

Privatization of Public Enterprises

In the past, the dominance of the public enterprise sector in most African economies warranted the collection and publication of the sector's performance. With its diminishing size and importance due to privatization, it is no longer informative to produce such data. Instead, as privatization programs advance to maturity, it will become important to track the performance of private sector businesses. In the meantime, measurement of the level of privatization activity is a useful gauge of the decreasing role of governments in commercial business; conversely, it indicates how much of state-owned commercial activity has been transferred to the private sector. To the extent that data is available, it is also possible to measure how privatization has, over time, contributed to government revenues and mobilized savings and investment. However, this measurement is by no means easy or precise, partly because of incomplete and inconsistent data but also because of redefinitions of the public enterprise sector. For example, some enterprises, notably those formerly in a monopolistic position, are being split in order to separate their commercial, social, developmental, and regulatory activities. In some cases, separate operating divisions or geographically distinct assets are sold separately. And in yet other cases, commercial and semi-commercial activities are being separated out from government ministries and other agencies to become redefined as "commercial enterprises."

These include, for example, business centers, media, and some training institutes. So, the public enterprise sector, as defined several years ago, has changed. Nevertheless, the well over 3,000 privatization transactions that were reported across Africa up to the end of 1998 have brought about fundamental changes:

- The fiscal burden of public enterprises has been reduced or eliminated.
- Privatization receipts have contributed to a reduction in fiscal deficits.
- Privatization has attracted foreign direct investment both to acquire enterprises and for post-privatization investment in those businesses.
- The process has stimulated private sector development by making investment opportunities available, spurring capital market development, and contributing to a more competitive business environment.
- Being a politically sensitive subject, the process has highlighted the need for transparency and public accountability.

The tables presented in this chapter summarize data contained in the World Bank's Africa Privatization Database which is accessible through the internet at:

<http://www.worldbank.org/afr/database/afrpriv/p1query.cfm>

10-1. Summary of privatization of public enterprises

	Total no. of trans- actions	Total sales value (US\$m)	Transactions completed							Transactions by sector				
			Before 1995	1995	1996	1997	1998	1999	Agric. prod. & process	Financial	Manu- facturing	Services	Trade	Other
SUB-SAHARAN AFRICA	3,387	7,352	1,538	482	426	241	125	82	715	145	1,025	736	321	445
excluding South Africa	3,374	4,891	1,535	482	425	239	122	79	715	145	1,020	728	321	445
excl. S. Africa & Nigeria	3,293	4,684	1,454	482	426	241	125	82	715	145	997	718	321	445
Angola	331	25	..	..	56	..	..	..	9	..	29	9	9	275
Benin	46	63	39	5	..	..	..	..	7	1	15	18	5	..
Botswana	40	..	..	..	..	..	..	..	..	..	..	..	..	..
Burkina Faso	..	24	17	3	6	..	2	4	9	4	16	9	2	..
Burundi	42	11	26	..	13	3	..	..	21	4	6	9	2	..
Cameroon	48	72	13	3	23	5	4	..	24	4	7	12	1	..
Cape Verde	46	172	13	9	10	9	..	..	8	3	17	14	4	..
Central African Republic	35	0	35	..	..	..	..	..	8	4	9	14	..	..
Chad	31	6	12	13	6	..	..	..	9	5	6	8	3	..
Comoros	4	0	..	..	..	..	..	..	..	..	..	..	..	4
Congo, Dem. Rep. of	61	50	2	44	15	..	..	..	20	5	14	22	..	..
Congo, Rep. of	21	0	16	2	3	..	..	..	3	1	6	10	1	..
Côte d'Ivoire	105	811	21	27	21	15	11	6	40	5	33	25	2	..
Djibouti	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Equatorial Guinea	3	0	..	..	..	..	..	..	..	..	..	..	..	3
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	125	203	..	9	..	..	1	..	..	..	6	3	1	115
Gabon	26	0	..	..	..	1	..	..	..	..	1	..	..	25
Gambia, The	34	10	31	..	..	..	1	1	8	4	9	8	5	..
Ghana	233	674	146	23	20	27	4	8	44	8	101	50	30	..
Guinea	117	9	112	4	..	1	..	..	11	7	56	14	29	..
Guinea-Bissau	29	1	18	11	..	..	..	..	4	..	6	14	5	..
Kenya	188	248	66	69	22	27	4	..	71	12	59	39	7	..
Lesotho	21	24	2	7	..	1	4	6	1	5	2	9	4	..
Liberia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Madagascar	86	43	60	24	..	..	..	1	31	4	33	14	4	..
Malawi	68	57	35	..	8	5	5	12	37	5	14	9	..	3
Mali	65	32	60	..	..	..	..	..	11	2	21	23	8	..
Mauritania	56	10	29	6	..	..	..	2	21	6	7	18	3	1
Mauritius	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mozambique	579	217	398	112	38	31	..	..	75	2	256	120	126	..
Namibia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Niger	34	3	32	2	..	..	..	..	2	2	5	4	3	18
Nigeria	81	207	81	..	..	..	..	..	23	24	23	10	1	..
Rwanda	2	0	..	..	..	..	..	..	1	..	1	..	..	..
São Tomé and Príncipe	9	0	8	1	..	..	..	..	..	..	5	1	3	..
Senegal	61	412	37	1	11	4	4	1	7	11	13	28	2	..
Seychelles	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sierra Leone	10	0	7	1	..	1	..	..	..	..	4	6	..	..
Somalia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	13	2,461	3	..	1	2	3	3	..	..	5	8	..	..
Sudan	32	0	32	..	..	..	..	..	11	1	8	11	1	..
Swaziland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tanzania	283	246	86	22	46	40	64	23	98	3	109	45	27	1
Togo	57	39	25	1	18	9	2	1	8	1	24	23	1	..
Uganda	91	149	44	23	18	2	..	3	19	5	29	26	12	..
Zambia	268	906	30	60	91	55	16	10	71	6	69	102	20	..
Zimbabwe	6	166	2	..	..	3	..	1	3	1	1	1	..	..
NORTH AFRICA	142	595	27	17	27	30	40	1	13	0	58	53	2	16
Algeria	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Egypt	54	307	..	5	10	8	31	..	5	..	34	8	1	6
Libya	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Morocco	52	259	..	12	17	16	6	1	4	..	10	28	..	10
Tunisia	36	29	27	..	..	6	3	..	4	..	14	17	1	..
ALL AFRICA	3,529	7,946	1,565	499	453	271	165	83	728	145	1,083	789	323	461

10-2. Divestiture methods employed (to end 1999)

	Sales of shares				Sale of assets				Other methods						
	Com- petitive sale	Direct Sale	Pre- emption rights	Public flotation	Liqui- dation	Compet- itive sale	Direct sale	Debt/ Equity swaps	Leases	Joint ventures	Mgmt./ employee buyouts	Mgmt. con- tracts	Trustees	Restit- ution	Other
SUB-SAHARAN AFRICA	937	83	177	103	631	535	40	13	142	37	35	56	19	51	528
excluding South Africa	928	83	177	102	631	535	40	13	142	37	35	56	19	51	526
excl. S. Africa & Nigeria	923	83	177	65	631	535	40	13	142	37	35	56	19	51	528
Angola	..	..	..	..	..	57	..	..	..	..	..	..	..	..	274
Benin	1	2	..	..	23	12	3	..	2	..	..	2	..	1	..
Botswana	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burkina Faso	15	3	..	..	14	..	..	..	1	..	..	1	1	1	4
Burundi	11	3	..	..	13	5	..	..	..	..	1	9	..	..	..
Cameroon	20	..	..	..	18	..	..	..	..	..	..	..	..	..	10
Cape Verde	20	2	5	..	10	1	1	..	..	..	6	1	..	..	..
Central African Republic	..	..	..	..	26	..	..	..	1	1	..	1	..	..	6
Chad	12	2	..	..	11	..	..	..	..	..	..	5	..	..	1
Comoros	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4
Congo, Dem. Rep. of	1	..	..	..	15	..	..	..	..	..	..	5	..	..	..
Congo, Rep. of	1	..	..	..	53	..	..	..	..	..	..	2	..	..	5
Côte d'Ivoire	15	2	23	22	2	25	8	..	3	1	..	..	..	..	4
Djibouti	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Equatorial Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	3
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	..	..	..	..	..	10	..	..	..	..	..	..	..	..	115
Gabon	..	..	..	..	..	..	..	..	..	..	..	..	..	..	26
Gambia, The	13	7	..	..	3	1	..	..	5	1	1	1	..	..	2
Ghana	8	11	19	13	56	76	12	2	5	13	..	1	..	..	5
Guinea	42	1	..	..	67	1	..	..	4	..	..	2	..	..	..
Guinea-Bissau	7	2	..	..	8	2	..	..	2	1	..	7	..	12	..
Kenya	13	..	96	16	36	17	4	1	..	..	1	1	..	..	3
Lesotho	5	3	..	..	7	2	..	..	1	..	..	..	..	..	3
Liberia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Madagascar	6	14	..	..	29	15	6	..	1	1	..	3	..	8	3
Malawi	22	5	..	2	..	13	..	1	..	..	..	..	3	..	22
Mali	14	1	..	..	30	11	..	..	1	..	..	1	3	..	4
Mauritania	25	..	..	..	17	3	..	..	..	..	..	1	3	..	7
Mauritius	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mozambique	509	..	..	..	..	22	..	..	37	10	..	1	..	..	..
Namibia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Niger	13	..	..	..	17	..	..	..	..	..	..	2	..	..	2
Nigeria	5	5	..	37	2	29	..	..	..	..	1	..	2	..	..
Rwanda	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2
São Tomé and Príncipe	..	1	..	..	6	..	..	..	..	..	1	1	..	..	..
Senegal	26	1	1	2	23	1	..	1	3	1	..	1	2	..	1
Seychelles	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sierra Leone	..	..	..	..	1	..	..	..	5	..	..	3	..	..	1
Somalia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	9	..	..	1	..	1	..	..	..	..	..	..	..	..	2
Sudan	7	..	..	..	..	15	..	5	1	..	..	..	..	..	4
Swaziland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tanzania	61	4	13	1	84	70	3	1	25	3	6	3	..	2	5
Togo	8	7	..	..	20	13	1	..	6	..	..	2	..	..	..
Uganda	10	..	6	1	18	24	..	2	1	4	1	..	5	11	8
Zambia	37	6	14	4	22	109	2	..	38	1	17	..	..	16	2
Zimbabwe	1	1	..	4	..	..	..	..	..	..	..	..	..	..	..
NORTH AFRICA	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Algeria	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Egypt	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Libya	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Morocco	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tunisia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
ALL AFRICA	937	83	177	103	631	535	40	13	142	37	35	56	19	51	528

10-3. Progress in privatization: ownership and control changes*

	<i>Transfer of majority owner- ship to private shareholders</i>	<i>Government retention of majority ownership</i>	<i>Government retention of minority interest</i>	<i>Sales of minority government interest</i>	<i>Total share transactions</i>	<i>Total asset sales and liquidation</i>	<i>Other transactions</i>	<i>Total trans- actions</i>
SUB-SAHARAN AFRICA	2,025	220	294	200	1,300	1,206	881	3,387
excluding South Africa	2,022	214	294	200	1,290	1,205	879	3,374
excl. S. Africa & Nigeria	1,974	213	294	200	1,243	1,174	876	3,293
Angola	56	..	..	..	0	57	274	331
Benin	41	3	1	..	3	38	5	46
Botswana	..	..	..	..	0	0	0	0
Burkina Faso	10	..	7	2	18	14	8	40
Burundi	30	..	11	11	14	18	10	42
Cameroon	46	1	..	..	20	18	10	48
Cape Verde	28	2	6	5	27	12	7	46
Central African Republic	26	2	1	..	0	26	9	35
Chad	14	5	6	4	14	11	6	31
Comoros	..	..	..	..	0	0	4	4
Congo, Dem. Rep. of	16	5	..	..	1	15	5	21
Congo, Rep. of	59	1	..	..	1	53	7	61
Côte d'Ivoire	36	9	42	28	62	35	8	105
Djibouti	..	..	..	..	0	0	0	0
Equatorial Guinea	..	..	..	..	0	0	3	3
Eritrea	..	..	..	..	0	0	0	0
Ethiopia	10	..	..	..	0	10	115	125
Gabon	..	1	..	..	0	0	26	26
Gambia, The	16	7	6	6	20	4	10	34
Ghana	161	12	27	24	51	144	26	221
Guinea	90	9	..	..	43	68	6	117
Guinea-Bissau	20	9	..	..	9	10	22	41
Kenya	67	3	104	56	125	57	6	188
Lesotho	11	4	1	1	8	9	4	21
Liberia	..	..	..	..	0	0	0	0
Madagascar	65	4	..	..	20	50	16	86
Malawi	33	..	6	5	29	13	26	68
Mali	52	1	3	3	15	41	9	65
Mauritania	23	3	19	16	25	20	11	56
Mauritius	..	..	..	..	0	0	0	0
Mozambique	460	43	..	..	509	22	48	579
Namibia	..	..	..	..	0	0	0	0
Niger	26	2	2	2	13	17	4	34
Nigeria	48	1	24	17	47	31	3	81
Rwanda	..	..	..	..	0	0	2	2
São Tomé and Príncipe	8	1	..	..	1	6	2	9
Senegal	30	8	7	4	30	24	9	63
Seychelles	..	..	..	..	0	0	0	0
Sierra Leone	..	9	..	..	0	1	9	10
Somalia	..	..	..	..	0	0	0	0
South Africa	3	6	..	..	10	1	2	13
Sudan	28	1	..	..	7	15	10	32
Swaziland	..	..	..	..	0	0	0	0
Tanzania	202	29	3	3	79	157	45	281
Togo	38	8	9	9	15	34	8	57
Uganda	68	1	3	..	17	42	32	91
Zambia	203	30	6	4	61	133	74	268
Zimbabwe	1	..	..	..	6	0	0	6
NORTH AFRICA	..	..	..	..	..	..	..	..
Algeria	..	..	..	..	..	..	..	..
Egypt	..	..	..	..	..	..	..	..
Libya	..	..	..	..	..	..	..	..
Morocco	..	..	..	..	..	..	..	..
Tunisia	..	..	..	..	..	..	..	..
ALL AFRICA	..	..	..	..	..	..	..	..

*reflect data to end 1999

Technical notes

Tables

Table 10-1. Summary of privatization activity. For purposes of monitoring and reporting on privatization activity, all reported transactions involving a sale of assets or shares (however small) or the formal yielding of management control (as through a management contract) are included in the World Bank's Africa Privatization Database. Hence, in the table, "privatization" is used generically to include: the sale or disposal of some or all of the assets of public enterprises, the sale of government-owned shares in enterprises, the reduction in equity percentage held by a government through share dilutions or through transfer of enterprise assets to a new joint venture, liquidations, leases, and management contracts. Sometimes, the process of privatizing an enterprise involves several consecutive transactions (for example, a sale of a block of shares to a core investor and a subsequent initial public offering). The table summarizes the data contained in the Africa Privatization Database which originate from national privatization agencies and other sources. The data are frequently updated and changes to previous entries occur as more information becomes available. There are a few instances where previously reported privatizations are removed from the database because a transaction has been nullified due to non-fulfillment of contractual conditions on the part of one of the parties. For financial data, the term "sale value" is preferred since the use of the term "proceeds" might imply the value of amounts actually paid. In practice, some deals are structured so that new investors may acquire assets or shares on deferred terms. Also, it should be noted that: (i) in the

cases of some subsidiary companies, the cash proceeds are not paid to government but instead go to the parent company; and (ii) for official liquidations, the proceeds are paid to the liquidator who first applies them toward settling enterprise debts.

Table 10-2. Divestiture methods employed (to end 1999). The table shows the various privatization methods employed in each country. The methods employed could not be confirmed for all transactions. "Direct sales" refers to transactions which were negotiated directly with one party and which were not the outcome of a competitive bidding process. However, in some cases a direct sale was concluded (on a non-competitive basis) as a result of a failure of an earlier competitive bidding process. "Preemptive rights" refers to transactions whereby a government has sold shares to an existing private shareholder (or shareholders) who exercised preemptive rights to acquire those shares in accordance with specific provisions of the company's charter (Articles of Association). In some cases, the charter specified the amount to be paid per share or the formula for calculating that amount; otherwise it has been the subject of negotiation. "Joint ventures" refer to the type of transaction whereby a government concluded a deal (usually with a foreign investor) involving the formation of a new company in which the government's equity contribution was in the form of the major or all assets of a public enterprise. The remaining shell company would then be maintained only as a book company or be liquidated; if it were liquidated it is not included as a liquidation since this would be double counting.

Transactions described as “Trustees” refer to privatizations achieved by transference of shares of a public enterprise to a trustee for onward sale, at a later date or over a period, to the public or to selected segments of the public. “Restitutions” are those transactions whereby a company has been handed back to a previous owner from whom the company had been expropriated. “Other sales” includes sundry methods, such as enterprises donated by governments to local communities, but principally comprises transactions where the method of privatization was not reported.

Table 10-3. Progress in privatization: ownership and control changes (to end 1999). This table presents the inferred outcome of privatization transactions on the ownership and control of enterprises or their assets. Ownership changes are important in indicating the effect that privatization transactions may or may not have on the enterprises and in indicating the extent of a government’s willingness and/or ability to exit from equity participation in commercial

activity. Although a government’s influence is not necessarily restricted by its equity participation, it is generally assumed that once a government owns less than 50 percent of the voting shares of a company, that company is “private” and the private shareholders (except in the instance of exercise of golden share rights) have management control of the company. Ownership control is usually unaffected when government continues to be a majority shareholder or sells a minority interest. Concessions, leases, and management contracts are assumed not to have affected ownership rights but to have transferred management control to the private sector for a defined period. The table shows the number of reported transactions where governments have: fully sold wholly- or majority-owned enterprises, sold shares and transferred ownership control but retained a minority equity interest, sold shares but retained ownership control, sold a proportion of a minority stake, and other transactions where management control has been ceded.

Methodology used for regional aggregations and period averages in chapter 10

<i>Table</i>	<i>Aggregations^a</i>		<i>Period averages^b</i>
	<i>(1)</i>	<i>(2)</i>	<i>(1)</i>
10-1	x		
10-2	x		
10-3	x		

Note: Regional aggregations are shown in the rows for Sub-Saharan Africa, North Africa, and All Africa. Period averages are shown in the last three columns. This table shows only the methodologies used in this chapter.

a. Regional aggregations: (1) simple total; (2) simple total of the first indicator divided by the simple total of the second indicator (same country coverage); (3) simple total of the gap-filled indicator; (4) simple total of the gap-filled main indicator divided by the simple total of the gap-filled secondary indicator; (5) simple total of the first gap-filled main indicator less the simple total of the second gap-filled main indicator, all divided by the simple total of the secondary indicator; (6) weighted total (by population); (7) median; (8) no aggregation; (9) simple arithmetic mean.

b. Period averages: (1) arithmetic mean (using the same series as shown in the table i.e., ratio if the rest of the table is shown as ratio, level if the rest of the table is shown as level, growth rate if the rest is shown as growth rate); (2) least-squares growth rate (using main indicator); (3) least-squares growth rate (using main indicator in constant terms, with the rest of the table in current terms).