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PRIVATIZATION IN DEVELOPING COUNTRIES:
THE POLITICAL, CULTURAL AND SOCIAL DIMENSION

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1. INTRODUCTION

Privatization has become a key aspect of the restructuring and adjustment programmes advocated by the World Bank and the IMF as a consideration for lending to developing countries. When talking about privatization, one must be aware that this concept is made up of basically two notions: **deregulation of the economy**, i.e. transfer of decision making on economic parameters like prices and import priorities from the state to the market, and **denationalization**, i.e. transfer of the ownership of economic entities from the state to private agents.

Looking back towards the experiences of World Bank programmes during the last ten years, deregulation has so far been dominating as a policy instrument compared to denationalization. Even so, the two processes are to a varying degree and with different emphasis ongoing in most developing countries. However, in case of both dimensions of privatization the concepts and analyses applied have had a clear bias towards economic theory and thought.

On this background the present article will attempt to re-examine the mainstream concepts and approaches related to privatization and suggest areas where there is room and need to include political, cultural and social factors, when building-up a suitable analytical framework for deregulation and denationalization in developing countries. While doing this the article will focus on three interrelated issues:

First of all the prevailing theoretical arguments and findings of empirical studies relating to the processes of deregulation and denationalization in developing countries will be discussed.

Secondly, it will be argued that whereas experiences with World Bank programmes focusing on deregulation already has brought to the forefront the need to more carefully consider distributional aspects and poverty eradicating measures, the experiences with denationalization programmes will bring forward the need to understand and relate better to a number of social and cultural aspects. Hence, based on the experiences of the present privatization process in Mozambique the article will highlight various

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social relations, which need to be taken into account when planning and implementing denationalization processes.

Thirdly, it will be argued that the emphasis in the existing literature on privatization does not take sufficiently into account the political factors. Obviously, the mainstream argument that denationalization will only contribute to improvements in efficiency to the extent that it is accompanied by legal and policy reforms which bring freer competition about is well taken. However, this line of reasoning does not take sufficiently into account the inherent dangers in denationalization leading in some cases to an unwarranted destruction of existing competence in the public sector and in other cases to a take over of the denationalized companies of interest groups, which have sufficient influence in the power struggle involved in the denationalization process to win control of the entities, but do not possess proper capacity or experience in order to manage the companies as efficient entities. Hence, a number of political assumptions and factors need to be brought more fully into the discussion of privatization in developing countries.

In order to facilitate a discussion of suitable concepts, the analysis is based on empirical observations from a case-country. Among various candidates for a case-country Mozambique seems to be of particular interest. First of all, empirical studies on privatization in the third world have tended to focus mainly on privatizations taking place in the more well-off developing countries - the likes of e.g. Jamaica, Malaysia, Chile and Mexico - and of privatization of very large scale public enterprises, e.g. telephone companies, air lines, cement plants and banks. Hence, it is of special interest to examine privatization in an economy with very limited resources and with an enterprise structure dominated by few and small-scale entities, as is the case in many countries in Sub-Saharan Africa. Further, the often expressed assumption that privatization can be expected to yield the greatest gains in the poorest countries and in countries where the role of the state is very dominant might be tested in the case of Mozambique.

Secondly, privatization in Mozambique is a very extensive process, as it signifies a transformation from a commando-type of economy where the state is involved in most productive activity, to a market dominated economy where the role of the state in the productive sphere is expected to become marginal. Thus, the entire set-up of the economy is being altered, contrary to the situation in e.g. the countries mentioned above, where the state enterprises co-exist with a large private sector. Thirdly, Mozambique has since 1987 undergone a process of privatization which all along has included deregulation as well as denationalization. The two processes of interest for our analysis can therefore be highlighted through the choice of Mozambique as case-country. Finally, the privatization policies in Mozambique have to a large extent been set up under influence from the international donor community, notably the World Bank, as part of the structural adjustment programmes. The role and influence of the World Bank in the privatization process in Mozambique can thus be expected to be relatively extensive as compared to countries less dependent on foreign aid.

Using Mozambique as empirical example the article analyses the attempts of the Mozambican government to institute competition for and reforms within state enterprises as well as outright sales of state enterprises to the private sector. The empirical analysis also highlights how the Mozambican Government concepts of privatization within the manufacturing and artisanal sector have been implemented.

2. THE CONCEPTUAL FRAMEWORK

Privatization is an issue which in later years has been the subject of numerous studies and of an often heated debate. The attention given this subject took its onset in the privatization efforts undertaken by the British conservative government in the early 1980s and accelerated with the political transformations taking place in Eastern Europe after the fall of the Berlin Wall.

In the mainstream literature privatization has often been treated as synonymous with denationalization. This approach has in recent years been complemented by a more comprehensive approach which, along with deregulation, also relates to non-divestiture options. Still, the definition of "privatization" differs widely, at times referring to de-nationalization and divestiture only, and at times referring to a much broader scope of instruments and reforms related to privatization. This calls for a certain caution when using different sources of information on privatization, as one source might label all types of reform of state-owned enterprises as privatization, while an other source might only give outright divestitures this label.

2.1 The Objectives for Privatization

Various objectives for privatization are found in the literature and in policy statements. In short, privatization is related to the fulfilment of two sets of basic objectives: *public finance rationalization* and the improvement of *economic efficiency*. Public finance rationalization implies that privatization is seen as a way of reducing government spending and net budgetary transfers, as the budget will no longer be burdened with expenditures related to the state enterprises. Further, the sale of enterprises to private investors is expected to generate state revenue, thus allowing for the state's resources to be used in other areas or to reduce deficit spending. This objective is most pertinent in countries where the state enterprises are heavily subsidised. In order for this objective to be fulfilled the sales price of the public enterprise must exceed the capitalized value of future net resource flows lost by the sale of the assets; otherwise the sale will only yield short-term gains for the state budget.

Improving economic efficiency by means of privatization is an objective which is based on the hypothesis that the production of goods and services will be achieved more efficiently under private ownership than under public ownership (the theoretical rationale for this objective will be further analyzed in section 2.4).

Other objectives often formulated include divestiture seen as a means of getting the private sector more involved in the economy; a way of developing local capital markets; a means of attracting foreign investment capital, and; freeing government administrative capacity from the management of enterprises towards other activities that only governments can perform. The extent to which these different objectives might be met through privatization is still widely discussed in the literature. To sum up this discussion, it might be said that the theories on the subject leaves us with no definite answers to the question of whether these objectives will be fulfilled by means of privatization, whereas empirical studies have shown that the objectives might be met in some cases and not in other cases, dependent on a number of economic, institutional and political factors related to each privatization. Finally, it should be stressed that (at least in economic terms) privatization is not a goal in itself, but a means to improve the functioning of a given economy.

2.2 Privatization as a Set of Interrelated Changes

Privatization is a dynamic process which is related to various types of changes within an economy. Thus, privatization should not be seen within the context of denationalization alone, but within a broader framework including different forms of **marketization** of enterprise operations. The question of ownership is central to any analyses of privatization, but more than this privatization is related to numerous changes in the relations between the state, the market and the enterprise in a given economy. Such changes can be divided into four: Changes in the overall functioning of the economy (deregulation), ownership changes (de-nationalization/divestiture), organisational changes and operational changes. The former two set of changes have been dominant in the literature, while the latter two types have often been the options which in practise have actually been given most attention, not least in many developing countries. These measures will be described in more detail below.

2.3 Deregulation

Let us first discuss changes within the overall functioning of the economy. These changes imply that the economy is being deregulated, i.e. a transfer of decision making on economic parameters like prices and import priorities from the state to the market. Such deregulation of the economy sets up the basic conditions under which privatization is carried out, and through measures such as new investment laws, abolishment of price subsidies etc. aims at creating an enabling environment for the privatization to be implemented. Deregulation normally constitutes a first necessary (but not sufficient) step in the privatization process, and unless such deregulation is in place, there is an inherent risk that divestitures finish up as an end in themselves without necessarily leading to the realization of their objectives[3]. Deregulation has in numerous developing countries been carried out within the framework of the structural adjustment programmes advocated by the World Bank and the IMF.

While it is generally agreed that some sort of deregulation is a necessary pre-condition for privatization to take place, the views on the content, timing and sequencing of deregulation differ widely; this is an ongoing discussion which the authors of this article will refrain from elaborating on. However, it seems appropriate to stress that while deregulation is a sine quo non for privatization, this same deregulation might often - at least within a short and medium term perspective - prove to have counterproductive consequences for the pace and success for the privatization process as such. This might be the case if e.g. the deregulation measures effect the price structure within the economy, reducing the purchasing power of the consumer group which is expected to purchase the products of the privatised enterprise, or if deregulation leads to a considerable and sudden increase in international competition which the local industries are not viable enough to respond to.

2.4 Ownership Changes: De-nationalization and Divestiture

Denationalization implies a transfer of ownership of economic entities from the state to private agents. Such ownership measures include e.g. total denationalization where the entire state owned enterprise is sold to private investors, joint ventures and management/employee buy-outs.

Popular conceptions of privatization suggest that there is a clear and well-defined body of theory, which explains the superiority of private over public ownership. As pointed out by Adam et al[4] closer examination, however, reveals that this is not the case. Rather, the economic arguments for privatization rest on a number of hypotheses about the relationship between ownership, information and incentives, and their impact on market structure and performance. However, these arguments can be distilled down into two main ideas. Privatization, it is argued, will enhance **productive efficiency** (i.e. it leads to lower-cost production) and **allocative efficiency** (i.e. it forces down consumer prices so that they are closer to the marginal cost of production).

A move towards a regime of freer competition will in most cases improve the allocation of resources rather than make it any worse. But, as pointed out by Paul Mosley [5], privatization may not be necessary

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3 V.V. Ramanadham et al.: Privatization: Constraints and Impact. (London, 1994) Op.cit., p. 12.

4 Christopher Adam, William Cavendish and Percy S. Mistry: Adjusting Privatization. Case studies from developing countries (James Currey, London, 1992) p. 12

5 Paul Mosley: "Privatisation, Policy-Based Lending and World Bank Behaviour" p. 125 - 140, in Paul Cook & Colin Kirkpatrick (ed.): Privatisation in Less Developed Countries (Harvester Wheatsheaf, Worcester, 1988). Op.cit., p. 127.

to bring about freer competition, and will only contribute to such an improvement to the extent that it is accompanies by legal and policy reforms which bring freer competition about.

2.5 Organisational and Operational Changes

Before analyzing the current experiences with privatization in developing countries we will briefly touch upon the non-divestiture options, which in the literature and in the public debate have been given relatively limited attention, while such options have actually been widely used in many developing countries, often in a phase between deregulation and divestiture. Ghana, for example, has a two-phase strategy of privatization: first, rationalization and second, divestiture[6]. Numerous other developing countries follow similar types of phase-strategies, underlining the fact that privatization is a prolonged and dynamic process, not confined to ownership issues only.

The operational measures related to marketization of enterprise operations includes different changes or reforms in the functioning of the state enterprises, e.g. restructuring, rationalization of government controls, incentive rewards, investments criteria etc.

The organisational measures - equivalent to a privatization of management - include options such as leasing and management contracts, corporatization, creation of competition and changes in company holding structure.

Neither of these measures involve ownership changes, but aim at creating more efficient enterprises via reforms of the operational and organizational set-up of state enterprises; such measures are closely related to the deregulation of the economy as such, creating an enabling environment for the enterprises to carry out market determined behaviour. The important thing to bear in mind is that in the real world privatization is a process which involves numerous measures, and that the analyses of such processes should not be confined to divestiture.

3. PRIVATIZATION: THE ROLE OF THE WORLD BANK AND THE IMF

As pointed out by Paul Mosley[7] in a study of the World Bank's Structural Adjustment Operations, the main thrust of the Bank's policy has consisted of attempts to institute competition for, and reforms within, state enterprises, while the outright sale of state enterprises to the private sector occupies a small and specialised place in the Bank's armour of policy reform.

However, since the early 1990's the Bank has increasingly been stressing the need for denationalization and advocated private ownership as an instrument for development. The World Development Report 1991 took up the discussion of a more market-friendly approach to development, and subsequent studies from the Bank have highlighted findings on the positive economic gains from shifts in ownership from the state to the private sector. Thus, a comprehensive World Bank study based on empirical studies of privatization in the UK, Chile, Mexico and Malaysia[8] concludes that privatization in these countries have yielded important gains, and that the findings show that ownership does matter.

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6 V.V. Ramanadham, Op.cit. p. 2.

7 P. Mosley, 1988.

8 A. Galal et. al.: Does Privatization Deliver ?, (World Bank, Washington, 1994).

Further, in a recently published book, the World Bank assesses the results of the structural adjustment programmes in 29 African countries. The study concludes that the available data on the public enterprise are sparse and disappointing, showing no significant reduction in the number of enterprises, little improvement in their financial performance, unacceptable returns on government investment, and inability to meet the demand for cost-effective, efficient provision of public utilities. Divestiture is proceeding slowly among small and medium-sized firms and scarcely at all among large enterprises[9]. Further, the study finds that non-divestiture reforms, such as performance contracts, have generally not been effective in improving the performance of enterprises, and have diverted attention from more fundamental reforms, such as divestiture. The study also finds that evidence from Africa reinforces the conclusion that ownership does matter, as e.g. findings from Kenya and Tanzania show that productivity has increased significantly in private enterprises, whereas productivity and output has declined in the large state enterprises.

The study suggests that there is an urgent need to rethink the approach to reforming the public enterprise sector in Africa. How this should be done is not answered specifically in the study, but rather than focusing on hard budget constraints and deregulation, the study finds that focus should be on divestiture measures. A major obstacle for divestitures is said to be the lack of political will and interest to pursue such measures; privatization may be good economics but bad politics, although the Bank finds that the political will for divestiture may be growing[10].

The Bank is thus increasingly stressing the need for divestiture measures in its policy papers, as deregulation measures have proven to yield little results. Generally, studies and policy recommendations made by the World Bank tend to focus on the privatization aspects seen within a macro economic context, with less attention being given to the more concrete and "practical" issues of privatization (especially denationalization) and the actual carrying out of such a process. Further, privatization tend to be regarded as an universal medicament which any country will benefit from, with little reference being made to the specific economic, political, social and cultural preconditions prevalent in each country which might affect the result of the privatization.

However, within the framework of the structural adjustment programmes set up in various countries there is seemingly a tendency for the Bank to include privatization measures - e.g. enterprises X and Y should be prepared for divestiture within a two-year period - as part of the conditionalities for future assistance. Also bilateral donors are increasingly stressing the need for privatization and private sector development in their programmes, albeit the actual aid-flows in support of privatization continue to be limited.

The enhanced importance the World Bank is giving to denationalization in the set-up of the adjustment programmes will undoubtedly increase the pressure on governments in developing countries - not least in sub-Saharan Africa - to increase the pace and number of enterprise denationalizations. Given the lack of clear and undisputed empirical and theoretical evidence of denationaliation as a panacea for economic and allocative efficiency, and given the insufficient attention given to social and political issues in the Bank's privatization programmes one might however be sceptical towards the positive outcome and

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9 The World Bank: Adjustment in Africa: Reforms, results and the road ahead. (Washington, 1994). Op.cit., p. 103.

10 Ibid. p. 200.

gains of any precipitated privatization efforts. Albeit the Bank bases its emphasis on denationalization on arguments of economic efficiency the underlying ideological arguments in favour of denationalization should probably not be underestimated, giving some credibility to the often expressed view that the Bank sees privatization as a goal in itself rather than strictly as a means to improve economic efficiency.

4. CURRENT EXPERIENCES WITH PRIVATIZATION IN DEVELOPING COUNTRIES

The number of empirical studies of privatization have been on the increase in later years, reflecting the rise in the number of countries where privatization programmes have been implemented. Below, main findings from three major empirical studies of privatization in development countries are presented. These studies have been selected for this purpose due to their impact on the privatization debate, and due to the fact that they focus on the more conceptual and generic issues related to privatization and base their conclusions on a large number of comprehensive country-studies.

In the mainstream literature, it has often been taken as a given fact that private entities are per se more efficient than statal entities. The empirical studies made in this field show however no such direct causal relationship, and although the World Bank studies referred to above claims that such a relation can be found, the evidence provided in support of this conclusion is not convincing, not the least in relation to privatization within an African context.

Generally, the case-studies of privatization in developing countries highlight the fact that divestiture measures have played only a minor role in the reform of the state enterprises, and that various constraints have been more dominant than actual results. Further, little evidence has been found in support of the view that improved efficiency can be met through privatization.

In the cross-country conclusion of case-studies undertaken in nine developing countries, Adam et al. states that the options for and value of privatization as an active adjustment policy has been found to be severely limited by a number of constraints, such as: Lack of capacity for efficient and credible regulation, small capital markets with little absorptive capacity, and attempts from governments to gain political capital from privatization in countries characterized by narrowly-based private sectors with high levels of effective production and widespread domination of many sectors by state-owned enterprises. The study concludes that the lifting of these and other constraints represent a goal of the development process in general, rather than merely an impediment to the privatization process in particular. Not surprisingly, the countries with the most successful programmes (Jamaica and Malaysia) are far more "developed" than the countries where the programmes have failed (Kenya, Sri Lanka, Malawi and Papua New Guinea)[11].

In an empirical analysis Paul Mosley finds that failures in implementation have been commoner in the case of outright and partial privatization than in the case of financial reforms carried out within state enterprises. He consequently concludes[12] that since privatization as such is often not necessary from an economic point of view the Bank might be well advised to go even easier on outright divestment of state enterprise and to concentrate still further on increasing its efficiency by the route of stimulating competition to it or by direct reforms.

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11 Adam et al., p. 95.

12 Paul Mosley, op. cit., p. 138.

A similar point is made in Ramanadham where case-studies of 13 countries show that constraints generally experienced in undertaking rapid and large-scale divestitures have prompted governments to take seriously measures of improving performance through non-divestiture options; many of the least developed African countries fall into this category. The study concludes that the argument that reforms do not work and that ownership change is a necessary condition for performance improvement warrants rigorous circumspection today, thanks to the inviolable pressures of the IMF on the public exchequers of developing countries[13].

In summing up the findings from the case-studies, the study lists a number of constraints related to the privatizations. An important conclusion in relation to privatization in Sub-Saharan Africa is that in countries where a majority of public enterprises have been poor profit-wise, the difficulty has been enormous, as these enterprises experience difficulties in attracting private investors and are not economically viable enough to survive without the protection of the state. This is seen as a justification for restructuring an enterprise prior to divestiture, if the restructuring is calculated to take it on the road to viability. Another common constraint found in developing countries is seen to be the lack of political will and commitment to undertake privatization.

One general conclusion to be drawn from the case studies is that denationalization *per se* has not been found to lead to any noticeable increase in neither productive nor allocative efficiency. Another general conclusion is that the creation of competition between different economic entities is a crucial factor in enhancing efficiency, stressing the point that divestiture should be studied within the framework of numerous non-divestiture measures in the privatization process. However, as evidenced by the divergence between e.g. the World Bank studies and the studies mentioned in this section, there is still widespread disagreement on what are the lessons to be learned from such case-studies and on what precisely are the effects of privatization in developing countries.

In the following chapters the article analyses the attempts of the Mozambican government to institute competition for and reforms within state enterprises as well as outright sales of state enterprises to the private sector. Further, the analysis highlights how the Mozambican Government's concepts of privatization within the manufacturing and artisanal sector have been implemented.

5. THE PRIVATIZATION PROCESS IN MOZAMBIQUE

The privatization process in Mozambique can be divided into three phases:

i) the liberalization of the economy through the Economic Recovery Programme (1987 and onwards);

ii) the denationalization of small and medium scaled enterprises (1989 and onwards), and;

iii) the denationalization of large state owned enterprises (1991 and onwards).

In this chapter, the course of these phases will be outlined.

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13 V.V. Ramanadham, Op.cit, p. 352.

5.1. The Economic Recovery Programme - PRE

The Economic Recovery Programme (PRE) was initiated in 1987 under influence by the international donor community. The programme has led to the liberalization of prices, a continuous devaluation of the local currency and cuts in the state's expenditures. This led to a severe drop in the purchasing power of the Mozambicans, and to a worsening of the terms of trade, especially for producers selling to the local market. The PRE also opened up for more involvement of the private sector within the economy on behalf of the state, seen as a way of both diminishing public expenditure on non-profitable economic activities, and of increasing the production through the activities of more efficient private agents. The liberalization of the economy and the opening up of increased private participation in the production are basic deregulation measures which constitute the overall framework for the denationalization of Mozambican state enterprises.

This structural adjustment programme has been supported by the donor community, which since the implementation of the PRE has markedly increased its assistance to Mozambique. The World Bank has been involved in formulating the contents of the PRE and has strongly supported the privatization efforts of Mozambique, especially in connection with the large scale enterprises. Thus, in the so-called Policy Framework Paper[14] the Bank has listed a number of policies and measures related to privatization which should be implemented by the Mozambican government within a given time frame. Hence, in order for Mozambique to live up to the conditions included in the structural adjustment programme, the government is obliged to implement the privatization measures agreed upon in order to be eligible for further assistance.

5.2. Denationalization of Small and Medium Sized Enterprises

The process of transforming statal entities to private ones has been gradually intensified since 1989, when the first laws on privatization were introduced in decree no. 21/89. This decree sat up the legal framework for privatization, but no comprehensive definition of what were the objectives of privatization was formulated in this law. It was not until 1991 when a new set of laws was introduced, especially aimed at the privatization of large scale enterprises, that the objectives were formulated.

Up till the end of 1993, some 161 mainly small and medium sized enterprises (10 - 20 employees) have been privatized through sales, while another 24 enterprises have been restructured through joint ventures and 50 through leasing contracts[15]. The privatizations have taken place mainly within trade, industry, agriculture and construction, with approximately 70% of the privatized enterprises being taken over by Mozambicans[16].

5.3. The Privatization of Large State Enterprises

The privatization of the large scale state enterprises is in the hands of the Enterprise Restructuring Unit (UTRE). UTRE is in charge of preparing strategies, guidelines and criteria for the selection and preparation of these enterprises, and functions as the secretariat of the high-level Inter-Ministerial Committee for Enterprise Restructuring (CIRE) which is responsible for the management and implementation of the programme.

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14 Policy Framework Paper for Mozambique 1992-94. The World Bank, October, 1992.

15 Privatization in Mozambique: Process and Progress. UTRE, Maputo 1994.

16 Economia, no. 17, Segunda sJrie abril/junho 1993.

The objectives for the privatization of statal enterprises were formulated in law no. 15/91 of August 1991 and includes goals such as: to increase the level of technology and of the labourforce; raise the quality of products; raise the export earnings; open up financial markets; and create income for the state. It is stressed that all privatised entities are to keep the existing labour force.

By end-1994, some 45 large scale enterprises within different sectors are being prepared for sale, with seven pointed out for priority action before mid-1995. No private investments have so far taken place, and whereas the first actual privatization of a large scale enterprises was originally expected to take place during the first half of 1994[17] this time frame has been postponed till 1995. However, the fact that transport and cement industries have been included in the list of enterprises to be denationalized marks a shift of emphasis in the privatization programme away from small- and medium sized businesses to some of the large and more significant state companies. But the process continues to be hampered by the chaotic financial conditions and records for these enterprises[18]. Local investors have hitherto shown relatively limited interest in participating in these privatizations, partly as a consequence of limited access to capital and credits, and partly as a consequence of investors giving attention to investments in trade and tourism, where the profit potential is higher and the risks are fewer as compared to investing in state enterprises.

The enterprises to be denationalized are identified by the State Secretariat or the Ministry to which the activity belongs. Then the Investment Evaluation Board - made up of representatives of the ministry or state secretariat involved, the Finance Ministry, the Ministry of State and the Bank of Mozambique and headed by the director of the Investment Promotion Centre (IPC) - evaluates the project, and recommends the decision and measures to be taken by either the Provincial Governor, the relevant Minister or Secretary, the Minister of Planning or the Prime Minister, depending on the amount of the investment made. Thus, the privatizations have followed no over-all strategies, but have been carried out on a mainly case-to-case basis by the individual ministries and secretariats. This on the one hand has allowed for a certain flexibility for the parties most involved to carry out the privatizations, but, on the other hand, has raised complaints that the process has been intransparent and in the hands of very few people.

5.4. The New Investment Law

A new investment law from June 1993[19] has created a more comprehensive framework for the continued privatization and investments in general. As a new thing, national and foreign investors are being given equal treatment, which basically means that national investors can also benefit from a number of investment incentives formerly reserved for foreign investors. National investments exceeding US$ 15.000 and foreign investment exceeding US$ 50.000 will benefit from a number of tax exemptions, larger for investments in new enterprises and investments in enterprises destroyed by the war, and larger in the provinces most affected by the war. The law also opens up for the establishment of Special Economic Zones and Industrial Free Zones benefitting from special customs and tax exemptions. None

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[17] See also the "Investment Oppurtunities", a bi-monthly publication made by the Investment Promotion Centre (CPI), giving information on sales, net-incomes and sales prices, as well as the estimated tender period, for the companies being privatized.

[18] EIU Country Report, 2nd quarter 1994.

[19] Law no. 3/93.

such zones have yet been introduced, and no legal framework for them exists yet; but the plan is that the zones will be set up in Maputo, Beira, Mocuba and Nacala.

However, the new legislation - aimed at bringing Mozambique into line with international standards and assuring foreign investors - has been criticised by national investors as well as by the World Bank and the IFC, e.g. for leaving too much room for bureaucratic complexity[20].

5.5. Forms of Privatization

The denationalisation of state enterprises can take place either through public bids, tender of public sale of shares, or through management/employee buy-outs. The Government intends to sell participation on state owned enterprises by means of a tender, after pre-qualification, according to the following manners: bids for buying shares; bids for joint ventures between the existing state companies and private partners, or; bids for buying assets separately[21].

What form to be chosen will be decided on a case-to-basis, but according to UTRE most enterprises will be turned into joint ventures with invested foreign capital. The bids are open for foreigners and nationals alike, but UTRE does not expect that any nationals will have the resources to participate, as it concerns investments of millions of dollars[22]. Furthermore, the enterprises are in need of large sums for reinvestments to rehabilitate and upgrade the existing plants. The risk of large private monopolies as a consequence of the future privatizations is recognised by UTRE, but no measures are expected to be taken in order to avoid this, and as there is no law to regulate monopolies, a real danger of a monopolization of the weak mozambican economy exists.

In the law - as mentioned above - different goals are set up for the privatizations on an overall national level. But at the enterprise level, no specific criteria have been formulated for when a privatization will be regarded as a successful one, except for the creation of profits and revenues. No long term strategies or time schedules for the ongoing process seem to be formulated, and no explicit definition of the state's role within the new joint ventures has been made. Neither is it clear what will happen to the state's part of the shares, i.e. for how long time the state will keep the shares, and to whom the shares shall eventually be sold.

5.6. The Role of Direct Foreign Investments

Foreign capital is much warranted by the government as a means to help out the severe foreign capital constraints of the economy. In the period 1985 march 1993 141 projects involving foreign capital has been carried out, representing a total value of direct foreign investment of US$ 190 million[23] (these projects have been administered by the IEB's and not by UTRE). UTRE reports of much interest from foreign investors to participate in its privatization programme, and the amount of foreign investment capital flowing into Mozambique is keeping an upward trend. Thus, in the period January-June 1994, 25

20 EIU Country Report, 4th qurter 1994.

21 As listed in the "Investment Opportunities", aimed at potential investors.

22 The reference price for sale of 60% of DIMAC (company selling building materials) is set at US$ 3,7 million, and for COMETAL MOMETAL (industrial equipments) the reference price for sale of 51% is US$ 1,5 million.

23 The Economist Inteligence Unit, Third Quarter 1993.

investment projects were authorised, representing a prospective value of $130 million[24]. The main sectors attracting foreign investment are agriculture, industry and tourism.

National entrepreneurs have complained that they are being kept out of the privatization process, and there is a growing criticism that this process is encouraging a large degree of foreign control over the economy, and a concentration of controlling interests in enterprises in the hands of a few privileged public officials[25]. Local entrepreneurs especially ask for better access to credits, but no such measures have been taken. The new investment law, though, gives incentives to local investors. But generally, the relationship between the state institutions and the local entrepreneurs seems quite tense.

5.7. Concluding Remarks

The Mozambican economy has undergone significant changes since 1987, and the PRE opened up for a liberalization of the economy. Regarding the part of the privatization process concerning denationalization and increased participation of private agents in economic activities, the process is still in an initiating phase.

Overall goals for the privatization process have been set up by the Government, but at the same time there seems to be a lack of clear perceptions on what is to be the future role of the state vis a vis private agents. This goes for the short-term as well as the long-term implications of the process.

The severe economic crisis facing the economy has itself hampered private involvement, and no supportive measures have been taken to facilitate private investment. Other problems related to the process have been the lack of well-defined strategies, leading to a rather random process, and a lack of supportive instruments - such as credits - to help the newly privatized enterprises[26]. The new investment law may open up for increased foreign and national investment, but the national entrepreneurs will have their difficulties, as they are in lack of both accumulated capital and access to credits.

6. PRIVATIZATION WITHIN THE SMALL-SCALE FISHERIES SECTOR OF MOZAMBIQUE.

In this chapter, a case study of the experiences with privatization efforts within the small-scale fisheries sector is presented in order to give an example of how privatization is carried out in practical terms in Mozambique. The findings of this case study are not substantial enough to provide general conclusions on the overall privatization process, but never the less this case study is illustrative and includes findings which are of general interest for the study of privatization.

6.1. The Impact of PRE on the Small-Scale Fisheries Sector

The economic recovery programme and the following liberalization of the economy has had its prime

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24 EIU Country Report, 4th quarter 1994.

25 Criticism of this nature was formulated in connection with a seminar on privatization in 1992, and references to critics of the proces can be seen in the magazine "Economia" as well as in various issues of "The Economist Inteligence Unit".

26 See the Economist Inteligence Unit no. 4 1992 and Economia no. 17 abril/junho 1993.

impact upon the artisanal fisheries sector on the price structure, where a notable decline in its terms of trade between sale of fish and buying of equipments has taken place, constituting one of the main constraints of the sub-sector. Among other effects can be mentioned the decline in state investments in infrastructure and the decline in different kinds of subsidies to the sub-sector.

The PRE on the one hand opened up for the increased participation of private agents within the subsector, but on the other hand a consequence has been that the possibilities of these agents to participate in the economic activities have been hampered, as the purchasing power of the consumers has declined, the prices of inputs have risen and the state's financial possibilities to support the sector declined.

This seems to a certain extent to constitute an inherent paradox connected with the process of privatization (at least in SSA); the liberalizations are on the one hand making the increased participation of private agents within the economy possible, while their economic consequences on the other hand sets up barriers for the involvement of more private agents within the sector, at least within a short term perspective.

6.2. The Institutional Framework

With the privatization laws in 1989, the privatization process took speed, and this - together with the Government's wish that the private sector should participate more in (and take over) the economic activities from the state - made the Mozambican fishing authorities regulate its activities in accordance. This led the State Secretariat for Fishery (SEP) to create two new institutions: One institution to be in charge of training and extension services within the small-scale fisheries sector, and one to be in charge of the privatization of the Fishery Support Stations (Combinados Pesceros: CPs).

No overall guidelines or strategies were formulated on how - and with what means - the privatization process within the subsector should be carried out, and no defined perceptions on what was to be the future role of the state and of the private agents were formulated neither in SEP or in the other involved institutions.

6.3. Privatization of the Fishery Support Stations

The CPs had for some years gone through a gradual process of decreased activities and were in a general state of degradation in 1990. Furthermore, the institution in charge of the privatization was handicapped in its action due to the lack of knowledge of the experiences and functioning of the private economic agents in Mozambique.

The privatization of the CPs was to take place either through leasing out, establishment of joint ventures, or sale of CP-facilities. So far the process has been very slow as - in addition to the running capital - no private investment capital has yet been put into the CP's. Instead, the efforts have been characterised by activities aimed at making the companies more acquaintant with competitive mechanisms within a market economy rather than instituting direct private ownership.

The arrangements made with private agents so far consist of Management Contracts (Contratos de Cessao de Exploracao), which for 2-3 years put the private agent in charge of the operation and management of the assets of the CPs, under the payment of a modest fee. By the end of 1993 some eight of these contracts had been set up. The contracts state the intent of the partners to set up a public company ("sociedade por quotas"); this should be done on basis of a feasibility study made by the private agent, defining the terms and conditions of the new company. So far no feasibility studies have been made and no new companies have been formed.

In 1991 a major study[27] of the CPs was undertaken. This study included an analysis concerning the legalization of the CPs. The study came up with a detailed description on how this could take place, but none of the CPs have apparently been legalized so far.
In the same study there was also an analysis valuating the assets of the CPs. But these valuations have not been used for any practical purpose. The figures have now become outdated and new valuations are needed if any new companies are to be set up. On this background it seems unlikely that any new companies will be set up in the near future.

The operating private agents are contractually obliged to continue the activities of the CPs, including help to the small-scale fishermen, the commercialization of fish, and the keeping of the station in good shape; also it is an obligation to keep the existing workforce. So far these obligations, as well as the financial ones, have been taken upon very lightly by the private agents. Only three private agents have paid the fee for the right to operate the stations, and regarding the installations and functions of the CPs, the degradation process has in general only continued, with a very limited level of action within the CPs.

On this basis, it must be concluded that the privatization of the CPs has so far not reached any of its goals of setting up new companies and of having the CPs maintained and operated, providing services for the fishermen. The limited financial and human resources within the institution in charge of the privatization to monitor and assist the activities of the private agents have influenced the results so far. Furthermore, no means of sanction against the non-fulfilment of the contracts really exist, unless the institution rescinds from the contracts, which has so far not happened in any cases.

Crucial for the experience so far has been the lack of interest from the private agents in the running and development of the CPs. Criteria were initially set up, giving preference to private agents in the form of associations of fishermen and to private businessmen with a long established business record in the fisheries sector. But none specific criteria seem to have been used in the "recruiting"-process, with the final selection apparently being more based on subjective factors than on objective considerations.

The private agents holding management contracts constitute a mixed grouping, but generally they have not had much experience from the sector, nor the sufficient capital to undertake reinvestment in the CPs, and no long term interests in the development of fishing activities. Rather, they seem generally to have shown more interest in the prestige and local power related to the control of the CPs and its assets.

The type of contract used might also have a negative effect on the level of investments in the CPs, as the private operators do not own the facilities, so in the case that no new contract or company is set up after the end of the first contract all investment made will actually be to the benefit of the present owner, which is the state-owned holding company in charge of the privatization. The only privately operated CP that so far has been described as being administered satisfactorily is at a fishery support station where concession rights were given to a company in the fishing industry, which seems to have the will and

[27] Centre for Alternative Social Analysis (CASA), 1991: "Feasibility study of the small-scale fisheries support stations in Mozambique - Main findings and conclusions".

resources to run the CP. More strict selection criteria and a more in-depth search for partners in a transparent process could have facilitated contracts with partners that could bring new dynamics into the CPs and the local fishing community.

The future looks bleak for the CPs as they are continuously degrading, hence becoming even more expensive to restore and more unattractive for serious private agents. The implementing institution does not have the means to rehabilitate the stations itself, and it seems very doubtful that the aid donors will be willing to put any funds into the CPs, as these have already been supported by donors for some time. New privatization methods have been discussed, but no new methods or concepts have come up, except in a single case where the equipment is being leased to a number of different private agents.

6.4. Privatization of By-catch Vessels

In the Quelimane area, vessels used for the collection of by-catch from industrial trawlers have been under privatization since September 1992. These vessels were formerly owned and administered by the state-institution responsible for training and extension services within the small scale fisheries sector, and this institution is now also in charge of the privatization of the vessels under its control. So far six of these boats have been privatized, i.e. subsidized leasing arrangements have been made with six private operators, with another seven of these vessels planned for privatization.

In 1992 a study was carried out to identify the most suitable private operators[28]. The selection criteria for the identification were management (both financial and staff) experience, fisheries experience and a local basis. On the basis of interviews, a group of potential candidates was pointed out, but no contracts were made with any of these. Instead, it was decided to concentrate the privatization on the "mestres" - the crew leaders of the existing boats with whom the state institution has a long record of cooperation - with whom all the contracts have been made.

The mestres have much experience in fisheries, but none of management and they are in no possession of any accumulated capital. To base the privatization on these directly involved producers makes the privatization process smoother than might otherwise have been the case. But it can hardly be expected that the mestres will do any investments and become participants and initiators in a dynamic economic process based on private initiative and entrepreneurship.

The mestres have been used to sharing the produce with the crew after a traditional "catch-sharing" system, and have no preconditions for acting as "capitalists" and for administering salaries, savings, amortization etc. Of the six private operators, only two had in the second quarter of 1993 made their payments according to the contracts. The vessels have faced numerous technical problems before and after the introduction of private operators, and at this stage it is not possible to draw any conclusions regarding to what extent the introduction of private operators has influenced the productivity of the vessels.

The privatization process of these by-catch vessels is still in its very beginning. Leasing contracts, committing the operators to sell their catch to fisheries station at fixed prices, do not imply any significant changes in the existing productive relations, and it can not be said to be a form of

[28] Grupo de accao do PRAFA - V. Johnsen & S. Lopes: "Avaliacao de potenciais operadores dos barcos de recolha de fauna accompanhante"; IDPPE 1992.

privatization that opens up for new dynamics within the local communities. The lack of financial means and skills of the operators also inhibits that the privatization will lead to any new economic structures or activities in the near future.

6.5. Privatization of Open-sea Fishery Boats

In another region (the Inhaca-region) the state institution has set up the privatization of its boats for open-sea fisheries. Here, as in the case of the by-catch vessels, the contracts consist of a leasing arrangement, with the monthly payments going partly to the pay-off of the boat, partly to maintenance and reparations. The operators are obliged to fish with Inhaca as their base, only to fish with line, and to sell their produce at the local fishery station at contractually fixed prices. Seven boats are run by private operators, mainly local fishermen.

Here too, the lack of a productive culture within the local community, the lack of any tradition for capitalist accumulation and production methods, and the very limited financial means of the operators have had has as a consequence that income derived from the fisheries is often used directly for consumption instead of being saved up or used to payments of the leasing fee. In general, there have been many problems with the boats (motorized vessels 8,5 - 14 meters) being in a bad shape and badly maintained, so that they are often not operating. Here, the lack of technical and managerial skills of the operators to run and maintain the rather big vessels has had an negative impact.

There have also been numerous problems with the operators not fulfilling their contractual obligations. For instance are they selling the catch in Maputo, where prices are much higher than at the local fishery station, to which they are obliged to sell. This is an inherent problem with these types of contracts, which actually hinders the operators to act as independent, rent-seeking economic agents. This is one of the basic ideas behind privatization, as it should aim at initiating a long term economic restructuring based on the rent-seeking activities of private economic agents, implying that these should aim at maximizing their return on the assets of which they have control.

7. CONCLUSIONS

In what follows we shall attempt to draw together two types of conclusions: One drawing on the findings from the case-study of Mozambique, the other trying to generalise the findings relating to privatization seen from a conceptual point of view.

By doing so we shall try to highlight the findings from the Mozambican case-study by focusing on the explanatory content of the three categories: economic factors, political interests and alliances, and cultural and social relations.

7.1. Lessons Learned from the Mozambican Case-study

As has become clear in the above, the process of privatization in Mozambique during 1987 - 94 has primarily been characterised by activities making the companies more acquaintant with competitive mechanisms within a market economy rather than instituting direct private ownership.

Compared to the forceful policies of privatization of the World Bank with regard to Mozambique, it is striking that the transition from a state owned economy towards a market economy has on the one hand been made up of changes in the legal framework, a series of deregulations, rationalisation of production and marketization of various business activities relating to larger companies preparing them for private ownership, while on the other hand a number of small shops and businesses have been denationalized, and many smaller businesses have been leased out to private agents.

It is also no surprise that in Mozambique, being a low-income country with a large peasant sector and a small industrial sector, social relations in the industrial sector are heavily intertwined and related to social relations in the society at large. This has especially shown itself in the dynamics of labour relations, where Mozambican employees see themselves as part of a long term contract where employer and employees stand by each other in good as well as in bad times. And as a consequence where the employees forcefully resist attempts of increasing productivity by means of reducing the number of employees.

A focal problem on both the national and sub-sectoral level has been the lack of defined strategies on what should be the goal of the privatisation process and how it most efficiently was to be carried out. There seems to be no clear perceptions of what is to be the role of the state and what is to be the role of the private agents as a consequence of the privatization process, and of what will be the long term economic and social consequences of the process.

7.1.1. Economic Factors

Turning towards the process of privatization within small-scale fisheries in Mozambique, events within this sub-sector has to be seen in the context of the overall national economic framework. The state of the national economy puts constraints on the activities of private agents in the form of deficient infrastructure, lack of public investments, lack of means for supportive instruments (such as credit-schemes). Further, a consequence of the PRE has been a deterioration of the terms of trade of the sub-sector as the purchasing power of consumers has declined while prices of inputs needed for fishing has gone up. Finally, the profit potentials of the sub-sector are rather limited in comparison with other segments of economic activity.

Irrespective of this, the direct agents involved in the privatization process, i.e. the contract holders of the CP's, the boat mestres at Inhaca and at Ilha Mocambique, all demonstrated traditional profit-seeking behaviour in that they try to maximize their return on the assets, which they by now have a certain control of. Hence, the contract holders of the CP's tried to maximize the income of the prawn exploitation rights and the mestres attempted to sell at the most favourable price avoiding the low prices offered by the state.

Hence, in terms of economic action, they acted just as they should have been expected to by the norms in the neoclassical textbooks.

7.1.2. Cultural and Social Relations

Differences from the anticipated behaviour embodied in economic theory, however, were to be found in the division of the product between the different agents involved in the production activities and in the utilisation of the surplus between reinvestment and consumption.

First of all labour-relations were not understood by the persons involved in terms of wage-earner versus an employer negotiating a certain daily or weekly fixed salary. On the contrary the daily catch was divided between the fishermen in that: first all received a certain portion of fish for their household and secondly in case of a motorised boat fish were taken aside in order to pay for diesel and oil. Following that one-third of the remaining catch was given to the crew, one third to the captain, and one-third to the owner of the boat.

Secondly, although the above system facilitated a renovation of assets in that the owner of the boat received one-third of the catch for savings and investment in the boat, this was clearly not the social habits of the mestres appointed as the future boat owners. Hence, for this group of people their background and experience did not facilitate saving their share for future investments, but rather it was spend meeting the daily needs of the family. And in relation to the CPs it was seen that the new managers were more interested in the status the control of the assets give them within the local community than in securing future income via investments.

A lesson learned by this case is thus that one can not expect that a change in ownership relations automatically leads to a shift in the way the productive relations are organized. Hence, the way in which productive activity is organized is not founded on strictly economic grounds only, but also on rooted social relations, as evidenced by e.g. the example of catch-sharing. When setting up privatization scheme a thorough analysis of the prevailing cultural and social relations in the local community should be undertaken along with an analysis of the organisation and nature of the relevant productive activities, and the findings of such an analysis should be taken care of when the schemes are sought implemented. Otherwise the result might prove to become quite different from was initially expected.

7.1.3. Political Relations and Alliances

The experiences from the fisheries sector also show that the involved state institutions - directly or indirectly - are reluctant to hand over power to segments which they are not familiar with and which they can not control. The contracts have implied no real handing over of ownership and control, and the people who have been selected as private operators are mostly people with whom the institutions already have a long established relationship, although their background and qualifications do not make them an obvious first choice, especially when alternative candidates have been found to exist.

On an overall level, the "political mentality" of government and state institutions has to transform itself drastically, as the role of the state vis a vis private agents is being altered. One must bear in mind that it is the same people who were active in - and believed in - a strong role of the state in the economy, that are now working at diminishing the role of the state. The fact that the privatization process to a large extent has been forced upon Mozambique by the international donor community is another factor influencing the process, as it may very well have activated some political and institutional resistance to the process.

All these overall constraints naturally have had - and will continue to have - a negative impact on the operations of private agents within the small-scale fisheries sector. But furthermore, a number of issues related directly to the implementation of the privatization within the sub-sector has further complicated the process.

So far none of the privatizations have included any investment of fixed capital of the private agents, so that they have no economic risk at stake in operating the boats. If the private agents had more of their own assets involved in their operations, one might expect that more effort would be laid into it.

Also the contracts set up barriers for the private agents to operate in the way that they find to be most opportune. It must be a goal of the privatization process to promote rent-seeking activities by private agents, and it can be questioned whether the contracts ought to inhibit such behaviour. The problem here seems to a large extent to stem from the lack of clearly defined strategies on what is to be the ends of the process.

7.2. Conclusions of a Conceptual Nature

How behaviour and institutions are affected by social relations is one of the classic questions of social theory. Much of the utilitarian tradition, including classical and neoclassical economics, assumes rational, self-interested behaviour affected minimally by social relations. As pointed out by Mark Granovetter[29] at the other extreme lies what he has called the argument of "embeddedness", i.e. that the behaviour and institutions to be analyzed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding.

While recalling this discussion, Granovetter finds that it has long been the majority view among sociologists, anthropologists, political scientists and historians that economic behaviour was heavily embedded in social relations in premarket societies but became more autonomous with modernization. This view sees the economy as an increasingly separate, differentiated sphere in modern society, with economic transactions defined no longer by the social or kinship obligations of those transacting but by rational calculations of individual gain.

Few economists, however, have accepted this conception of a break in embeddedness with modernisation; most of them assert instead that embeddedness in earlier societies was not substantially greater than the low level found in modern markets. This position has recently received a new infusion as

29 Mark Granovetter: "Economic Action and Social Structure: The Problem of Embeddedness" (Amercian Journal of Sociology, Volume 91, Number 3 (November 1985), p. 481 - 510.

economists and other social scientists have developed a new interest in the economic analysis of social institutions - much of which falls into what is called "new institutional economics" - and have argued that behaviour and institutions previously interpreted as embedded in earlier societies as well as in our own, can be better understood as resulting from the pursuit of self-interest by rational, more or less atomized individuals.

In contrast to these positions, Granovetter suggests, that while the assumption of rational action must always be problematic, it is a good working hypothesis that should not easily be abandoned. What looks to the analyst like nonrational behaviour may be quite rational when situational constraints, especially those of embeddedness, are fully appreciated. When the social situation of those in nonprofessional labour markets is fully analyzed, their behaviour looks less like the automatic application of "cultural" rules and more like a reasonable response to their present situation.

That such behaviour is rational or instrumental is more readily seen, moreover, if we note that it aims not only at economic goals but also at sociability, approval, status, and power.

In terms of the objective of this article, we thus find that the empirical and conceptual arguments are pointing towards the same position, i.e. that when analyzing privatization in developing countries analysis is needed of the economic self-interest of the involved parties seen in relation to their social situation. Hence, it is felt that such a position can avoid the pitfall of the World Bank's undersocialized approach, which do not take properly into account existing forms of social relations, as well as an oversocialised approach, which neglects the notion of economic self-interest within the understanding of social relations.

When relating this position to the studies referred to in this paper, we find that political and social factors are seen as *constraints* to privatization, rather than as fundamental conditions to which the privatizations must be adopted.

Thus, the lack of success for privatization is at times explained with reference to a lack of political will and commitment in the public sector to implement such measures. Case studies show that this has often been the case; however, seeing the lack of political commitment simply as a constraint is too simple. Firstly, the lack of political commitment might be an indication that the privatization programme - especially if set up due to pressure from the international donor community - is not sufficiently based on the political conditions and realities in a given country. Secondly, privatization can be expected to effect the sharing of power between different interest groups inside and outside the public sector. This will not only effect the pace and success of the privatization, but also more fundamentally effect the political structure as such, with possible unwarranted consequences as a result. Thirdly, it is important to keep in mind that the political base, structure and culture in a given African country is markedly distinctive from that in any Western country, implying that different types of political impacts of and reactions to privatization should be expected.

Much the same can be said about the cultural and social aspects related to privatization. Lack of enterprise culture; social and cultural perceptions not geared for private enterprise operations; tribal or ethnic discrepancies withholding certain groups from participating in the privatization. Such observations are at times referred to as constituting constraints for the pace and success of privatization. Here again, we might ask whether it is the preconditions of the privatization programme that do not fit with the cultural and social preconditions, or whether it is the socio-cultural preconditions that do not fit with the programme. The latter perception seems to be predominant, albeit not formulated explicitly, in the mainstream economic theory on privatization, which is based on fundamental assumptions of specific behaviourial patterns and "economic man" rationality, which might not always be prevalent in cultures other than the ones where the theories were originally formulated.

This said to underline the point that there is a need for cultural and political assumptions and factors related to privatization to be analyzed more fully. These factors should be analyzed in a dynamic perspective within their own right, allowing for a fuller understanding of how these factors and processes relate to privatization processes, rather than treating them simply as barriers for a warranted economic development.

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