Privatisation and Adjustment in Mozambique: a 'Hospital Pass'?

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1. Introduction

Privatisation has been at the core of economic change in Mozambique during the 1990s. Some 750 enterprises have been sold off by the state (UTRE, 1997), making it one of the largest privatisation programmes in sub-Saharan Africa, by number of transactions. After three years of experiment with privatisation (1989-91) the government "decided to expand and accelerate the programme" (World Bank, 1991, 4). Since then, despite regular complaints from donors and international financial institutions (IFIs) to the contrary, the privatisation programme has been carried out relatively rapidly. A range of enterprises has been involved, from bulky industries down to small shops. The pattern has been fairly typical of privatisation in Africa (Bennell, 1997). For example, smaller enterprises such as retail outlets were sold first, with the larger and more strategic concerns (e.g. the national airline, Linhas Aereas de Moçambique, and the rail and port network, Caminhos de Ferro de Moçambique) left till later. Mozambican privatisation is also typical in other respects. Some note a perception that the IMF and World Bank have lost interest in privatisation in sub-Saharan Africa during the 1990s (Fontaine and Geronimi, 1995).[1] However, actually the IFIs have pushed privatisation higher up the agenda, in Mozambique as elsewhere in the region (Cook and Kirkpatrick,

[1] Green (1994, 61), for example, argues that "with respect to privatization of enterprises, the Bank has *de facto* retreated. Efficiency...is the key and is acceptable through better public enterprise management, autonomy, and accountability or joint ventures, as well as by closure or sale". This is certainly echoed in a recent argument by Stiglitz (1998) but the empirical evidence from Africa in the 1990s belies the idea of loss of interest.

1997);[2] and the pace of privatisation programmes has accelerated rather than slowed in the 1990s (Bennell, 1997).[3]

Privatisation in Mozambique has been claimed as one of the most successful programmes in Africa.[4] But there has been little debate about the programme's dimensions and impact; and there is widespread anecdotal complaint. There has been some sector specific criticism: for example, managers of privatised cashew processing firms have argued that post-privatisation policy changes have undermined their prospects as a site of development of the Mozambican private sector. The trade union movement, in particular the Organização dos Trabalhadores de Moçambique (OTM), has consistently expressed fears about the impact on the formal sector labour market. There are also two general criticisms floated in Mozambique, including in government circles at times.[5] The first is the charge that many enterprises have been sold off too cheaply. The second is that the process of privatisation has frequently not been sufficiently transparent. Evidence outlined below suggests that both allegations have some justification. But this is more or less as far as criticism within Mozambique goes. The more prominent of recently published critical works on Mozambique are also relatively quiet on the subject of privatisation and its effects and certainly do not provide a detailed response.[6]

This paper contributes to the discussion of privatisation in Mozambique, by looking critically at the very poor level of evidence available. What evidence there is suggests that the emphasis on number of transactions and speed of implementation has made for a careless privatisation programme. It is also argued that there is an urgent need for more information and that the

[2] "Divestiture components are to be found in 70 percent of all structural adjustment loans [to Africa] and 40 percent of sectoral adjustment loans. In 1992, there were also 60 technical assistance projects in support of privatisation efforts, mostly in sub-Saharan Africa and almost all aimed at strengthening capacities to divest" (Fine, 1997a, 12).

[3] If Mozambique is something of an extreme case, this is probably because its bargaining power, vis-à-vis IFI pressure, is especially weak thanks to the degree of macroeconomic imbalances and the acute lack of analytical and policy making resources within the country. Other institutional weaknesses add to this situation: for example, trade unions, which are typically viewed as a major obstacle to privatisation (Bennell, 1997), are extremely weak and under-resourced in Mozambique.

[4] See, for example, the government's upbeat comments at the end of 1997, when the programme had been very nearly completed (PANA, 1997).

[5] Based on interviews conducted in Maputo, October 1997.

[6] Abrahamsson and Nilsson (1995), for example, are cautiously brief on the subject of privatisation, though they do point out the difficulties in finding criteria for objective evaluation of state assets and they stress the likely impact of credit shortage in narrowing the scope for potential buyers from within Mozambique. Meanwhile Hanlon (1996), rather than presenting a detailed critique of privatisation, alleges that a fall in formal sector employment is accelerated by privatisation and cites an allegation that this hits women particularly hard; appears to line up with a straightforward antipathy towards foreign investment regardless of its provenance, sectoral destination or particular contract terms; cites a former finance minister alleging, no more, that privatisation is doing nothing to reduce poverty; and claims that no Mozambican can succeed in bidding for a state enterprise without having a senior government official as a partner.

limitations of the programme go beyond those of enterprise pricing and transparency of bidding procedures. The paper is based on a survey of the policy and assessment literature on Mozambican privatisation and on interviews with policy makers, industrialists, union representatives and others in Maputo during October, 1997. This work shows that the evidence from Mozambique, such as it is, provides support for much of the general criticism of the World Bank/IMF approach to privatisation in developing countries.

In assessing the significance and consequences of privatisation in Mozambique, four points should be borne in mind. First, ownership itself is rarely if ever the most important factor as the basis of enterprise development. Second, it is typically extremely hard to disentangle with any precision the effects of privatisation from the effects of general policy reform, specific circumstances, economic structure and external events. It follows that it is missing the point to isolate privatisation and to make sweeping claims for its success or failure as a discrete policy tool. Third, adequate relevant data are required, but are not yet available in Mozambique, despite the efforts of institutions such as the Unidade Técnica para a Re-estructuração das Enterprisas (UTRE) to improve transparency and despite the conduct of an impact study of privatisation.[7] Fourth, evaluation requires a clear set of criteria. But privatisation is notorious for being a policy often supposed to satisfy a wide and vague range of objectives. Priorities among these objectives may shift over time. Often neither proponents nor critics of privatisation are clear enough about the foundations of their arguments and assessments. This problem too characterises discussion of privatisation in Mozambique.

Section 2 explores further some general issues in the analysis of privatisation in developing countries, with reference to sub-Saharan African experience and, in particular, in Mozambique. While “getting prices right” may have been the IFI motto for LDC economic policy in the 1980s, privatisation and promotion of the private sector is the motto for the 1990s.[8] It is argued that most literature on privatisation contains only a limited notion of the role of competition and regulation issues in development; and that particularly in a low-income country such as Mozambique the opportunity cost of across-the-board privatisation is severely underestimated.

[7] UTRE has made significant efforts to increase accountability, including regular publication of a bulletin called “Privatisation in Mozambique” and links to the internet: UTRE has responsibility for the privatisation of the larger or economically more important Mozambican state owned enterprises: it conducted the privatisation f 44 such firms between the end of 1992 and mid-1997, raising $101 million with investment pledged of about $203 million in the 70 or so firms created by this privatisation (some SOEs being split for sale) (UTRE, 1997).

[8] See, for example, World Bank (1995b), and African Development Bank (1997).

Section 3 contains a critical analysis of an important and influential study of the impact of privatisation in Mozambique (World Bank, 1996a and b): the conclusion is that the study contains important observations but that its aggregate empirical analysis is ambiguous and provides no basis for confident conclusions. Section 4 briefly explores some of the problems with privatisation and the development of the private sector in Mozambique, and highlights these with specific reference to the cashew sector. What emerges as a significant but possibly ambiguous feature of the privatisation programme is the role of foreign direct investment. Section 5 draws some conclusions from the analysis.

2. How many birds can you kill with one stone?

Privatisation is often applied as a kind of "omnibus policy" (Van der Hoeven and Sziraczki, 1997, 4) or panacea: the policy is associated with a whole host of objectives, economic, political and social. The notion of privatisation as a panacea comes partly from the way a number of modern economic theories have congealed, usually only poorly understood and assessed, into a pervasive commonsense assumption about the ills of the public sector and the obvious merits of the private sector. [9] In other words, a range of expectations is pinned on the issue of ownership. Indeed, both proponents of privatisation and their critics often agree on the central significance of ownership for enterprise performance.

Yet the theoretical literature on privatisation is at best agnostic on the issue of ownership (Van der Hoeven and Sziraczki, 1997, 3). The actual evidence of the effects of a *change* in ownership is "less than conclusive" (Adam, Cavendish and Mistry, 1992, 25); while the empirical evidence does not support an *a priori* acceptance that the private sector necessarily produces a better enterprise performance than can the public sector (Chang and Singh, 1993). Case studies of textiles production in Indonesia, plastics and steel industries in Brazil, and aluminium in Jamaica and manufacturing in Tanzania suggest that public ownership has a small, negative but statistically insignificant effect on technical efficiency, with overall performance mainly determined by size (Adam et al, 1992, 27). Causality is clouded by the observation that often in LDCs states have taken over unwieldy failing firms in rescue operations.[10]

[9] On the loose synthesis of new political economy, new institutional economics and neo-Austrian economic theories of uncertainty, and the way these theories relate to the analysis of privatisation, see Fine (1997a).

[10] Some of the studies reported in Adam et al (1992) suggest that the most efficient LDC firms are often joint ventures between the government and foreign firms, with the latter proving good sources of capital, management and technology choice.

Bureaucrats in the public sector are not necessarily inefficient, while large private sector organisations are commonly highly "bureaucratic". Nor are the supposed differences between political (public sector) and market (private sector) discipline necessarily as great in reality as sometimes supposed, particularly in the presence of pervasive market failures (Chang and Singh, 1997). In Mozambique, for example, regulations and procedural bottlenecks are pervasive (World Bank, 1995a, 56-66); but there are often ways and means of subverting or evading these constraints, given the right connections and know-how. This is a situation affecting both private and public sector activities and decision-making. Also, in Mozambique there are individuals who transfer from the public sector to the private sector. It is unrealistic to expect them radically to change the way they make decisions: abstracting from foreign investors, to a significant degree the former public sector is constructing the emerging private sector in Mozambique. There are occasions where the private sector is exceedingly "bureaucratic" even where the public sector has been "enabling". For example, the manager of one cashew processing factory secured a circulation tax waiver from the government for the purchase of a four-wheel drive vehicle, with a minister's signature on the waiver; but the vehicle retail outlet refused to accept this, setting off further rounds of bureaucratic tangle and delay.[11] Typically, the mainstream literature on privatisation assumes a stark contrast between the public and private sectors. Yet often - and most likely in varying degrees between countries and over time - the two "sectors" are affected by the same culture of interaction and decision-making.[12] In this context, it may be naive to expect that the key to unleashing production potential is simply cutting the "umbilical cord" between the state and the private sector (World Bank, 1995a, 75).

Competition may be more important than ownership (Killick and Commander, 1988, 102) and it is often supposed that state divestiture will necessarily inject competition into the economy. Market structure is thus important in the analysis of the effects of privatisation, since the degree of competition varies within the private sector. The standard literature distinguishes between competition and regulation in privatised enterprise evaluation.[13] Competition is deemed to lead to productive and allocative efficiency gains and innovation. It is then recognised that in low-income countries there are only a few sectors where there is scope for a significant degree of competition. Where there is little such scope, say in a monopoly privatisation, there will be a need for regulation, where regulation is understood in

[11] Interviews conducted in October, 1997.
[12] For example, the vogue for market-testing and contract proliferation has been a common feature of both the public and private sector in the UK in recent years; while it is actually clear that the private sector depends on cooperative relationships to a greater extent than supposed by the champions of the arms-length contract (see Milne, 1997).
[13] See, for example, Adam, Cavendish and Mistry (1992); or Killick and Commander (1988).

mainstream literature in terms of curbing abuse of non-competitive market position; yet information and administrative capacity in low-income countries may be insufficient to provide an effective regulatory framework.

This kind of distinction provides a foundation for distinguishing between privatisation of small scale retail outlets and massive industries with room for only a few firms that can exploit economies of scale: regulation may be particularly necessary also in privatised sectors that contain significant externalities. It also draws attention to the information and administrative costs of privatisation where regulation is involved, whereas some of the more simplistic literature assumes these away. However, this is still not a complete analytical foundation. For it appeals to a naive vision of competition; this has been referred to as the "quantity theory of competition", a theory that assumes the more market competition (as measured by number of firms) the greater the efficiency gains (Weeks, cited in Fine, 1997a). Yet competition is surely more socially and politically nuanced than this, and is a means to an end rather than necessarily an end in itself (Chang, 1994). If this is not acknowledged, there will be a tension between the objective of quantity competition and other objectives pursued through privatisation. If competition is "uneven", with advantages skewed towards foreign investors, this may conflict with the objective of using privatisation to foster the growth of a national private sector entrepreneurial class. Arguably, this is the case with the Mozambican cashew processing sector (see Section 4).

Furthermore, the standard view of competition ignores the potentially constructive role of imperfect competition: for the development of barriers to entry and of "competitive assets" has been critical to the dynamic growth of many major industries during the history of capitalist development (Amsden, 1997; Chandler et al, 1997).[14] Nor is it necessary to limit the role of regulation simply to restricting monopoly pricing abuse. Rather, regulation may include this function but also include other facets of a strategic, sectorally differentiated industrial policy aimed at promoting internationally competitive industries.[15] In sum, in assessing privatisation it is necessary to understand the context of market structures in particular sectors and the institutional implications and requirements of state asset sale. A great deal of regulation in a country like Mozambique does constrain the individual and "red tape" is a genuine bane of entrepreneurial activity (IFC, 1996). But this does not preclude the possibility of more effective regulation, say, for quality standards across primary commodity

[14] Others stressing the significance of competitive assets beyond the dictates of static comparative advantage or "competitive" real wage rates include Gereffi () and Porter ().

processing firms, which may in turn enable an improvement in market perception internationally of the quality of Mozambican output. Nor, in a country severely lacking expertise in marketing and branding but with the potential to break into high-value international crop markets, does it preclude institutional developments that allow for cooperative branding exercises designed to improve penetration of demanding overseas markets.

There are no strong grounds for the public sector running a wide range of enterprises; and the range of activities where state ownership is justified has narrowed under the force of technological change. But this is no excuse for ignoring the argument that scarce public sector resources might better be devoted to improving public sector programme design and delivery than to rapid and sweeping, ideological privatisation (Fine, 1997a).[16] In other words, it is important even within orthodox terms to bear in mind the opportunity cost of the privatisation programme.[17] Costs extend to those attached to post-privatisation regulatory challenges that, if not met adequately, can undermine the prospects for achieving projected benefits (and distribution of these benefits) from privatisation. Where markets are imperfect, effective privatisation programmes require the government to spell out how a sector is to be regulated after privatisation and to develop regulatory bodies with expertise and regulatory "bite".[18] Such *ex post* considerations should and could be anticipated in World Bank *ex ante* privatisation policy documents but rarely are, and certainly have not been anticipated in Mozambique.

There is little regulatory capacity in many African countries. Of 16 developing and transitional countries that in 1992 had restrictive business practice legislation only one, Kenya, was within sub-Saharan Africa, for example (Fine, 1997, 14). A Mozambican example of the sometimes hidden or evaded regulatory costs of effective privatisation concerns the brewery sector. There are two main beer breweries in the country, each with a well-established track record. The two were privatised at different times, the first (Cerveja de

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[15] Research from Italy, Germany and Britain suggests that appropriate regulation and institutional networks can channel market based behaviour, "in the sense of opening up potions for co-operative behaviour which would not otherwise be feasible" (Milne, 1997, 15, citing Arrighetti et al (1997, 192).

[16] Adam et al (1992, 41-43) cite evidence suggesting that particularly if short-term budgetary considerations are uppermost in LDC policy challenges, there are higher returns to reforming state owned enterprises than to divesting them.

[17] Vernon-Wortzel and Wortzel argue that not only do privatisation programmes incur considerable administrative time and effort on the government's part; but also there may be a private sector opportunity cost, since private sector agents may divert money and management effort from other endeavours in order to pursue purchase and takeover of state-owned enterprises (1989, p.635, cited in Cook and Kirkpatrick, 1997, 843).

[18] For evidence from Argentina see Ramamurti, 1997, 1989).

Moçambique) being taken over by Indol (whose major partner is South African Breweries). It is argued that this prior sell-off to SAB put the second firm (Laurentina) at a disadvantage, that the playing field was not "level" and that in spite of having an albeit faded brand-name in South Africa, the second firm faced an uphill struggle to compete on even terms with the SAB-owned firm.[19] Thus, privatisation could have been better managed if it had tackled the two major breweries concurrently; or, having privatised the two firms at different times, the government should have acknowledged the greater need for regulation to ensure even competition for the market between the two private sector firms. A further example of the regulatory challenge is the difficulties that the government is having in enforcing payment for privatisation transactions, especially from domestic entrepreneurs (further discussed below, Section 3).

Politically, privatisation is an important signal of the state's withdrawal from excessive control of the economy and society; privatisation is used to create the image - at least - of broad political participation: "Indeed, broad Mozambican participation in the privatisation program is essential for the program to be judged a success" (World Bank, 1991, 10).[20] This may be a good example of the contradictions generated by overloading privatisation programmes with objectives. For privatisation is often regarded as a means to an end, signalling the shift to a free market economy and paving the way for other reforms, but at the same time it is treated as virtually an end in itself and, as such, may only succeed if other market and institutional reforms have already been undertaken.

Privatisation can target public finance objectives. Selling to the highest bidder can be one way to raise short-run revenue that can then be used to reduce budget deficits where these are often the focus of intense policy conditionality pressure. Selling off poorly performing state-owned enterprises can also have a positive effect on fiscal balance, whatever the selling price, simply by cutting off a drain on the public purse: for often, state-owned enterprises have been kept alive only by "soft budget constraint" measures, bad loans and subsidies.[21] In Mozambique, for example, loss-making state-owned enterprises were sustained partly by direct budgetary

[19] Interviews in Maputo with senior union and government officials, October 1997; as of April 1998 Laurentina had still not been successfully privatised, despite two earlier rounds of bidding.
[20] The African Development Bank (1997, 105), suggests that indeed one of the most convincing justifications for privatisation programmes is the signal it emits about the direction and credibility of government policy reforms in general.
[21] Subsidies and grants received by Ferrocarriles Argentinos, the Argentine railroad company, for example, "made up fully 9% of the government's budget and 1% of Argentine GDP!" (Ramamurti, 1997, 1978).

subsidies that amounted to an estimated 1 per cent of GDP in 1993 (USAID, n.d., 171);[22] mainly, however, loss-making operations were covered by indirect transfers, via the banking system, subsidised inputs and inter-enterprise debts. Selling off enterprises that could improve their performance even if kept in state hands would translate into a loss of fiscal revenue, while it is also expected of privatisation that - by means of the efficiency gains it is expected to yield - it will in the long-run actually increase public revenue through economic expansion and, thereby, higher corporate and income tax receipts.

Weak capital markets, imperfect competition, and poor information quality and dissemination combine to lead to pricing problems in the sale of state assets in a country like Mozambique, with implications for the net fiscal impact of privatisation and the behaviour of firms. Further, as Adam, Cavendish and Mistry (1992) point out, a credit-constrained or foreign exchange-constrained government has a higher preference for immediate revenue or for immediate foreign exchange receipts and may therefore have a relatively high discount rate on anticipated future resource flows, leading to under-valuation of assets sold.

It is widely acknowledged that there is no remotely accurate information basis on which to reach precise valuation estimates for many state-owned enterprises in Mozambique. The authorities were attached to complex valuation methods involving the calculation of net present values of future cash flows based on hypothetical projections of investment levels. These were inappropriate given economic uncertainty. Alternatives were suggested from the mid-1990s, such as using the current cash flow net of debt service obligations or the scrap value of assets as more realistic bases for enterprise valuation (USAID, n.d., 173). While this kind of criticism of the process suggests implicitly a tendency on the part of the authorities to overvalue state-owned enterprises, others, including some within the government, suggest that the pressure to push ahead fast with privatisation led in reality to <u>undervaluation</u> of assets. In addition to the pressures of credit and foreign exchange constraints and, even more powerfully perhaps, the pressures imposed by the IFIs, the process of privatisation appeared to bias transactions towards undervaluation. Thus, the government announced which firms were to be sold quite early, to show commitment. But from then on it became increasingly difficult for an enterprise to function, given uncertainty over its future and the status of its financial liabilities (USAID, n.d., 172). Clearly this made enterprises less attractive over time.

[22] "As of the end of 1993, over 50 percent of the loan portfolio of the Commercial Bank of Mozambique (BCM), the state owned largest bank, was non-performing. State-owned firms such as Caju de Moçambique, Emocha, Cimentos de Moçambique, L.A.M., and Vidreira were among the largest bad debtors" World Bank, 1995a, 68, n.39).

Economically, privatisation is expected to inject dynamism into the enterprise sector. Improved productivity through privatisation would arise from workforce reductions and/or innovations in product and process and in firm-specific training, modernisation of capital equipment, better input supplies, and improved organisation of production. Firms that succeed in raising productivity by the latter route are those that have command over resources and technology and related knowledge (Van der Hoeven and Sziraczki, 1997, 8). More broadly, privatisation can be used in the hope that it will generate increased investment, both domestic and foreign, and that it will promote the development of a national private sector (see, for example, on Mozambique, World Bank, 1995a, 68). Yet one study of privatisation in sub-Saharan Africa, reported in Fine (1997, 14) found that only in Ghana did private investment rise in association with privatisation; the explanation appears to be that privatisation followed a rise in public investment in the early stages of structural adjustment. Privatisation is also expected to engender more rapid technological change and a development in management and organisational capabilities. Most of these expectations hinge on the axiomatic assumption held by many, that the private sector is inherently superior in the provision of goods and services (Adam, Cavendish and Mistry, 1992, 3).[23]

One further economic objective of privatisation can be to stimulate the growth of local capital markets. Yet this is a far from sufficient condition for the development of local capital markets; while, conversely, it may be that the effects of privatisation will be less positive if the financial sector is not already effective (Nuti, 1992; African Development Bank (ADB), 1997, 128). Reviewing the experience of reforms in sub-Saharan Africa, the ADB (1997, 130) points out that structural weaknesses nevertheless still abound: banks have weak management and inadequate supervisory capacity, staff quality is too poor, there are weak reporting systems, inadequate internal control mechanisms, a lack of auditors, low staffing of regulatory and supervisory agencies, outdated legal frameworks, and a poor set of sanctions for infringement of regulations.

Mozambique is a particularly good example of the multiple objectives associated with privatisation programmes, and of the tendency for ideology to override complexities, as revealed in the emphasis on numbers of transactions and speed of privatisation programmes.

[23] One basis for this assumption is that public sector enterprises are weakened by a multiplication of objectives and the greater difficulty of supervising management; for example, public sector firms may try to combine employment maximisation with other goals, while a private sector firm is supposed to be more single mindedly focused on profit maximisation and to have a natural tendency towards superior management and easier supervision by owners. This, though, is regarded by many as a caricature of the distinction between public and private sectors, based on an oversimplified homogenisation of each sector (Adam, Cavendish and Mistry, 1992).

The basis of privatisation policy was clearly set out in World Bank (1991). While claiming some success for the first years of economic reforms, the document acknowledged that the supply response from the enterprise sector had been neither as quick nor as competitive as initially expected. Within this context, privatisation "is, therefore, an important component in the reform program and is viewed by Government as a means of breaking the vicious cycle of slow growth, low investment and low productivity"(World Bank, 1991, 2). Speed was made one of the explicit objectives of the privatisation programme (World Bank, 1991, 4); a major feature of policy formulation was to identify and resolve those issues that "may slow down the privatisation process" (ibid., 8). This appears to confirm criticisms of privatisation programmes in many LDCs on the grounds of their obsession with the pace rather than the quality of privatisation. To some extent, the Bank itself appears to have acknowledged this problem: its (1996) internal report found that many operations supporting public enterprise reform and privatisation were unsatisfactory and judged this partly to be a function of pressure on Bank staff to lend large quantities of money and to push forward state sector reform as rapidly as possible (Bretton Woods Project, 1997, 5).

World Bank (1991) also expected Mozambican privatisation to:

- "expand the role of the private sector in all commercial activities, so that Government can concentrate on providing basic social/welfare services and strategic development programs;
- reduce the burden of the state enterprises on the Government's scarce financial, managerial, and administrative resources;
- improve enterprise efficiency and productivity, and ensure that they operate in a fully commercial and competitive manner;
- introduce new management practices and technology; and
- create conditions for the higher levels of local and foreign private investment" (World Bank, 1991, 4).

Proceeds from privatisation sales were to be deposited into a special account that would be managed separately from general government accounts. These funds would be earmarked for specific privatisation-related allocation, including: paying off existing enterprise debt obligations, settling potential liabilities arising from privatisation such as severance pay to retrenched employees and retraining of laid off workers, etc. (ibid., 8). Finally, the programme of privatisation anticipated the common difficulty that firms about to be privatised often deteriorate drastically during the "transition" phase. Thus, special efforts were to be taken to maintain the corporate integrity of enterprises during the transitional period, with a view to sustaining the attractiveness and value of the enterprise.

The objectives of privatisation are not thought likely in any sense to conflict with the momentum of general reforms associated with structural adjustment. For example, there is no acknowledgment of the potential contradiction between the aims of full and rapid trade liberalisation and of the development of a competitive domestic private sector. Lastly, it should be noted that the proliferation of goals expected from privatisation creates a problem for the assessment of privatisation programmes. For presumably if multiple objectives are pursued through this policy tool, a corresponding set of criteria should be used in assessing the success or otherwise of a privatisation programme. Yet, typically assessments of privatisation in LDCs, and in Africa specifically, shed many of the initial objectives mobilised in support of the programme and concentrate on a small set of financial indicators. The World Bank's Bureaucrats in Business (1995b), for example, defines success in terms of: improving financial returns, increasing productivity, and reductions in the savings-investment deficit of enterprises.[24] Meanwhile, other assessments of privatisation use their own measures of success or failure, so that different studies, whatever their individual quality, are not necessarily comparable.

Other more critical issues to bear in mind when assessing privatisation include the following: privatisation may not only stretch scarce public sector capacity in developing countries, but actually damage motivation and the ethos of public sector service;[25] and privatisation may have significant effects on distribution, for generally privatisation has led to a further consolidation of economic power rather than the dispersion of such power that the more populist champions of privatisation often claim for it (Fine, 1997b, 3).[26]

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[24] The African Development Bank (1997) adopts the same set of criteria: put otherwise they translate into the following five indicators: net operating surplus, profits before taxes as a share of sales revenue, real variable costs, total factor productivity, and savings minus investment as a percentage of GDP. Notably, Bureaucrats in Business includes only one case study from sub-Saharan Africa, that of Senegal. With respect to all five performance indicators the collective performance of former state owned enterprises in Senegal after privatisation deteriorated (Bennell, 1997, 1800).

[25] See Haque (1996); it is hardly surprising if this factor is ignored in the mainstream literature, given the influence of the new political economy, does not make room for such a potentially positive analysis of individual motivations within the public sector.

[26] See also Bretton Woods Project (1997, 4), which cites World Bank evidence showing greater concentration of asset ownership after privatisation; Cook and Kirkpatrick (1988); and Adam, Cavendish and Mistry (1992). Bretton Woods Project (1997) also argues that most privatisation studies, especially those conducted by the World Bank, downplay the potentially negative effects of privatisation on environmental sustainability. Meanwhile, Ramamurti (1997) highlights the potential for positive externalities to be weakened by privatisation, though he suggests that devolution of responsibilities onto provinces affected by rail privatisation in Argentina allowed a more realistic

In summary, three chief factors complicate the evaluation of privatisation in a country like Mozambique: the date are poor; privatisation is usually tied up with a complex range of other policy changes; and too much attention is often focused, misleadingly, on ownership change itself rather than on more realistically important issues for development such as the competitive and regulatory framework, the nature of industrial policy, etc.

The possible consequences of privatisation for labour are also complex. In the short run privatisation is often associated with job shedding, while in the longer run if privatised firms are dynamic and efficient they may generate new jobs as they expand investment and sales. Furthermore, the effects of privatisation on employees of particular privatised firms may differ from effects on workers in the rest of the economy: for efficient firms may stimulate linkages to other sectors of the economy after privatisation, for example by raising demand for inputs that can be supplied from within the economy. Overall, the magnitude of employment effects is determined by the relative share of public enterprise employment in total employment, the number of lay-offs expected just before and/or after privatisation, and the potential for the economy to generate employment for those laid off in the immediate and longer run. Many of these factors, of course, depend on policies and developments other than privatisation alone (Van der Hoeven and Sziraczki, 1997, 8).

3. A Critical Assessment of the Impact Study of Privatisation in Mozambique

The World Bank conducted during 1996 an evaluation of the impact of privatisation in Mozambique, principally for the technical unit responsible for privatisation of major state-owned enterprises (UTRE) to use in amending the design of the remainder of the privatisation programme.[27] This section critically evaluates the methodology and results of this impact study.

The impact study starts by assuming that an important criterion for the evaluation of any privatisation programme is quantity, i.e. how many enterprises have been privatised: “In terms of numbers sold, it is one of the best programs in Africa” (UTRE, 1996a, 1). Indeed, some 750 enterprises have been privatised since the start of economic reforms in 1987. The study made its evaluation on the basis of a survey of 89 of the 650 firms privatised by the end

evaluation of the importance of these externalities than was possible under centralised state management of the railroads.

of the first quarter, 1996. Of these selected firms, detailed information on production and employment was gathered from 53 firms, i.e. about 8 per cent of the total population of privatised firms at that time. Impact was to be assessed in terms of sales, performance, employment, the state budget and investment: aside, that is, from the apparently leading criteria of total number of privatisation transactions. These criteria do not quite conform, therefore, to those applied in World Bank (1995b) or alluded to in African Development Bank (1997), viz.: net operating surplus, pre-tax profits as a share of sales revenue, real variable costs, total factor productivity, and savings less investment as a percentage of GDP. There is some overlap of criteria, in that some of those applied in the Mozambique study could be seen as approximations of those in World Bank (1995b); while others such as the impact on the state budget go beyond these criteria. The implication of this is simply that the use of different sets of criteria clouds the international comparison of privatisation programmes.

There are major weaknesses in the presentation and methodology of the survey. For, at least in the version of the impact study that is available publicly (more or less),[28] there is no information on the selection process of this sample that was surveyed; consequently, there might be various sources of bias in the sample that make it less than fully random or representative of the full impact of privatisation. Under pressure of time the bulk of firms surveyed could well have been those most accessible, which would bias the process towards those close to city centres or functioning transport and communications infrastructure and those with effective communications, etc. Depending on the way in which firms were contacted, given this was a survey of perceptions, those more favourably disposed to the privatisation experience would be more likely to return phone calls or reply to contacts and agree to the survey. These are highly important factors that should normally be taken into account in any social science empirical analysis and survey work. At the very least, it is argued that it is impossible to take on trust any inference from such a study that fails to put right up front its survey methodology and possible sample biases, etc. (Moll, 1992).

Nevertheless, the impact study claims that overall there has been an improvement in performance at firm level in the sample, with increases in numbers and wages of workers as well as in production and sales. These increases turn out to be ambiguous, however. Thus sales from most firms increased in the three years since privatisation over the three years prior to privatisation. But the sales index used shows only that on average sampled firms have,

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[27] This is an example of the notorious "grey literature" that has limited dissemination but carries considerable weight in influencing policy makers in LDCs and the design of lending policy among donors.

[28] i.e. through UTRE in Maputo.

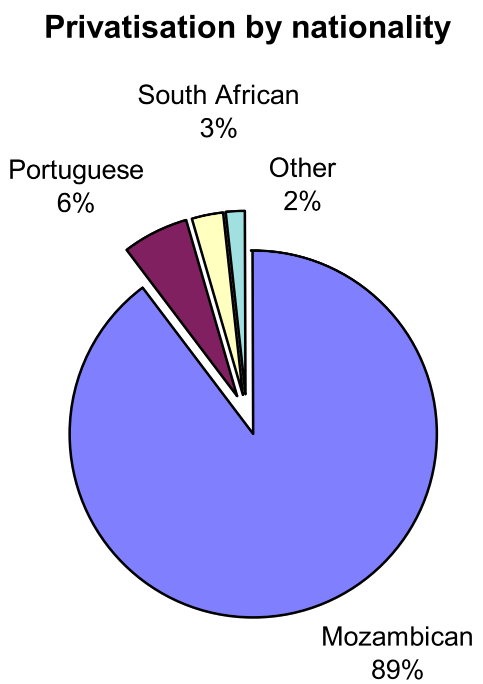
three years after privatisation, almost recovered the volume of sales achieved in the third year before privatisation. Nothing is added about the distribution around the simple average. Even working with this unilluminating average of sales indices, there appears to have been a significant increase in sales in the first year after privatisation, followed by another, smaller increase the next year and then a tiny improvement the following year. Were this a meaningful time period to study, this would simply tell us that privatised firms can in Mozambique recover sales levels of state enterprises but the increase in sales runs out of steam after two years. What the information does appear to convey is not a useful basis for comparison between public and private sector operations, but a sense that the costs of privatisation programmes should fully take into account the opportunity cost of lost production during a lengthy transition period between the announcement of a future privatisation and the eventual adjustment to private sector status.

Clearly, the time period studied, particularly with a rough and ready survey tool, offers little information about performance and especially about the basis for future performance. Further, this assessment of sales is wholly abstracted from analysis of the possible impact of macroeconomic conditions, changes in the availability of foreign exchange, the end of the war, the pattern of rainfall affecting agribusiness directly and other firms possibly indirectly, etc. Nor is this indicator of privatised firm performance sensitive to differences in the time when the sampled firms were actually privatised. If two firms were privatised at different times, say with a two year gap in between, then their performance in the three years after privatisation would be affected by changed conditions; and indeed the depth of the enterprise's crisis in the three years prior to privatisation might have varied for similar reasons, and this in turn would affect post-privatisation enterprise challenges. One very clear factor, for example, is that the Mozambican civil war ended in late 1992: some enterprises were sold off before this, though the bulk was privatised later. Furthermore, a particular firm's performance may be affected by the market structure and conditions specific to the sub-sector in which it falls. In other words, one yardstick - e.g. sales performance - does not necessarily convey the same information about a range of enterprises' performances in a cross-section sample, if enterprises fall into sectors facing different constraints on competitiveness and efficiency.

Employment appears in the survey to drop before privatisation and then gradually to rise again. But from the sample data as presented in the study, employment after three years has failed to reach Year -1, let alone Year -3 (ibid., figure 4, page 3). There is said to be a positive impact of privatisation on the state budget. From the smaller sample of 53 firms, data show that on average the amount of tax paid increased while subsidies in the form of duty exemptions, tax exemptions, bad loans and direct transfers decreased after privatisation. But it is not clear whether this is an exclusive function of privatisation per se, i.e. a logical function of the transfer of ownership; or whether it has more to do with a shift in overall fiscal, financial and industrial policy and in particular a change in the structure of the banking sector that has tightened up lending behaviour somewhat.[29] This is not addressed in the impact study; it may be difficult to isolate the actual effects of privatisation from those of other policies, but the corollary of this is that it is difficult to claim strong causal links from privatisation itself.

Next, the study claims that concerns about an excessive amount of foreign participation are unfounded on the basis of analysis of all firms privatised to date (i.e. early 1996, when the remaining firms to be privatised were chiefly large enterprises). About 92 per cent of enterprises had been sold to Mozambican nationals or companies by early 1996, representing 60 per cent of the total value of firms sold. Again, however, the text and the figures reveal slightly different stories. For more than 90 per cent of privatisation buyers, the Mozambicans, agreed to pay what amounted to only half the total valuation sum; and by early 1996 these buyers had actually only contributed 20 per cent of the total paid. This, surely, is something of a warning sign about the differential experience and impact of privatisation between nationals and foreign buyers.

[29] Abrahamsson and Nilsson (1995, 115) raise the question of the opportunity cost of privatisation as a means of generating efficiency, since a "more effective solution might be to reorganise the [state] companies, replacing earlier soft budget options with strategies which induce them to become profit-oriented and to cover their own costs".



Source: UTRE (1996a).

Overall, the study claims, private sector owners' perceptions of the privatisation programme were positive. Owners did have complaints, about the length of the process, the burden of labour liabilities that they inherited, and the continued participation of government in a range of enterprises. Further, firm owners and managers felt that their obligation to keep on the workforce was very costly. These are significant concerns, but they require qualification. Firstly, while owners or managers may complain that the government still has a role in an enterprise, from the point of view of industrial performance, productivity increases, etc., this is not necessarily a negative feature of the privatisation process. Secondly, what generally available evidence there is suggests that the government is not using this participation effectively or aggressively, but is more or less a sleeping partner.[30] Thirdly, the degree to which inherited employees are a burden is not a function of privatisation itself but of other factors such as what provision has been made for retraining, etc. Indeed, this concern of employers, together with the observation that firms routinely deteriorated prior to actual privatisation, suggests that the privatisation process in Mozambique has failed in the terms set by the 1991 background paper.

The impact study of firm performance after privatisation is weak empirically and analytically. It, therefore, provides no basis whatsoever for any kind of claim that the process as a whole has been a success. What it does suggest is that those firms surveyed have yet to provide evidence of tremendous success, and that in some respects they seem to show that the privatisation process has failed to live up to the expectations laid out for it in 1991. The general inference drawn in parts of the study's text should be ignored; but the acknowledgement that the study's data are incomplete and its conclusions preliminary should be highlighted. Others argue that World Bank assessments of privatisation elsewhere have also been based on inconclusive evidence and small and self-selecting samples (Bretton Woods Project, 1997, 4); and the fact that it was too soon to be able to come to a full assessment of the performance of privatised enterprises has dogged recent studies of privatisation elsewhere among LDCs too (e.g. Ramamurti, 1997). Within sub-Saharan Africa in general, Mozambique is just one example of the lack of detailed empirical research into the impact of privatisation: Berg (1996) and Bennell (1997) confirm this and the fact that while World Bank sources are the best available they are preoccupied with the number of transactions.

While the presentation of aggregated data and unqualified averages from the sample survey tells us little, the impact study of privatisation in Mozambique goes on to make a number of specific recommendations for improving later privatisations and papering over the cracks in the programme to date. These constructive recommendations are based, it seems, on more interesting individual observations. Here the main recommendations in the impact study are listed, together with their justification (afterwards some critical remarks are added):

- Bid evaluation should be more objective. Evaluations of bids have allocated up to 70 per cent of weighting to non-price factors such as technical proposals, promises to make certain investments, intention to keep an existing line of business and existing workforce. However, this process can be highly subjective and hence opaque, as well as being difficult to enforce. Worse, this process involves the state trying to direct activity while the whole point of privatisation is to let the private sector decide what activities are profitable, so that if a firm wants to turn a building into a warehouse rather than a factory this should be allowed.

- The government should not set a minimum price in public tenders: the market should be given free rein to decide.

[30] See, for example, Deloitte and Touche (1997) on the cashew processing sector.

- Payment in cash up front is preferable to payment by instalments. This preference, of course, would present a major obstacle to Mozambican entrepreneurs given the lack of a long-term debt and equity market. But it is argued by the impact study that the lack of monitoring and enforcement of instalments has meant that defaults are common and many firms have really bought firms only for the 10 per cent down-payment.

- The government should enhance its capacity to enforce payments. In one case, the same buyer purchased five companies on the instalment method and has defaulted on every one. But the government does not have the auditors and accountants to check properly. The impact study recommends hiring in technical assistance.

- Payment terms should be more transparent and should be made clear at the time of bidding. Ambiguities have allowed for manipulation by buyers. For example, some have posted high sales prices to win a bid, but have negotiated payment over ten years at the metical exchange rate of the date of purchase, reducing the net present value of the real purchase price by more than five times.

- All liabilities should be removed from a company upon sale; for in some cases the opposite has happened, i.e. a condition of sale has been that the winning bidder must take all employees, pension responsibilities and other liabilities, effectively stopping the sale.

- Labour liabilities must be settled before ownership transfer. The state should arrange for a standard end-of-service package and severance payments for excess labour not to be retained by the buyer. Such an arrangement could take the form of training, access to micro-finance or a lump-sum payment.

- The government should consider sale of shares in already privatised companies and those yet to be privatised to "passive" institutional investors.

- Proceeds from privatisation should be used to pay for labour displacement, settling company debts and for the Fund for Supporting Economic Rehabilitation (FARE). This is especially important since the problems of outstanding labour liabilities could derail "what otherwise could be a very successful privatisation program" (14).

- Privatisation should be aided by efforts to tackle constraints perceived by the private sector and outlined in submissions to the annual private sector development conferences: i.e. principally reducing red tape.

These are practical recommendations but a few critical comments must be made. First, the suggestion that bid evaluations involving non-price factors are subjective and since they imply state direction are a bad thing is naive. For this assumes that alternatives are free from subjective judgment, an unsustainable notion in the light of the market imperfections and information shortages and asymmetries in Mozambique. The privatisation programme is burdened with a range of objectives that cannot be captured exclusively by price, so that this kind of recommendation jars with the declared multiple aims of the programme. State efforts to direct privatisation towards particular goals is not necessarily a bad thing, and it is naive to assume that privatisation in any country takes place without some state "direction". Furthermore, the implicit argument for a complete division between the public and private sectors does not even acknowledge the fairly minimalist public/private sector cooperation implied in, for example, ideas for sectoral alliances or for emerging business "incubators" contained in African Development Bank (1997).

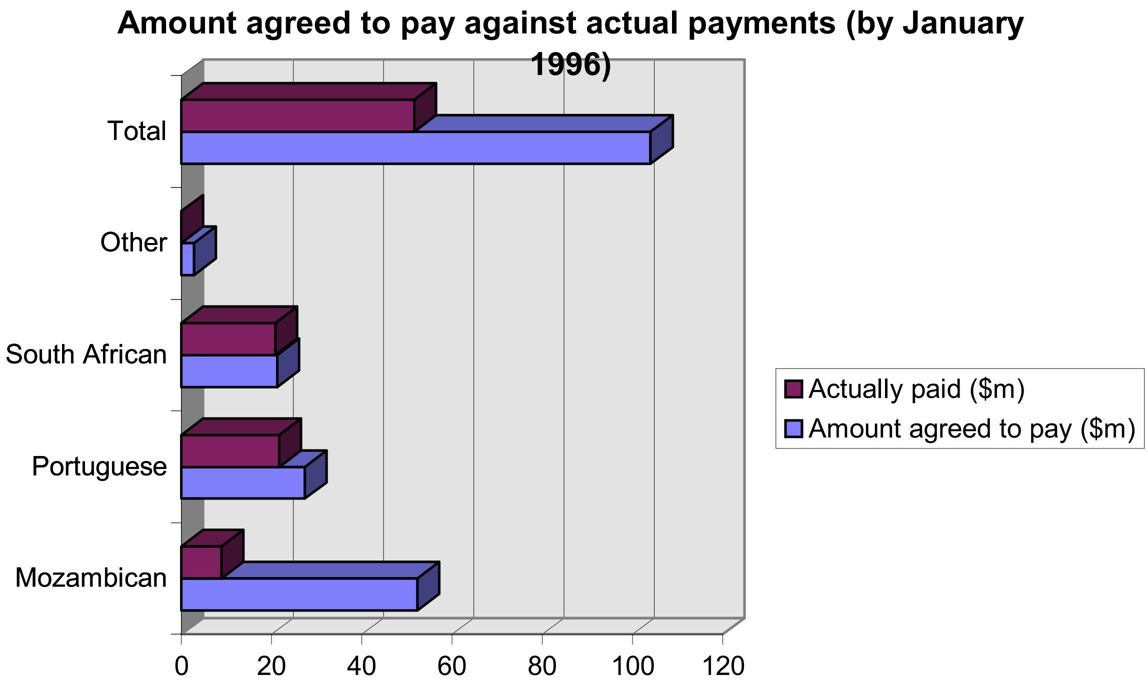
Secondly, the impact study raises the significance of deferred payments and defaults. Variations on this theme are common to privatisation in sub-Saharan Africa, particularly with respect to domestic entrepreneurial purchase of state owned enterprises. Bennell (1997) notes that deferred payment sales have been used in Ghana and Zambia to encourage greater involvement by African entrepreneurs; while there is a high incidence of "unconsummated transactions" (ibid., 1797) in countries such as Ghana, Guinea, Madagascar and Nigeria, indicating the limited capacity of African entrepreneurs to purchase state-owned enterprises. The significance of deferred payments for privatisation purchases in Mozambique is discussed below (Section 4); arguably it represents a mismanaged subsidy to the domestic private sector, highlighting the lack of careful management and, indeed, "direction" of the privatisation programme. The idea that because of lack of monitoring capacity deferred payments should be prohibited reinforces the impression that those involved in the Mozambican privatisation programme have never taken seriously the need to build capacity within the public sector to manage the programme properly, particularly in the light of the range of objectives that are somehow forgotten by the time of this impact study.

Thirdly, the impact study's recommendations make a belated acknowledgment of the lack of auditors and accountants to check bidders' records. But is the answer really to hire in more technical assistance? Or ought it to be to improve public sector capacity, with a view to the post-privatisation regulatory and supervision challenge?

Fourthly, a number of the recommendations suggest ways of distributing some of the revenue gains from privatisation to the losers, i.e. to retrenched workers. These are sensible recommendations but they suggest that the programme had failed to focus on such issues, even though safety nets and other measures to reduce the blow to labour were used as objectives to strengthen the justification for accelerating and expanding the privatisation programme in World Bank (1991). Indeed, overall the recommendations of the impact study and the observations on which it was based suggest that the privatisation programme in Mozambique was conducted in haste and driven by privatising ideology and not by careful analysis of the needs of different sectors or of the regulatory and implementation implications of privatisation.

4. Going from weakness to weakness?: major issues in Mozambican privatisation

One of the major public finance objectives of privatisation in Mozambique has been to end fiscal leakage through subsidies and soft budget constraints on state-owned enterprises. At the same time, privatisation was to inject the supposed dynamism and greater efficiency of the private sector, together with the assumption that the private sector functions best without "distortionary" government intervention. Yet there is an unacknowledged continuity between pre-privatisation experience and the implementation of the privatisation programme. In effect, privatisation has subsidised the private sector. Theoretically, there are grounds for expecting this to be a common feature of privatisation: where a government is constrained by credit or foreign exchange shortages, it may discount future enterprise revenue streams at a higher rate than would the private sector. But more intriguingly, there has been a practical form of subsidy as a result of the use of payment by instalments. This comes about because many firms, chiefly Mozambican firms, have delayed payments (arguably leading to an erosion of the enterprise's ultimate privatisation "value" by inflation) or defaulted on instalments, while the government has failed to monitor this payments system. In other words, it has been fairly common in the sale of state enterprises to Mozambican registered bidders for the sum paid to the state to be significantly below that actually agreed. Of the \$52.4 million equivalent agreed to be paid by Mozambican buyers for privatisation transactions up to mid-1996, only \$9 million had yet been paid, with the remainder roughly equally split between deferrals and defaults (UTRE, 1996a, 13).



Source: UTRE (1996a).

This "privatisation subsidy" raises a number of issues. Firstly, lost revenue raises the opportunity cost of this privatisation programme conceived as a response to Mozambique's enterprise sector difficulties. Even if the revenue were fully recovered, this argument still holds since revenue recovery would further strain scarce administrative and legal resources.

Second, a subsidy to Mozambican firms in a privatisation programme might be considered a progressive policy, to foster domestic private sector development. However, the subsidy is indiscriminate; it is not used to select particular firms and industries with a view to the strategic nurture of domestic capacity, nor is it tied to any performance conditions, nor does it complement a range of other possible industrial policy measures designed also to foster the creation or expansion of competitive, innovating, organisationally effective firms. Rather, if anything it discriminates by default (literally and figuratively), by selecting for this type of market advantage only those firms least able to function efficiently.[31]

Further, third, this does not appear to be a particularly useful way of giving preferential or protective treatment to domestic investors vis-à-vis foreign investors and competitors. At the

[31] Contrast this with the more careful strategy in the privatisation of Argentina's rail system of encouraging bidders to compete *for* subsidies provided for the running of the Buenos Aires suburban routes (Ramamurti, 1997).

very least, the issue highlights the tilt and bumpiness of the playing field on which Mozambican and foreign firms compete. A canny Mozambican entrepreneur might be able to turn privatisation terms to his or her advantage by delaying or defaulting on instalment payments. But this is of little competitive value when that entrepreneur needs to borrow to cover working capital needs or to install new equipment. For in this situation the Mozambican entrepreneur is confronted by high borrowing costs. Yet foreign companies dipping into the Mozambican market would find it considerably cheaper to secure loan finance (Weeks, 1998).

Also, fourth, deferred or defaulted privatisation payments cannot conceal the tension between the goal of generating a domestic private sector and the structural adjustment policy of full trade liberalisation. For opening up Mozambique's economy to free international competition may undermine the capacity of Mozambican entrepreneurs - facing poor infrastructure, missing or thin capital markets, high borrowing costs, weak linkages, and an inadequate supply of skills and capabilities - to compete efficiently and immediately;[32] in this case a consequence may be that a firm is then forced to default on payments for the enterprise it agreed to buy as part of privatisation. Thus, arguably privatisation might represent something of a "hospital pass" where it combines transfer to the private sector with simultaneous or virtually immediate exposure to international competition. The privatisation of textiles enterprises, for example, does not appear to have led to a resurgence of production and export. Among the factors commonly cited for the crisis in this sector are: the high cost of loan capital, the lack of linkages to domestic suppliers of machinery parts, lack of financial firm strength, poor market knowledge, poor packaging and services, and low standards of management, and the high degree of competition from Asia and from neighbouring economies like Zimbabwe. It is unsurprising that there appears to have been little of the investment in new plant and technology, in this sector, that was expected by the World Bank to follow privatisation.

The classic example from Mozambique of privatisation followed by liberalisation, with complex and controversial results, is the cashew processing industry.[33] After the privatisation of state owned cashew processing factories in 1993/94, the World Bank began to lobby hard for complete liberalisation of the sector (in which domestic processing had been protected by tariffs discouraging the export of raw nuts to India). The majority of new private sector owners of the Mozambican processing firms argued that this change in the operating

[32] On the range of constraints on genuinely sustainable manufacturing expansion in Africa, even where there has been some short-lived and limited growth coterminous with a period of liberalisation, see Lall (1995).
[33] This material on cashew processing draws on Cramer (1998).

environment amounted to a breach of contract (literally so, according to the claims of at least one firm that a no change clause to the protection regime had been written into the privatisation contract). The debate over cashew policy has continued to develop through the 1990s, with little sign of a clear resolution in the form of a set of policies likely to stimulate a resurgence of Mozambican production of raw and processed cashew. While the majority of cashew processing firms have indeed been transferred into the hands of Mozambicans, it is difficult to be convinced that this represents the effective promotion of a Mozambican private sector. Results, to date, have been mixed. Processing remains constrained by a complex range of factors that includes: very poor raw material supply; atrocious infrastructure in many rural areas; poor management capabilities; lack of knowledge about best practices of tree care, harvesting and post-harvest care for the crop; lack of access to loan finance; and the lack of any clear regulatory framework for setting standards, inspecting export material, generating marketing and branding techniques and strategies to prepare for entry into highly demanding international markets. While one major multinational is involved in the sector, and has opted for relatively capital-intensive production techniques, the majority of firms since privatisation have shifted towards more labour-intensive techniques. But the advantages of this - in terms of employment generation - will only be clear if the firms are viable production organisations. There are clear possibilities that some firms will collapse, and indications in poor quality output, lack of decent raw material inputs, and financial straits, that the choice of technique represents less a competitive employment-oriented efficiency based on relative factor endowments and more of a defensive survival strategy.[34]

Broad Mozambican participation (beyond the transfer of many small retail outlets) is unlikely to be achieved by this privatisation programme. Instalment deferrals and defaults act as a warning signal of firm distress, if not of straightforward corruption. The government may be confronted by a series of enterprise failures over the coming years. Even if these are viewed as efficient market solutions, it will increase the perception that privatisation has in important respects failed. This perception will be enhanced because one consequence of enterprise failures would probably be a greater concentration of ownership among a handful of well-connected Mozambican entrepreneurs. The government will need to face up to these industrial policy and distributional issues. For the objective of making economic reforms more inclusive of various strata of Mozambican society including actual or potential entrepreneurs is a sensible one: it is simply that this is an ineffective - as well as highly opaque - way to try to achieve such a goal.

[34] Indeed, there are reports that in late 1997 seven cashew processing factories shut down.

According to the impact study on privatisation, privatisation should be supported by efforts to tackle the constraints on performance as perceived by the private sector (including excessive red tape and complications in the fiscal regime). This really amounts to a belated acknowledgment that privatisation is unlikely to work well unless certain other conditions are improved upon. Constraints as perceived by the private sector generally involve a set of pleas for further deregulation of market activity. But experience would suggest the constraints are more complex than just removing strands of red tape. Meanwhile, the impact study also argued that the government should withdraw further from efforts to maximise the economic and social returns from privatisation bids, moving instead towards a more "objective" price based evaluation process. But there is a case for precisely the opposite. Had the government not been focused primarily on privatising the greatest number of enterprise units in the shortest time possible, it might have been able to devote some resources to a more careful process of privatisation. One consequence might then have been to reduce the number of "bad privatisation sales" through a more selective and open identification of Mozambican purchasers and through a more strategic approach to backing privatisation with industrial policies designed to improve the prospects for technology, knowledge-based and organisationally driven productivity growth.[35]

An argument sometimes made with respect to Mozambique, and frequently made in general about developing countries, is that sector-specific strategic industrial policies are not advisable - however desirable - because LDC states lack the capacity, administrative resources and information to implement such policies effectively. But capacity constraints could presumably be taken as challenges to be overcome, rather than inexorable and eternally binding limits. Also, privatisation itself has stretched Mozambican public sector resources, as it does elsewhere. It has proven hard to monitor instalment payments effectively: while this may partly be a political problem it is also a resource problem.

One of the greatest problems in the Mozambican privatisation programme has been the treatment of labour. The programme incorporated from 1991 an aim to design and implement measures to respond to the likelihood of labour shedding during enterprise restructuring and privatisation; and proceeds from sales of state owned enterprises were to go into a fund that was expected, among other purposes, to be used to meet financial needs of labour retrenchment, severance pay, back payments on pensions, etc. Yet little has been done effectively to deal with the employment dimension of privatisation. Many firms have

[35] Again, it appears that a recommendation for more price driven and therefore somehow "objective" bid evaluation implicitly carries the theoretical baggage of new political economy, new institutional economics and neo-Austrian uncertainty economics; see footnote 1.

inherited what they regard as labour liabilities. Not surprisingly, especially the more undercapitalised Mozambican new owners have often failed to honour pension and retrenchment payments that they regard as obligations unduly foisted on them. The recommendations of the impact study are a constructive attempt to encourage a better resolution of this problem.

Many workers are not resisting retrenchment but are simply demanding that the state or the new enterprise owners fulfil payment obligations. According to evidence collected for the companion study of privatisation and labour in Mozambique (World Bank, 1996b), for many workers a livelihood in agriculture or the informal sectors is more attractive than one in low pay, poor condition industries. If this problem continues to be unresolved, it will only enhance the perception that the privatisation programme, far from being genuinely inclusive, is only geared towards an elite group of Mozambican well connected entrepreneurs plus overseas firms (with the latter, on available evidence, providing better working conditions than many of the Mozambican firms).[36]

The study of worker and management perceptions of the labour market effects of privatisation in Mozambique was, like the firm performance study, conducted through a sample survey of enterprises. This labour study is more direct in signalling the drawbacks in its sampling methodology and admitting that, combined with unreliable statistics on the overall economically active population and formal sector labour force, this weakens any inferences drawn. Indeed, it is clear that the labour market is a good example of how privatisation is closely tied up with a range of other policies and developments. Many have alleged that privatisation is to blame for large formal sector job losses. But it can also be argued that of all the employment decline in the formal sector only a modest fraction can be attributed to privatisation itself: the rest is accounted for by war, economic stagnation, and structural adjustment.

The labour market study makes a strong argument about the politics of the management of privatisation. It suggests that formal sector job losses were the inevitable shakeout from failed statist policies of the past, and that thus structural adjustment was also inevitable. Yet it is arguably convenient for the government to shift the onus for job losses onto the new private sector: the "responsibility for retrenchment and its negative political implications is

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[36] UTRE (1996b) suggests this is the case, and it is supported by interviews with public and private sector players conducted as a basis for this paper in Maputo during October 1997. The same study revealed that two thirds of employees found conditions in firms since privatisation either the same as or

effectively being transferred away from the Government who would have ultimately been forced to reduce excess workers (if privatisation had not occurred)" (UTRE, 1996b, 9). But this argument can swing too far the other way, to absolve privatisation itself from responsibility for any adverse consequences. Nor can privatisation be anything other than intensely political.[37] These are issues that require careful negotiation and resolution, rather than being written off as state failures.[38] Clearly far-reaching economic reforms and enterprise restructuring were necessary in Mozambique. But, arguably, privatisation and structural adjustment have exacerbated the problems involved in such change: through a failure to prioritise skills development, through tight macroeconomic policies allowing no room, for example, for selective access to relatively cheap credit, through a failure to develop an industrial policy that could provoke real and expansionary change in the private sector that would then accelerate demand for labour. Labour issues could have been given higher priority by external advisors, including those that made rapid privatisation a condition of continued external aid.

Nevertheless, argues the privatisation and labour study, employment loss in the formal sector is not terribly important. This is because labour may be readily absorbed by agriculture and the informal sectors, which are both expanding and relatively attractive. This is an important argument, for which there is some evidence. However, there is clearly a need for much more information on the informal sectors and their dynamics: for conditions in the informal sectors of any economy are often highly insecure; informal sector activities often depend on formal sector activities especially as a source of demand for goods and services; and informal sectors may not represent the best basis for building skills-based dynamic economic expansion in the future.

5. Conclusion

The privatisation of Mozambique has not led to, or been accompanied by, the promotion of a strong and efficient competitive market environment together with a clear regulatory framework for sectors with restricted competition. Limited evidence suggests that privatisation in Mozambique has been careless and has failed to meet a number of the

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worse than prior to privatisation; the sharpest improvements were registered in those firms whose privatisation had involved transfer to foreign owners.

[37] The UK is an obvious example. Of course, the degree to which privatisation in the UK was in any sense "objective" in valuation and allocation of enterprises has also been called into question by subsequent developments, including the rapid creation of a large number of privatisation millionaires.

[38] Furthermore, it is important to recall that when Frelimo took power at independence it "intervened" in many enterprises not so much for ideological reasons but for the practical purpose of preserving economic activity when the great majority of Portuguese private sector owners and managers fled.

objectives set out at the beginning of the programme, let alone to promote other goals more specifically oriented to the development of genuinely competitive industries based on product and process innovation, firm specific knowledge and organisational development.

Nevertheless, it is not now possible to undo this programme of sweeping privatisation. And it should be accepted that there are positive effects in certain industries where production has become more stable. However, certain factors may continue to haunt the government and society of Mozambique, factors that may yet be susceptible to policy responses. The two main areas where improved policies are urgent are: labour market policies and highly selective industrial policies.

There is no place for a blanket industrial policy restricted to a variant of pricing policy such as effective protection rates: because government capacity to implement such a policy effectively is limited, because blanket policies of this kind have a poor record in sub-Saharan African and other developing countries, and because industrial policy needs to be about more than just the effective protection rate. An important feature of any more effective industrial policy, however, is the development of better linkages between the state and the private sector than have existed in the past in Mozambique and than exist currently. This runs counter to the whole ideology driving a volume and speed kind of privatisation that, as this paper argues, actually undermines the capacity for building such institutional relationships. For the privatisation programme has aimed to snip the "umbilical cord" linking the public and private sectors.

For the labour market, there is plenty of experience from other countries - developing countries and transitional countries - that could provide a useful starting point for the design of policies.[39] And there is clearly a substantial amount of money available to implement such policies, based on some combination perhaps of delaying or spreading retrenchment, providing generous severance terms, and facilitating reintegration of retrenched workers elsewhere in the labour market. This money partly derives from the fund in which privatisation proceeds are deposited; and partly could be derived from foreign aid sources. The two issues are related, obviously, since an effective industrial policy is more likely to foster an economic environment in which the labour fall-out from privatisation is accommodated. Privatisation retrenchments are akin to the demobilisation of ex-combatants at the end of a civil conflict in a country like Mozambique. The two are different aspects of the great transformation of Mozambican society in the 1990s. And there may be lessons for the

[39] See, for example, Van der Hoven and Sziracki (1997).

reintegration of laid off workers from the literature and experience with troop demobilisation: for example, while specific re-training projects have a role, it may be better not to design policies and programmes exclusively for targeted groups such as those laid off from formerly state owned enterprises, but rather to design policies that are more widely inclusive and aimed at improving the skills and knowledge of the whole labour force (Cramer and Weeks, 1998). Meanwhile, attention should be paid to working conditions in the private sector, especially in enterprises with local ownership where there may be a greater tendency to highly exploitative labour relations.

Finally, it cannot be stressed enough that very little can be said substantively about the success or failure of privatisation in Mozambique unless more and better information is collected, ideally by more than one source. The issues need to be researched and debated within Mozambique if effective solutions are to be generated. Privatisation was pursued in Mozambique for a muddle of objectives. The assessment of this privatisation programme has until now been muddled. And the outcomes of the programme appear also to have been muddled. Only further research, conducted independently and openly, can help to provide further clarity to an issue of great relevance to Mozambique and other sub-Saharan African privatising economies.

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