Emerging Markets in Africa: Epic Shifts in Privatization and Land Usage

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Part I. Background and the Thatcher Model

- 1979 - End of British rule and colonization of African states (Rhodesia's independence)
- Industrialized countries began exporting natural resources from African countries
- Prime Minister Margaret Thatcher, 1979-1990: public policy regime that included the value of free markets

Thatcher’s Model: Benefits of Privatization

- Sell Large-scale, state-owned industries to private industry (coal, iron, steel, gas, electricity, water supply, railways, trucking, airlines, telecommunications, and public housing (Watkins, 2009)
- Private firms perform better, in the long run, than similar state-run firms (Megginson, 2005b)
- Post-privatization performance improvements are smaller when government maintains substantial shareholding (Megginson, 2005)
- Parastatal: a company or agency wholly or partially owned by the government

Research Premise(s) and Thesis: Parts I and II

- Foreign Direct Investment (FDI) trends
- World Bank and International Monetary Fund data analysis and performance data
- Stability of governments and global positioning of African states
- Case studies of five African countries: Malawi; Morocco; Tanzania; Ghana; and South Africa
- Privatization and Land Usage trends
- Economic and Financial indices: Emerging Markets
- Research will benefit policy makers, academics, privatization managers, emerging markets managers, C-level executives, government experts, and others

Part I: Privatization and Quantitative Data

- World Bank and IMF data
- Privatization concentrated in North Africa: USD7.5 billion from 27 transactions, accounting for 8 percent of total value (2005)
- Sub-Saharan Africa: USD975 million from 23 transactions, generating 1 percent of total value
- Compare developing countries: USD90 billion from 400 transactions (Kikeri & Burman, 2007)

Privatization: Themes & Patterns

- (1) Privatization, a free market mechanism and strategy, presents strengths and weaknesses for governments and private suitors
- Government-run parastatal activity: expertise focused on managing and monitoring large public enterprises
- Long-term strategies: economic prosperity with rival border countries and global economy

Privatization: Themes & Patterns

- (2) Labor and Public perception opposition: broadened ownership control and internal problems
- NGOs: LDC grants and consultancy oversight
- Rural African life: basic survival, cash-only economies, limited contact with banks and financial institutions
- Micro financing - micro loans (See KEVA, USD84 million)
- Small African businesses seeded with micro loans will stimulate economic growth and spur interest in private enterprises (Harvard Int’l Review, 2008)

Privatization: Themes & Patterns

- (3) Net effect on African working poor classes
- Lack of access to basic commodities, such as clean water, electricity, and infrastructure
- Private enterprises achieve economic gain through cost-recovery arrangements designed to limit access to commodities
- Government's hands-off approach when responding to privatization inefficiencies and unfair distribution to the poor
- World Bank and IMF loans to LDCs for much needed debt relief: questionable motives

Emerging Markets

- Created due to failure of state-led economic development and need for capital investment
- China, India, Indonesia, Brazil, and Russia (BRICs) are five dominating EMs (Li, 2008)
- Characteristics of EMs: regional economic strength; transitional functions in terms of economic and political reforms; world's fastest growing economies; and, critical participants in global political, economic, and social affairs (*Id.*, 2008)

Emerging Markets: Financial indices

- Morgan Stanley Capital International (MSCI) indexes: industry standards used to measure economic growth in EMs
- MSCI is used by approximately 90 percent of Emerging Markets managers
- Standard & Poor's list of investment-grade countries includes higher-risk countries, such as Mexico, South Korea, and Malaysia (not included on the MSCI)
- MSCI has gained more than 600 percent since 1988, beating the S&P by 500 percentage points (Authers, The Financial Times, 2006)

Deloitte Touche Tohmatzu 2007 study

- Manufacturing Industry Group survey
- 446 C-suite executives from manufacturing companies in 31 countries
- Only 56 percent polled conduct a “very rigorous” risk assessment before opening satellite office, a R&D lab, or another business operation in a developing nation
- Ranked highest: legal and regulatory risks, with concern about supply chain (76%) and business continuity (72%); IP concerns ranked high
- Forty-five percent perform risk assessments regularly

Deloitte Study: FDI and Deregulation

- Greenfield investments and wholly owned subsidiaries most popular strategy in penetrating Emerging Markets
- Deregulation--a relaxation of government regulations that historically have prevented foreign enterprises from full ownership of new companies or subs
- Unstable political and natural environments ranked medium to low, with 57% assessing security risks, 51% considering geopolitical risks, 30% assessing terrorism, and 30% considering impact of natural disasters (Deloitte, 2007)

Regional Alliances and Partnership Forums

- Africa Partnership Forum, Nov. 2008
- German Federal Minister of Economic Cooperation and Development, Heidmarie Wieczorek-Zeul: *"In this situation, it is more important than ever for us to forge a functioning, global and equitable partnership. We need Africa as a strong player in that partnership." (APF, 2008)*
- Africa Peer Review Mechanism (APRM): Africa-owned process producing results on governance

Case Studies in Privatization and Regional Integration: Ghana, pop. 23,461,523

- 464 firms surveyed and reporting
- GNI per capita (US$): 590
- 9.78% trading firms identified customs and trade regulations as a major constraint in doing business in Ghana
- All countries surveyed showed 17.40% concern about customs and trade regulations (Source: World Bank’s Enterprise Surveys 2008)
- 43% of firms paying for security
- 61% of firms expected to give gifts to secure a government contract
- 66% of firms identified access to finance as a major concern

Case Studies in Privatization and Regional Integration: Tanzania, pop. 40,432,163

- 419 firms reporting at a Gross National Index (GNI) per capita (US$) of $400
- Customs and trade regulations: 11.62% reporting a medium concern
- Tax rates as a major restraint: 36.68%
- Corruption and bribes: 50% reporting expected to pay informal payments to public officials
- Compare all countries as to corruption and bribes: 35% reporting informal payments - a trend that concerns those doing business in emerging markets

Case Studies in Privatization and Regional Integration: Tanzania

- Tanzania’s privatization of public water system in 2003
- Sold to Biwater, a subsidiary of City Water Services, to run water system of Dar es Salaam (market of 50,000)
- Problems with water and sewerage services deteriorated under CWS’s management, creating poor water supply
- Tanzania seized control in 2005, leading to complex civil litigation (Seager, 2008)

Case Studies in Privatization and Regional Integration: Tanzania

- London tribunal threw out CWS's case under the rules of the United Nations Commission on International Trade Law (UNCITRAL)
- Awarded £3 million in damages to DAWASA, Tanzania's water utility, and £500,000 in costs, and terminated the contract
- Tribunal considered a World Bank 2005 study indicating that it would be hard, if not impossible, for CWS to perform worse than DAWASA
- Vicky Cann, policy officer at the World Development Movement, "Tanzania is one of the poorest countries in the world, and water privatisation was imposed on that country by the World Bank in return for much needed debt relief."

Case Studies in Privatization and Regional Integration: Morocco, pop. 30,860,595

- GNI per capita (US$): 2,250.00
- World Bank *Doing Business 2009 Data*: 181 economies ranked
- Protecting investors (161)
- Getting credit (131) and employing workers (168)
- Trading across borders (64)
- Starting a business (62)
- Dealing with construction permits (90)

Case Studies in Privatization and Regional Integration: Morocco

- Privatization efforts had 37% of the regional value through USD2.5 billion sale of Maroc Telecom
- Foreign direct investors and emerging markets managers are optimistic that country's 5% growth of output, since 2005, will increase through open regionalism and global integration (Middle East and North Africa, 2008)

Case Studies in Privatization and Regional Integration: South Africa, pop. 47,587,543

- GNI per capita (US$): 5,760.00
- World Bank *Doing Business 2009 Data*
- Ease of Doing business (32/181)
- Starting a business (47)
- Employing workers (102)
- Trading across borders (147)
- Enforcing contracts (82)
- Protecting investors (9)
- Time for export (days): 30
- Time for import (days): 35

Case Studies in Privatization and Regional Integration: South Africa

- Following abolition of *apartheid* in 1994, Nelson Mandela and the African National Congress (ANC) have privatized state-owned assets to reform the former economic and political systems
- Spur economic growth and attract outside investment
- Africa Board (open regionalism and global integration), a new trading segment on the Johannesburg Stock Exchange Main Board: diversify foreign investors' portfolios
- Emerging markets outperformed developed markets in 2008 (Appel, 2009)

Case Studies in Privatization and Regional Integration: Malawi, pop. 13,920,062

- GNI per capita (US$): 250
- World Bank *Doing Business 2009 Data*
- Ease of Doing Business (134/181)
- Taxes (58)
- Getting credit (84)
- Protecting investors (70)
- Starting a business (122)
- Enforcing contracts (138)
- Trading across borders (167)
- 47% of Firms (160 surveyed) identifying crime, theft, and disorder as major constraints

Part II. Emerging Markets - Epic Shifts in Land Usage

- Land use for most African countries:
- (1) Settlements
- (2) Subsistence agriculture
- (3) Energy, and
- (4) Infrastructure
- Currently, immigrants are migrating to African countries because foreign investors are buying indigenous African land from the poor and are displacing them (Stambuli, 2002)

Land Use, Settlements, and Subsistence Agriculture: Malawi and Tanzania

- Farming, in terms of whole land use in both countries, accounts for 43% and 47%, respectively
- Land use for agro-economic means: exploitation of land resources; soil for crop cultivation; natural vegetation for feeding livestock
- Shortage of land supply results from food consumption, and forestry and deforestation (energy and building materials for homes)
- Displacement in Malawi's wealthy Mangochi district: private industry and tourism have displaced indigenous Malawians reliant on farming and fishing, as well as on social obligations and local trading
- Due to poverty, poor, indigenous Malawians cannot replace crops due to heavy rains and cannot find alternative sources of income due to education

Land Use, Settlements, and Subsistence Agriculture: Tanzania

- Increasing population and growing land scarcity
- Decreasing land supply for farming areas around Kilimanjaro and surrounding regions
- Resulting increase in capital growth and settlements, displacing the poor
- Historical pattern of indigenous poor living off the land by utilizing land and water conservation methods, esp. around the Kilimanjaro, Meru, and Pare mountain regions
- Commercialization and settlements have forced these indigenous populations to find limited open land for agriculture

Land Use, Energy, and Infrastructure: Malawi

- Environmental impact from deforestation
- Fuel sources derived from indigenous wood stock, meeting demand for firewood used to heat score kilns that produce bricks for construction industry
- Majority of Africans use wood for energy due to inefficient electric power (Zingano, 2005)
- Only 6% of Malawians connected to electricity
- Electricity and Supply Commission is owned by government
- 93% of the population depend on firewood and charcoal for energy

Land Use, Energy, and Infrastructure: Tanzania

- Tanzania Electric Supply Company (TANESCO) is wholly owned by the government and provides 98% of the country’s electricity supply
- Biomass energy resource (fuel, wood, and charcoal from natural forests and plantations) account for 93% of total energy (Tanzania Country Assessment, 2001)
- Commercial energy (petroleum, hydroelectric, and coal) account for only 1% of total energy

Land Use and Infrastructure

- Economic significance of “infrastructure” means the creation of capital goods that carry a distinction of producing social benefits
- Social benefits: roads, ports, water utilities, hospitals, technology, transport, irrigation, and drainage systems
- Land transport facilities require large investments to establish economic development on the aggregate level (Tuma, 2001)
- Without proper road infrastructure, economic development slows down because of limited accessibility and capital growth

Land Use and Infrastructure: Malawi

- Rural infrastructure
- Limited accessibility for basic daily needs
- Worsened by rainy season
- Indigenous poor walk long distances for food sources and employment, using bicycles or trucks, mainly
- Inferior rural infrastructure prevents private investment and capital growth

Land Use and Infrastructure: Malawi

- Growth and Development Strategy implemented by President Bingo WaMutharika
- Promote and improve transport infrastructure by new construction and by rehabilitation of existing infrastructure
- Paladin Investment Mining (Karonga district): “corporate” has cited poor infrastructure as a major constraint in developing mines but is upgrading the 100km rural road
- Mtwara Development Corridor (US$6 billion investment from FDI): a spatial road to connect Malawi and Tanzania

Land Use, Settlements, and Subsistence Agriculture: South Africa

- Growth Employment and Redistribution Strategy (GEAR): greater agricultural, financial, and macroeconomic stability through open agricultural markets, privatization, and favorable investment climate
- Two-tiered economy consisting of upper middle class and a rural, lower class, presenting an economic stratification of a developed and undeveloped country
- Agriculture accounts for only 3% of GDP and 9% of formal employment
- Agriculture exports account for 8% of SA total exports

Land Use, Energy, and Infrastructure: South Africa

- Commercial forest industry: “best practices” in sustainable forest management and forestry certifications
- Three-quarters of commercial forestry is certified by the Forest Stewardship Council and ISO14001 certifications
- Electricity supplied to majority of rural areas, preventing deforestation environmental impact
- SA Government and ESKOM, electric company, are one of world’s ten biggest electricity generators, generating 95% for SA and exporting power to other surrounding African countries

Land Use, Energy, and Infrastructure: South Africa

- Modern and well-developed transport infrastructure
- Air and rail network largest on the continent
- Country’s ports provide commercial transition and trade between Africa and Europe, the America’s, Asia, and Australia
- OR Tambo International Airport in Johannesburg is Africa’s busiest airport and provides domestic and international transit to major destinations around the world

Conclusion

- Privatization and Land Usage trends in Africa provide a blueprint, of sorts, for analyzing private and public investment in Africa's emerging markets
- Case studies show that economic and legal risks have to be balanced against political and social concerns and practices
- Case studies further show a dichotomous relationship between developed and underdeveloped Saharan and Sub-Saharan regions
- Regional alliances and Partnership Forums have forged favorable investment climates for FDI
- World Bank and IMF Data, as well as investment indices, indicate significant private interest in doing business in African countries, in terms of risk management portfolios and emerging market analysis
- Investment in and improvement of rural infrastructure will determine the level and progress of private investment and capital growth in historically agriculture-based areas in which land usage must be shared with indigenous and poor populations