followed by many like Engelhart (1999) deeply questioned the possibility of setting up *ex nihilo* a services-oriented capitalism, without a previous capital accumulation at the national level, strong saving institutions and a "smart" state capable to ensure its missions. Moreover, in order to improve the privatisation process, which is necessary at least for structural reasons, solutions adapted to **local conditions** have to be found for developing financing local capacities, legal property status, and introducing fair competition, with a possible active role of the state to induce and regulate economic activity.

1.3.3. History

The argument according to which the origin of the capital does not have any importance if its injection leads to a better allocation of resources and to an improvement of competitiveness and consumers' satisfaction remains strong. But history shows that economic development takes place within organisations and institutions emanating from social values. Thus institutional and cultural contexts cannot be neglected.

1.3.3.1. Do DCs have a comparative advantage in a global economy where they buy high aggregated-value goods, and sell primary products with low aggregated-value?

Bairoch (1995) underlines moreover that history cannot be ignored either. He demonstrates that, except for some rare cases, the North drew its economic expansion from mainly protectionist policies. Why could not it be the same for the South now? Have the causes of protectionism changed? These are questions some authors ask, who recall the position of Keynes on this subject: " I have sympathy to those, which want to minimise rather than to maximise the economic overlap between the nations. Ideas, knowledge, art, hospitality, voyages: as many things which are by nature international. But that the goods are of national manufacture, every time it is possible and convenient. And especially, that finance is before any main road" (quoted by Daly, 1993).

This means than without local accumulation for further investments in technologies, differences between developed and developing countries will be probably wider. Is this accumulation possible selling cotton and buying cars, computers and phones? Are investments in capabilities of human resources, productive and social infrastructures possible with a primary-based economy ? Are international investments capable to invest for long-term in one place ? Growth-oriented policy is not enough: the objective should be accumulation.

1.3.3.2. What is the priority: privatisation or competition?

In a recent paper with a rather provocative title (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, should a choice be made between of the two, it would undoubtedly favour competition: “Competition may be more important than private property, especially the form of ersatz privatisations which actually occurred. It is competition that provides the driving force for grater efficiency and lower prices. But competition is also an important part of corporate governance: it is the absence of competition that creates rents, which so often get diverted to inefficient uses”. For historical reasons, competitiveness has generally been interpreted as a challenge between private or public property. Historical analysis shows that the debate may be more complex: private property can lead to monopolist markets, whereas public property is not incompatible with competition (China, in some sectors today).

1.3.3.3. Are DC States able to invest in social expenditures to improve labour productivity in the same time as they invest to improve market condition?

Reducing objectives of economic policy to an economic point of view may lead to misunderstanding between economists and politics. Analysing the ten years of transition from the socialist economies towards the market economy, Stiglitz (1999-2) made a fundamental plea against too narrow a 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 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".

Taking into account market failures, social context and history should in conclusion help us to build an operational and theoretical-sound framework for our analysis. This framework is now presented.

2 - METHOD AND SCOPE

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 pitfall of an untidy shopping-list.

2.1. Key issues on privatisation

Impacts first must be defined according to the general objectives given in box 3 above, and detailed performance criteria clearly set. Doing so, it is possible to answer the first following question:

Question 1: How successful was the privatisation in achieving the objectives of improved economic efficiency and competitiveness, improved sustainability and reduced poverty in developing countries?

Second, the possible sources of relative inefficiency of privatisation in achieving its objectives, as well as the prominent factors of success, must be isolated to give a clear-cut explanation of each experience. To that end, we resort to economic theory and theoretical explanation of a free market "badly" performing. The market and government failures theoretical corpus provides such an explanation by recalling, first, the standard hypothesis behind privatisation allowing for a free market to function properly, and second, by listing the possible factors that may violate the standard hypothesis and consequently reduce the efficiency of the privatisation process. Such factors, when identified, will serve as a basis for explaining the possible inefficiency of privatisation when observed. They will be measured through operational indicators. Doing so, we should be able to answer the second following question:

Question 2: What are the key constraints to privatisation's efficiency, if any, in developing countries?

A bad definition of objectives, and possible overlapping in their definition, will be also considered. A reason not to achieve one objective can indeed lie in a set of particular constraints reducing the efficiency of a process as well as in the objective when too high. Lastly, possible answers to

Question 3: How to improve impact of privatisation on developing countries economies?

will summarise our findings and provide possible input for policy implementation. Here, solutions to markets dysfunction as well as an improvement in the degree of fitness of objectives will appropriately be combined.

For operational reasons (time and funding available), for the specific dependence of many developing countries on exports of a few primary products, particularly in Africa for which the commodity chains were formerly integrated in SOEs, and lastly for the experience accumulated by experts in sub-sectors analyses, it was decided to adopt a commodity-chain based-approach to assess the benefits and problems of privatisation.

2.2. An operational framework for analysis

2.2.1. Step 1: definition of general objectives and performance criteria

The general objectives (GO) of privatisation can be declined in sets of specific objectives (SO) themselves further dis-aggregated in subsets of detailed objectives for the commodity chains selected (table 1). Indicators of performance in achieving the different SO are the performance criteria, given in table 1.

Table 1: First step, definition of objectives and performance criteria

Objectives	Performance indicators
GO1 Poverty reduction	
- SO1 Increase in farmers income	
1. Increase in producer prices	**Producer price (fob %), raw or net margin (fob %)**
2. Increase in producers margin share in the commodity chain	**Producer price (or margin) change compared with other commodity chain's actors price or margin changes (e.g. commodity chain approach: distribution of margin growth among actors)**
3. Decrease in production cost (input and factor prices)	**Profitability: return on sale, on investment, output, debt**
4. Increase in quality (output and input)	**Input and factor price (% change)**
5. Decrease in credit cost	**Quality of output or input (various index % change).**
	Interest rate, transaction costs (% change).
- SO2 Improved provision of social services and infrastructure (collective equipment)	**Proxy indicators (beds, doctors/unhab.; classrooms, teachers/unhab.; km of paved roads…**

GO2 Sustainability (natural resources): - SO3 Environmental sustainability (soil fertility, pollution reduction etc.)	**Pollution indexes (% change)** **Value of yield losses** **Value of lost resource uses**
GO3 International competitiveness - SO4 Quality and volume - SO5 Cost - SO6 Flexibility in production - SO7 Financial sustainability (profitability at the micro level, access to domestic and foreign capital markets, macro stability)	**Qualitative indicator (premiums), production increase** **Input and factor prices (% changes), raw or net margin** **Productivity, yield (% change)** **Diversification index, increase in terms of trade** **Profitability: Return on sales, investment, output, leverage**
GO4 Political stability and social peace - SO8 Political stability - SO9 Social sustainability (employment, health)	**Qualitative: Legitimacy of government and public institutions, pluralism/diversified debate, rule of law, rejection/acceptance of new policies as well as FDI** **Cost of cares and lost earnings, provision and access to social services…**

They allow a comparison, over time, of a situation before privatisation with a predominant State intervention with a situation after privatisation with divested SOEs and liberalisation in progress.

At this step the "national question" has been neglected as a specific concern. But it will be later included, because the control of strategic economic sectors (security, main exports) can be critical and influence the privatisation process. This consideration is particularly important in Africa where the weakness of local capitalism shows a capture of the privatisation process benefits by foreign investors. In this way, and according to the local context.

2.2.2. Expected impacts of privatisation: A review by objectives

SO1: Increase in farmers' income

It is widely admitted that poverty alleviation requires growth. In developing countries, growth in agricultural incomes is expected to be particularly effective at reducing rural poverty, 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 dismantles various forms of state intervention (price supports, input and credit subsidies, support for marketing products) - are implemented to increase agricultural growth and farmers income. Increase in farmers prices and margins are then expected to rise (World Bank, 2000).

However, attention must be paid to four limiting factors to such an 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 to 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 but also better quality and access for public services, 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 index (Sen, 1999) such as accessibility of social services (health, education, culture), improving in life style (life expectancy, hygiene, mother mortality rate, children mortality rate), security, minorities rights, social involvement in city-life….

Monetising former non-monetised functions means deep evolution of social organisation. This can lead to a social marginalisation of social classes and to social difficulties by introducing individualistic behaviours, which are not in the former social values. These social dynamics have to be understood.

Because of the well-known “ciseaux des prix” effect (input price soars while output price decreases due to productivity gains), sustainable increase of agricultural income may lead to greater agricultural exodus. It requires a social consensus, sustained growth of other economic sectors in order to induce rural labour force into labour-intensive activities.

SO2: 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 public good provision 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 good is ineffective, insufficient or unsatisfactory, that markets’ performance is weakened. And consequently, that privatisation’s impact is altered.

SO3: Environment

Under the hypothesis that prices are equal to marginal costs and reflect all costs, either economic (factors and inputs) or environmental (pollution costs), prices should lead in a free and competitive market to efficiency and environmental sustainability. But because environmental costs are not yet integrated in production costs, a polluter faces no incentive to shift to cleaner production processes. This is notably the case in agriculture. A consequence is that as long as environment externalities are not integrated in 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 correct them through appropriate mechanisms (taxes, quotas, and regulation).

SO4: Volume and quality

Distorted prices, central planning, and attenuated incentives arising from the absence of clear property rights mean that resources are not efficiently allocated. Reducing those distortions, decentralising decision-making, and privatising - even if not done perfectly - should move countries closer to their production possibilities curve. The point is that movement toward a market economy should lead an economy from a point interior to the production possibilities curve toward the frontier and then, as investment is allocated more efficiently, move the frontier outward. Hence, growth should be higher both because of the rapid movement toward the frontier, and the more rapid movement outward of the frontier, as investment is more efficiently allocated. 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.

In the perfect and "well-functioning" market, when all necessary information on products quality is available and no adverse selection occurs (quality is satisfactorily reflected by prices which integrate all existing costs) quality and competition are mutually supportive. Quality changes in response to demand needs improves competitiveness while competition forces producers to bring appropriate quality changes to their products.

SO5: Costs

In a risk neutral case (e.g. producers are not risk adverse nor risk takers) with free competition and no – or low - transaction costs, the price should equal the marginal cost of production and consequently provide a meaningful signal or comparative returns of investment in various crops. In consequence, costs fully reflecting prices should lead to a shift of production in line with comparative advantages, i.e. toward the production of crops where expected profits are the highest. As already mentioned above, expected outcome of privatisation is the reduction of the discrepancy between prices and costs (removal of taxes and subsidies, i.e. "transparency of prices"), which in turn should generate efficiency gains, and by the virtue of competition, should lead to factors productivity increase.

SO6: Flexibility in production

In a perfect market with free competition and low transaction costs, supply should rationally respond to price changes and shift to the crop whose price rises compared with its rival crops. However, the paradigm of the price signal on a free market leading to the best allocation of resources cannot be operational, for efficiency reasons, without flexibility in production. A somehow remaining rigidity in the production process (for various reasons, like risks in taping 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 level, will be used as a proxy of production flexibility.

SO7: Financial sustainability

In a perfect market with free competition and low(ered) transaction costs, competition should lead to the isolation, by market forces, of sustainable firms or activities from unsustainable ones that should either perish or be replaced by more efficient ones (and thus free factors for a more efficient use). It is worth noticing that reduced sustainability is not a problem nor a "negative" impact per se, as long as markets function well and allow resources to be directed to their most efficient use. Reduced sustainability (or "sustained profitability") simply means in this case that other activities are more profitable.

2.2.3. Step 2: Identification of possible risks and constraints hindering the efficiency of privatisation

Privatisation's efficiency relies upon certain hypotheses or sets of constraints widely documented in economic literature. The "standard competitive paradigm" mentioned by Stiglitz (1999: 4-5) above refers to the basic conditions required for free markets to yield efficient outcomes[7]. These conditions are of the three following types:

Type 1: The absence of externalities, economies of scale and of public goods (commodities or services that, once provided, can be obtained without payment by others).
Type 2: The presence of perfect competition and perfect information.
Type 3: A complete set of markets, including markets extending infinitely far into the future and covering all risks.

A market failure is said to occur where one of these three conditions is not satisfied. Contrary to what is expected, a free market can then lead to an inefficient allocation of resources, which means in our case that GOs mentioned above are not fully achieved, or not at the lowest cost. To what extent market failures precisely occur in cases under scrutiny proves thus to be the key question to answer for a precise and comparative assessment of privatisation's efficiency in various situations. Some concrete examples of market failures liable to reduce the efficiency of privatisation in the case of cotton in West Africa are given in table 2.

Table 2: Market failure observed or expected after liberalisation of cotton market, SSA

1. MARKET FAILURE OBSERVED OR EXPECTED	Type (1,2,3)
Wear of roads in rural areas	1. Public good
No provision of public goods formerly provided by Cotton Companies ("Sociétés cotonnières")	1. Public good
Cartels - in cottonseed buying - in inputs selling	2. Imperfect competition
Increase in international traders' market power	

[7] Arrow and Debreu (1954).

	2. Imperfect competition
Strengthening of input traders' market power	
	2. Imperfect competition
Wear of export quality	
	2. Imperfect information
Increase in treatment (pesticides) frequency due to increased parasitic pressure following the lack of coordination among producers and the wear of inputs quality	2. Imperfect information
Vanishing input supply	
Vanishing production credit due to lack of reputational collateral	
	3. Incomplete markets
Vanishing formal credit market due to the impossibility to secure credit after monopoly in cotton-collecting was dismantled	
	3. Incomplete markets
	3. Incomplete markets

Source: Daviron (1999).

Because governments, too, may fail to provide the core services they are expected and required to (like security or infrastructure) - what in turn can result in the lowering of privatisation's efficiency in achieving its different GOs -, government failures are added to market failures as possible candidates for below-than-expected privatisation's efficiency. Lastly, because indication of sources of market and government failures may not be sufficient to provide an accurate assessment of efficiency losses they are likely to generate, measurable indicators should be used whenever possible. They can be completed, if need be, by qualitative indicators.

3 - RESULTS

Several case studies on representative commodities and on a wide range of developing countries serve as a basis – or as "inputs" - of our analysis of privatisation's impact in developing countries. For all commodities and countries, experts' knowledge has been drawn upon to answer the three basic questions formulated above. First-hand expertise and field knowledge are thus combined with a theoretical framework to provide economic-sound answers to these questions.

The road map provided to experts consists in the following sequence: description of the commodity chain, recall of GOs and SOs attached to the privatisation process, identification of current and expected issues related to privatisation, breakdown of issues in different types of market and government failures, assessment of indicators of performance and failure, and lastly, overall assessment of real privatisation impact. It is reported in annex ***. A summary of findings is given in table 3.

3.1. Observed impacts: A review by objectives

3.1.1. Instability of farmers income

Observation: In the cotton case, privatisation has led to price increase in favour of the cotton growers, at least in the short run (Nigeria). But higher prices do not mean automatically higher incomes, because of a growth of input prices (Ghana). Using this income criteria, liberalisation seems to be counter-productive for cotton producers, because "price co-ordination" in public commodity chain allow an absorption of increase imported input prices (Mali / Burkina Faso).

In the rice case in Senegal, study shows that producers' prices increased 45 % between 1990 et 1997. Global producers' incomes decreased for all type of producers. Productivity improvement leads to a great increase in net margin for rice production (except in 1996): + 65 % between 1990 and 1997, +37% between 1993 and 1997 (Bélières and Touré, 1999).

In Ethiopia and Kenya, data do not allow to demonstrate that price increase could be linked with institutional reforms in veterinary services.

For the cocoa world market, we notice three elements:

when the market is already liberalised, producers' prices move with international prices, which are very unstable;

in international comparisons, we can note, over long periods, a "better" price for producers in liberalised markets. Two limits have to complement this data: increase in foreign currency does not mean increase in bargaining power; and an unsteady market can eliminate the weakest producers from the market.

In the case of micro-finance in the rural areas, the situation is a double transition:

- transition within a former segmented market (informal and banks). Micro-finance nowadays is a link between both markets,
- transition between a formerly subsidized market toward a liberalised market.

The situation is that micro-finance helped to reduce transaction costs, but is still unable to compete in a liberalised market. This transition means difficult choices between poverty alleviation and market efficiency, capacity building and reduction of transaction costs, access to market for disadvantaged countryside or concentration in urban areas, trade financing or agriculture financing, trade integrated financing or autonomous institutional financing strategy (case of cotton). On the other hand, one can notice that liberalisation strategy has difficulties to build a favourable legal and effective background.

Table 3: Synthesis of results

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 & Changing volatility Observ. period	Privat. impacts entangled with PAS impacts (deval.) ↑ price ≠ ↑ income Priv. does not imply a competitive market pre-exists
SO2 **Social Services & infrastructure**	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 environmental costs)	Externalities assessment Internalisation: costs and political choice	
S04 **Volume** **Quality**	↑ Vol. ↑ Qual. / adjustment to demand requirements	***Cotton, rice***, finance, vet. ***Cotton***, cocoa, rice, vet.	Risk (price, incomplete market) leading to diversification Supply response to world prices (↓ surfaces) Imperfect information Imperfect competition	Entangled effects privat/deval. Observ. period	Price and quality competitiveness explain Δ volume ↑ not always expected Supply flexibility 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 market (input, risk)		Diversification concerns monetarised production Limits to mkt capacity (shortage of intrans) = limits to diversification
SO7 **Financial sustainability**		***Cotton***	Eco of shortage (low monetarisation level, narrow solvent demand) No legal sanction (governm. failure) nor moral/social sanction		Instability of private operators activity hampers capital accumulation Legal/moral/social sanction schemes required

Explanation:

CFA F devaluation may explain better this evolution than progressive liberalisation of the rice market. Calculating in constant CFA F or in US dollars would demonstrate that prices decreased in real terms for rice producers in Senegal. In the case of producers in Senegal, decreases can be explained by the end of indirect and inefficient transfers (by public credits), which went along with hydraulic liberalisation. Finer indicators are necessary to evaluate income increases, introducing farming indicators, and not only hectare indicators: relative net margins of different crops, percentages of cotton income in global income.

Conclusion:

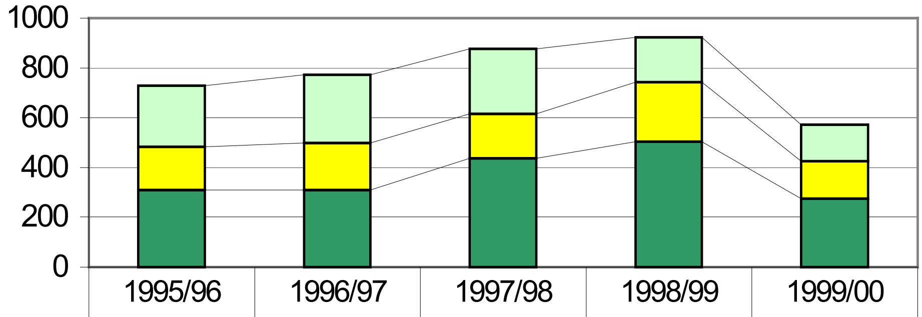
It seems clear that enterprise privatisation, or sector liberalisation, is not sufficient to improve local prices and producers' incomes, although positive results emerge.

BOX 4: Cocoa case in Cameroon

The objective of lowering the marketing costs and improving the whole efficiency of the marketing also seems to have been achieved. Despite the concentration of the major exporters (see below), one must admit that the competition is strong enough to put pressure on middlemen and local exporters' margins. The times of enormous profits made by former local exporters in Douala have gone. To a certain extent marketing efficiency has improved and farmers had a share of that productivity gain (Vrije Universiteit, 1999, Ruf, 1999).

The main indicator of that achievement is the producer price expressed in a percentage of the FOB price. It significantly increased and it helped the producer price to jump in 1996, 1997 and 1998 and, maybe even more importantly, it helped producer prices to resist relatively well in 1999. In December 1999, South-West Cameroon farmers were paid around 400 F CFA per kg while their Ivorian colleagues had to accept an average of 275. The difference was precisely the subsisting Ivorian export tax of 125 F CFA per kg. It means that the domestic marketing efficiency in Cameroon and Côte d'Ivoire looks similar. At least at first view, it improved in both countries at the expense of middlemen and local exporters.

In Côte d'Ivoire, for this first year of liberalisation, the decrease of State revenues is obvious.



	1995/96	1996/97	1997/98	1998/99	1999/00
Prélèvement publics	246	276	261	181	148
Intermédiaires	173	187	177	238	149
Producteurs	310	310	438	504	275

sources: BNETD 2000 (prepared by D. Cebron).

Due to the curious F/kg 570 policy in 1998/99 (see above), state revenues were cut one year before the liberalisation but exporters benefited enormously from that policy. 1998/99 was the 'exporters' year in Côte d'Ivoire.

This is the reason for a cautious interpretation of the apparent reduction of the gross margins of the middlemen and exporters. There is a reduction but it should not be compared to the one of 1998/99, which was exceptional. Compared to other years, the reduction is somewhat modest in nominal francs. On top of that, one should take the improvement of the price differential. The Côte d'Ivoire origin has re-gained some 25 to 30 F CFA per kg on the world market (see above) and that gain is not taken into account in the table above.

3.1.2. Reduced provision of social services and infrastructure

Observation: Transport and education provision by the private sector after the withdrawal of the State is observed in some specific cases: large-scale plantations in remote areas exploited by large companies (namely rubber and palm, which are possible rivals to cocoa in certain areas) but they cannot be generalised to food crops. A second observation is that, in spite of the main objective of stable or increased public expenditures in social services, facts demonstrate (WB report, 2000) that public expenditures in education decrease, as a % of GNP (see Annex 2, social indicators). Moreover, access to public services has often turned out to be more difficult after privatisation occurred and PAS were implemented. The perception at the micro-level is thus rather negative: "government does less" simply because farmers now have to pay for social services (like medicine provision) to which they used to have free access.

Explanation: Micro-level perception can diverge from macro-level indicators (increase in health performances, for example) and must be both examined by experts, donors and governments. For instance, global performances are not really significantly better than indicators evolutions before liberalisation. Some health disasters (such as AIDS), may explain some negative performances (Zambia). Others seem to be linked with social problems and liberalisation (Kenya).

Conclusion: 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 on a particular sector (you pay now for your health) provides an unexpected explanation for privatisation to have turned to be unpopular at a larger scale: it is simply associated with greater risk, uncertainty and cost.

3.1.3. Negative environmental impact

Observation: Negative environmental impacts are observed for rice (increased salinity) and cotton (higher parasitic pressure), respectively in Senegal and SSA.

Explanation: Imperfect information on input quality and uncertainty about input provision frequency have altogether lead 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) for the use of irrigation equipment has caused damaging effects on soil in Senegal, combined in a second phase with the standard "negative" impacts of extensification (erosion) after input prices rose.

Conclusion: Absence of internalisation of environmental costs (you do not pay for the damage you generate) as well as absence of sound environmental policy (budget constraint and/or priority) have not provided the expected mitigating effects on environment that privatisation and effective public policies should have brought.

3.1.4. Unstable output increase and, with exception, higher quality response

Observation: Unstable, when not diminishing, output volume changes are reported for commodities (rice, cotton); at the opposite, services (finance and veterinary) enjoy greater activity level after privatisation occurred. Indeed, limited and unstable efficiency gains, notably in the cotton case in privatised-cotton chain countries, i.e. in anglophone countries, compared with Francophone countries whose cotton chains are not fully privatised yet, have been registered. We observe an increase in some countries with different magnitude (Ghana: significance increase but volumes remain small; Zambia and Mozambique), a rise and fall in some others (Nigeria, Uganda), stability

(Zimbabwe) and even a decline (Tanzania with a production divided by three) whereas Francophone countries (like Mali and Benin) show more stable and positive results. Whereas instability in output growth seems to prevail too for other crops under study, for example for rice: in Senegal, after an artificial production increase (87 to 93: +95%), production collapsed after total liberalisation (93 to 96: -55%), and restarted after.

Explanation: First, rising risk, due to greater exposure to prices volatility after the withdrawal of State in various price support schemes, along with a lack of risk-mitigating institutions or instruments, has lead to diversification, what might have reduced the share of each commodity under study in farmers income. Second, downturn in world prices after 1998 logically induced farmers to reduce their surface and/or diversify their activity.

Conclusion: Thus flexibility in supply response to exogenous shocks (world prices fall) and reduced expected profits on crops formerly protected or supported explain the changing perception of commodities profitable to farmers. This conclusion, after all, is in line with privatisation expected effects as long as farmers face a real choice between various crops or activities. Effects seem to have been magnified by the lack of appropriate institutions to deal with risk.

Quality

Observation: When assessing quality adjustment to demand, rather than quality improvement or decline, market forces seem to lead to the removal of free rider behaviour and appropriate *quality adjustment to demand needs* in two cases (cocoa and rice, with the development of rice quality strategy among millers on but tiny markets) whereas in the case of financial services, a serious gap prevails. For livestock, the quality of the export products have not been improved either (skins and hides being a good example in Ethiopia). There is no quality incentives to induce farmers to treat their animals against skins parasitism. In dairy sector one considers that there is a quality effect and that competitive advantage has been given to some private farms having high standard of quality including health and using private vets to achieve such objectives. However, the major unexpected result seem to be looked after in the cotton case. Although there is no unique trend in the evolution of the international appreciation of cotton lint among the SSA countries analysed, a possibility of international depreciation seems to be widely shared by SSA countries according to expert knowledge. Indeed, stabilisation is observed in Zimbabwe (after improvement due to public support in years preceding the privatisation process), while depreciation occurs in Ghana, Nigeria, Tanzania (where cottonseed trade or payment to farmers can be so much delayed - several months to more than one year - that there is no longer incentive for farmers to pay any attention to cotton quality). In French-speaking countries, there is an effective classifying system and no quality depreciation has been reported until now.

Explanation: Prevailing imperfect information on products or service quality (especially input), added to imperfect competition (when farmers are "captive" sellers), seem to tend altogether to generate a dumping-like behaviour in commodity chains where unexpected results have been observed, and, along with it, a discount on producers prices and income (cotton, but also cocoa in some African countries, such as Cameroon).

Conclusion: Undoubtedly, higher flexibility in 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). But a weak bargaining power of farmers for such crops (to buy input or sell their products to traders) is likely to thwart supply positive response to demand needs in the future by reducing expected income and "forcing" farmers to develop low quality products. Impact of better supply response to demand need on farmers income is very sensitive to the hypothesis of a well-functioning market, especially perfect competition (so as to choose the quality of your product) and perfect information (so as to formulate rationale expectations on future demand needs).

3.1.5. Higher costs due to higher import prices

Observation: Following first an accountancy approach, we record instability in costs value 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 (93 to 97): +70-80%, as well as herbicide prices (93 to 97): +40-60%, tillage prices (93 to 97): +20%. Overall production cost increase after devaluation (93 to 94: +32%), then decrease to pre-devaluation level. As far as factors 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 Francophone countries. In these countries, value added related to cotton production is stagnating, but cotton acreage per labour unit has increased significantly during the period. Value added per labour unit has thus favourably evolved. However, because workers might have been working more, changes in labour productivity remains 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.

Explanation: Possible failures altering expected results: In the case of cotton, because of the *moral hazards* that could direct farmers toward getting input credit with one cotton company and to selling his production to another company, inputs are no longer provided in some countries (Tanzania) and in some part of other countries (Zambia) as well as in Mozambique. In Ghana, private cotton companies have collectively decided to subtract directly input cost from the unique cottonseed price they set. Such an arrangement seems to prove some efficiency in controlling the free-rider behaviour, but it also clearly shows that there is *no real competition* between private operators contrary to what liberalisation is expected to lead to. Seeds are the minimum input to provide to cotton farmers. It is reported that pre-existing seed production scheme has totally collapsed during the liberalisation process (Nigeria). When pre-existing scheme is transferred to a private company (case of Lonrho in Zambia), there are complains against seed prices and qualities. 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 mechanical ploughing that farmers request. In Zambia, the private company belonging to Lonrho has set up its own extension staff, while another big private operator seems to ignore such need.

Conclusion: Under the current circumstances of deterioration in technical information provision as well as uncertainty (quality) and higher cost of inputs, land and labour productivity has seldom increased after the privatisation started. Along with damaging market failures, the gear toward labour-intensive activity, although efficient in a factors allocation perspective, has hampered productivity growth and reduced the benefits privatisation could bring.

3.1.6. Higher flexibility in production

Observation: Flexibility is shared by rice and cocoa, the former for the quality changes and production structure changes observed, the latter for changes in quality. Moreover, diversification is acknowledged for rice, with an increase of tomato, onion, corn, sorghum cultivated areas of about 15-18% of total cultivated area before 1994 to 18-25% after in Senegal. For financial and veterinary services, results are more contradictory: supply of financial services still mismatches demand needs (limited supply facing diverse demand / insufficient supply compared with demand's size) whereas supply of medicine to animals, although effective and efficient in countries studied, rests upon a narrow range of products.

Explanation: Diversification and flexibility could have been greater without the existing limits to market capacity (shortage of inputs, constraining regulation on imports of veterinary products), providing from either remaining "rigid" public intervention (imports or import licences provision) or incomplete and "immature" markets (with some function practically absent). Moreover, the rationale for diversification, that one can easily understand for annual crops, is a bit less clear for tree crops, where rigidity remains in supply response. In this case, supply response should be observed over the long-run, along with an assessment of turnover in planting and replanting.

Conclusion: With the limits imposed by a low availability of alternative crops, products, and activity, privatisation has led to improved flexibility and higher diversification on the supply side, according to expectation. Comparing, and possibly balancing such a result with income changes seems to be necessary.

3.1.7. Fragile financial sustainability

Observation: *Firstly, an unstable involvement of private operators*. In Ghana, in the cotton case there was a significant number of competing private operators attracted by the cotton business. They were still 14 to be in operation in 1995, but only 12 in 1996 as companies collecting only a small amount of cottonseed were forced out of business. In Benin, some of the newly set up ginneries are under threat of moving out of business bacause of the recent international cotton price crisis. There is an issue of disequilibrium between the increased ginning capacity in the country and the production level, some ginneries are then forced into investment under-use. The situation is not better for international investors. Lonrho started its commitment in the cotton business in 1986 firstly in Zambia. It extended its activities to South Africa, Mozambique, and had prospect in Uganda before deciding to withdraw totally from the cotton business in 1999. In Zambia, Lonrho was replaced by Dunavant, a world leader in cotton fiber trade but a newcomer in cotton production in Africa. Who will replace Lonrho in Mozambique remains unknown and there is a 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 a questionable attitude during the recent cotton crisis (with a world price down to US $ 0.44 in February 2000). One private company has decided to postpone the selling of its cotton lint, waiting for the market to turn around. As the crisis lasted longer than expected, that company faced serious cashflow troubles, which it solved by delaying payment to cotton growers: it is reported that some farmers still have not been paid for the cotton they sold more than half a year earlier. We observe for rice the inability of producers to pay for irrigated area maintenance.

Secondly, mitigated sustainability in services. The clients of the private veterinary practitioners are generally market-oriented farmers, thus well-off and dairy is representing a high potential of health services especially when intensified management is used. It is also a sustainable service since there are less seasonal trends in dairy than in other livestock sectors. The case of Kenya is specific with regard to beef cattle farmers, as there are a significant number of commercial ranches (mainly in low to medium potential areas) as a market oriented business activity likely to use health services. Limitations derive from the fact that there *is no clear demarcation between private and public activity*. Government services still continue to provide services considered as private goods, thus hampering the development of private activity. This represents an unfair competition from government vets and AHAs in the field of curative treatments. Another competition is with the chemists who provide drugs without the veterinary services possibly limiting the profitability rate of the private vets business generally associated with drugs sale. Additionally, vaccinations are still undertaken mainly by the public sector, whereas in other countries implementation has been transferred to the private sector acting on behalf of the government under a contractual arrangement (sanitary mandate in Western Africa for instance). The rather “negative” case of financial services is reported in box 5 below.

Explanation: With low monetisation levels and narrow solvent demand, the economy of the countries we examined is often similar to a “shortage economy” (économie de pénurie), in which opportunistic behaviour (shortages providing short term profit to stockholders; operators being successively in and out of the market) cause the sustainability of permanent operators (farmers) to become fragile. No legal sanctions (government failure) nor moral or social sanctions divert from any such behaviour at the scale where transactions occur.

Conclusion: Firstly, sustainability/non-sustainability depends very much on the hypothesis underlying the privatisation process: imperfect and incomplete markets, and more broadly, market and government failures are as important as privatisation itself in explaining financial sustainability/non-sustainability of a particular activity or commodity chain. Secondly, along with such failures, the absence of any liable alternative crops or activity (as it is the case for cotton in many sub-regions of SSA) may also hinder financial sustainability (captive activities). This must be borne in mind when examining sustainability indicators. Thirdly, the question of sustainability applies to one specific activity (is it sustainable or not?) must be completed by another one: could it have been *more* sustainable? The answer is that it could have been, had government regulations and collective actions been more coercive and had the separation of public and private activities been clearer. A second answer is that the *scale* at which privatisation occurred is of paramount importance in permitting government and/or stakeholders to overcome market dysfunctions we observed, and consequently improve wealth.

BOX 5: The micro-level: Problems and constraints in financial services supply in UEMOA

1. An urgent need of “professionalism”: recent diagnosis in various West African Countries in the framework of rural finance programs shows that the lack of professionalism is a widespread handicap in the micro-finance sector. It implies important failures in management, accountability, and information schemes, because of lack or weakness of internal control as well as a lack of tools and instruments liable to devise development plan or check financial equilibrium.

2. A prominent difficulty to institutionalise: although micro-finance has encountered notable success and private initiatives have multiplied, most of Decentralised Financial Schemes (DFS) have so far been initiated in specific projects, with a substantial support from donors. Transition from projects to autonomous institutions – “institutionalisation” – is a complex and difficult process that very few DFS manage to handle. Such a process is based upon three major blocks unsatisfactorily developed until now: legal institutionalisation, financial sustainability, social and organisational sustainability.

3. A high level of risk: Rural financial services face diverse types of risks with which standard banking tools cannot cope: risks related to rural borrowing and to financed activities as well as risks related to lack of regulation, monitoring and control in the micro-finance sector (viz. proliferation of micro-finance institutions (MFI) within one single zone, lack of deontology and shared rules leading to unfair competition in some West African areas, high cost of information supply in rural areas limiting the development of appropriate risk-mitigating instruments). Nevertheless, innovations start to arise, which could be duplicated:

- combination of financial services and management consulting activities;

- new forms of guarantees: agricultural warrant, “fonds de garantie paritaire”, “société de cautionnement mutuel”;

- development of “tied services”

Rural credit is made unstable by technical, sanitary, managerial and marketing issues. One possible innovation could consist in developing partnerships with the budding private sector supplying with such new forms of services, in order to secure credit. Concretely, this means contracts between a MFI and a private operator insuring to the borrower the provision of certain services designed to secure credit (for example, veterinary monitoring in the case of a credit for draught animals). This kind of partnership is still poorly developed in West Africa. Some DFS experience it now in Madagascar. It raises several issues, pointing to contract enforcement, services cost and coordination. The major stake in West Africa remains that private services are very little developed.

4 - CONCLUSIONS ON CASE STUDIES

Heterogeneous case studies, where privatisations occurred at different levels (national, sub-national, local), where privatisations concerned different functions (entire commodity chain, or segments: distribution, marketing, collecting…) provide at first sight only specific answers to the three questions we have raised in the second part of our report. Besides, external factors, shocks, events might have altered in different ways different countries at different time. However it appears, once the framework of analysis developed in section II has been applied to the answers we have collected (based in all cases on first-hand and direct experience), that four cross-sectional conclusions can be drawn.

1. **Privatisation requires pre-conditions for building competitive, sustainable and poverty alleviating capacities** today in most developing countries. These preconditions are particularly important to ensure that liberalisation makes a positive contribution to the achievement of social, developmental and environmental goals. Well-functioning markets require, as it emerges from our analysis, a set of

conditions that must be fulfilled. Called (H) hereafter, this set has been drawn from the cross-sectional explanations of unexpected results collected in table 3 in the previous section.

Well-functioning markets require:

- Legitimate stakeholders (supply) and effective competition
- Solvent demand
- Rule of the game
- Independent and effective regulatory agencies (or effective social control)
- Risk-managing institutions
- Labour and capital mobility (transport infrastructures)
- Transparency in and access to information

This point confirms the conclusion of various studies, a prominent one being the survey of national studies by UNCTAD (1999) undertaken in developing countries under the CAPAS programme[8].

[8] According to the UNCTAD studies, the pre-conditions to liberalisation success were: (i) human resource and technology capacity building to ensure meeting of professional and quality standards, (ii) upgrading telecommunications infrastructure, (iii) coherent pro-competitive regulatory framework for goods and services and trade and investment which should include setting incentives that enhance the competitiveness of services firm, (iv) national services export strategy which would raise the profile of service industries and exports in the domestic economy as being vital to economic development, (v) government support to help service firms particularly SMEs to improve quality of services as well as to access new technologies and management techniques, (vi) establishment of service industry associations as agents to establish and reinforce codes of conduct standards for professionals and linking members to potential partners in target markets and serve as coherent voice for the needs of the service industry, (vii) increase the financial capacity of service firms, (viii) promotion of their exports, (ix) allocate the highest profile to telecommunication and information technologies in particular to ensure export labour-intensive services through cross border mode, (x) use new business techniques (alliances consortia etc.) and build networks, (xi) presence in major markets, (xii) exploit opportunities offered by regional markets, (xiii) offer a package of services (xiv) use the knowledge and capacity build up in manufacturing and agricultural sectors to export services-related activities, offer integrated package of goods and services (UNCTAD, 1999: 8).

2. **It follows that privatisation should be implemented at the level/scale where (H) is fulfilled**. The level where the privatisation process gave positive results seems to be the level where the well-functioning markets requirements were best fulfilled.

3. **In most of the case studies, (H) is not fulfilled. Then public or collective action (eventually with aid fundings) has to be implemented (H) step by step.** This progressive building of efficient markets means that (i) market building is based on competition (in this way, the private / public status of property of the production factors can be considered as secondary) and (ii) that progressive privatisation allows a parallel capacity building on human resources and institutions' efficiency.

4. **Complementary conditions on previous accumulation and financial transfer seem to be required in the privatisation process,** as resumed in the following scheme**.** Since privatisation aims to improve economic efficiency (through increased productivity), success in privatisation seems to be based on national or international capital mobilisation (to invest) and local accumulation (which implies investment capacities) sign of the level of consumption power):

Accumulation AND capital transfer (S, I) require:

- Well-functioning credit and saving institutions
- Rules of the game for investments
- Monetisation of the economy
- Efficient local governance and legitimate leadership

The consequences are that:

⇒ (1) Privatisation leads to efficiency when capital accumulation pre-exists

⇒ (2) Coherence seems necessary between the scale and scope of privatisation.

⇒ (3) Privatisation takes time (iterations until the appropriate scale of solvent market is found) and should necessarily be strengthened by capacity building as well as permanent analysis of the evolution of institutions.

Glossary

ACP	Africa-Caribbean-Pacific
AFD-CFD	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 Organisation
OECD	Organisation 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 Organisation

Table of boxes

BOX 1: Washington consensus on best practices

BOX 2: The permanent objectives of privatisation, or Why privatise?

BOX 3: Objectives of privatisation: A summary

BOX 4: Cocoa case in Cameroon

BOX 5: The micro-level: Problems and constraints in financial services supply in UEMOA

Table of tables

Table 1: First step, definition of objectives and performance criteria

Table 2: Market failure observed or expected after liberalisation of cotton market, SSA

Table 3: Synthesis of results

Bibliography

(*)(*) Affiliation of the authors is reported between brackets […].

Adejumobi, S., 1999, "Privatisation policy and the delivery of social welfare services in Africa: a Nigerian example", *Journal of Social Development in Africa* 14 (2), pp. 87-108 [Lagos State University, Nigeria].

Arrow K. and Debreu, G., 1954, "Existence of Equilibrium for a Competitive Economy", *Econometrica 22*, p. 265-290.

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

Bangura Y., 2000, Public sector restructuring, Occasional Paper 3, UNRISD, Conference Geneva 2000, Geneva, Switzerland [Research, UNRISD].

Belières, J.-F. and Touré, E.h.A., 1999, *Impact de l'ajustement structurel sur l'agriculture irriguée du delta du Sénégal*, thèse de doctorat, ENSAM, Montpellier. 490 p. + annexes.

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

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

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

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

Caramel, L., September 2000, "Le lent *aggiornamento* de la Banque Mondiale", *Le Monde*, Paris, France.

Chossudovsky, M., 1997, *The globalization of poverty, Impacts of IMF and World Bank reforms,* Zed books, Third World Network, London, UK and New Jersey, USA [University of Ottawa, Canada].

Cook, P., Kirkpatrick, C., Nixson, F., (eds), 1998, *Privatization, enterprise development and economic reform – Experiences of developing and transitional economies*, Edward Elgar, Northampton, MA, USA.

Cornia, G.A., Jolly, R., and Stewart, F., 1987, *Adjustment with a human face, Protecting the vulnerable and promoting growth*, a study by Unicef, Clarendon Press, Oxford, UK [Unicef].

Cornia, G.A., and Helleiner, G.K., (eds), 1994, *From adjustment to development in Africa. Conflict, controversy, convergence, consensus?*, St Martin's Press, NY, USA [Unicef/University of Toronto and IMF].

Daly, H.E., 1993, "The perils of free trade", *Scientific American*, November, p. 50-57.

Daviron, B., 1999, "Les impacts possibles de la libéralisation des filières cotonnières en Afrique de l'Ouest", mimeo Cirad.

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

Development GAP, 1995. *Structural Adjustment and the Spreading Crisis in Latin America,* Development Group for Alternative Policies, Washington DC, USA. (http://www.igc.org/dgap/).

Dollar, D., Svensson, J., 1998, "What explains the success or failure of SAPs?" Policy research working paper No 1938 (temporary results), World Bank, Washington DC, USA.

Donaldson, D., and Wagle, D., 1995, *Privatization: Principles and Practice*, IFC.

Dumont, R., 1966, *L'afrique Noire est mal partie.*

Engelhard P., September 1999, "L'indispensable renversement des priorités: vers un développement à l'africaine", *Le Monde Diplomatique*.

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

Galal, A., Jones, L., et al., 1994, *Welfare consequences of selling public enterprises. An empirical analysis*, Oxford University Press, The World Bank, Washington DC, USA.

George, S. and Sabelli, F., 1994, *Faith and Credit: The World Bank's secular empire*, Penguin books, London and New York. [Transnational Institute, Amsterdam/ Universities of Geneva and Neuchâtel, Switzerland].

Griffon, M. and Hilmi, A., (eds), 1996, *Institutional changes for sustainable agricultural and rural development. Liberalization, privatizations, role of the private and public sector, new roles for the state and decentralization*, CIRAD, FAO, Montpellier, France and Rome, Italy.

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

Harsch, E., 1999, "Privatisation in Africa", *Africa Recovery online*, vol 12(2): http://www.un.org/ecosocdev/geninfo/afrec/.

IDB, July 1995, *Capital Market Development in Latin America and the Carribbean*, Sustainable Development Department, Inter-American Development Bank, Washington DC, USA.

Janvry (de), A., Radwan, S., Sadoulet, E., Thorbecke, E., 1995, *State, Market and civil organizations: new theories, new practices and their application for rural development*, Macmillan Series of ILO studies, Geneva. [University of Berkeley, California; Cornell University, New York NY, USA.]

Logan, B.L., Mengisteab, K., 1989, "The potential impacts of privatization on health care delivery in SSA", *Scandinavian Journal of development alternatives*, Vol. 8, No. 1, p. 133-152 [University of Georgia, University of Norfolk, Virginia, USA].

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

Mosley, P. and Weeks, J., 1993, "Has recovery begun? “Africa’s adjustment in the 1980’s” revisited", *World Development*, Vol 21 No 10, pp. 1583-1606. [University of Reading, University of London, UK].

Petit, M. and Griffon, M., 1993; *Services d’appui à l’agriculture: rôle du secteur public et du secteur privé,* World Bank / IICA / CIRAD / DANIDA. San José. 17-19 mai.

Ramamurti, R., January 1999, "Why haven’t developing countries privatized deeper and faster?" in Ramamurti, R., (ed), Privatization revisited, *World development*, Vol 27 (1), pp137-155. [MIT, Boston].

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

Sen, A., 1999, *L'économie est une science morale.*

Stewart, F., 1992, "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. [University of Oxford/UNICEF].

Stewart, F., 1995, *Adjustment and Poverty: Options and Choices,* Routledge, London and New York. [University of Oxford/UNICEF].

Stiglitz, J.E., 1989, "Market, Market Failures, and Development", *American Economic Review* 79(2), pp. 197-203.
Stiglitz, J.E., 1999, "Two Principles for the Next Round, or How to Bring Developing Countries in from the Cold", Geneva September 21 mimeo.

Stiglitz, J., 1999 (Nov/Dec), "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, pp. 26-68.

Stiglitz, J.E., 1998, *Towards a new paradigm for development: strategies, policies, and processes,* Prebisch lecture at Unctad, Geneva. 19.October.

Stiglitz, J.E., 1999, *Wither reform? Ten years of transition,* Annual Bank conference on development economics,Washington, 28-30 September.

Subramanian, S., Sadoulet, E., de Janvry, A., 1994, "Structural Adjustment and agriculture: African and Asian experiences", *FAO Economic and Social Development Paper* 124, Rome, Italy [University of California, Berkeley, USA].

United Nations, International Council on Social Welfare, 1995, *The Copenhagen Consensus, A summary of principal commitments of the World Summit for Social Development*, Copenhagen, ICSW, London, UK [UN].

Vickers, J. and Yarrow, G., 1991, "Economic perspectives on privatization", *Journal of economic perspectives*, Vol 5 (2), pp. 111-132 [Oxford University].

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

World Band and UNDP, 1989, *Africa's adjustment and growth in the 1980s*, World Bank, UNDP, Washington DC, USA.

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

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

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

Williamson, J., 1999, *Economic reforms: content, progress, prospects,* Institute for international economics.

Williamson, J., 1999, *What should the bank think about the Washington consensus,* Institute for international economics.

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

World Bank, 2000, "Attacking Poverty", in *World Development Report 2000/2001,* Washington DC, USA.

World Bank, 2000, "The state in a changing world", op.cit., *World Development Report 1997,* Washington DC, USA.

Yarrow, G., January 1999, "A theory of privatization, or why bureaucrats are still in business" *in* R. Ramamurti (ed), *Privatization revisited, World development*, Vol 27(1), pp. 157-168 [Oxford University].

List of further publications in the Development Series

DEVE 100 EN – Water and development in the developing countries
October 2000

Water scarcity is a major threat to development and food security in many parts of the world. The study examines problems of water management and proposes strategies for conflict prevention and techniques for a better management of resources with a view to sustainable development.

This document is available on-line on **http:\www.dg4.ep.ec.** under Working Papers.

DEVE 101 EN – The Third World debt and various strategies of debt relief
October 2000

The study examines the various aspects of the developing countries' external debt and focuses on the functioning of the HIPC-Programme for debt relief launched by the World Bank and the International Monetary Fund and financed to a large extent by the European Union.

DEVE 103 EN – World Commodity Prices and their impact on developing countries

January 2001

This study outlines problems of developing countries that are dependent on commodity exports, and are thus affected by the vagaries of world commodity prices. It analyzes policies to reduce the negative impact on their economies and makes suggestions for the EU to assist developing countries in this respect.