PRIVATISATION IN DEVELOPING COUNTRIES: LESSONS TO BE LEARNT FROM THE MOZAMBICAN CASE

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Introduction

Privatisation has become a key aspect of the restructuring and adjustment programmes advocated by the World Bank and IMF as a consideration for lending to developing countries.

Given this background, the present article will attempt to re-examine the mainstream concepts and approaches related to privatisation and suggest areas where there is room and need to include political and social factors, when building a suitable analytical framework for deregulation and denationalisation in developing countries. For this purpose, based on the experiences of the privatisation process within the small-scale fisheries sector in Mozambique, the article will highlight a variety of social relations that should be taken into account when planning and implementing such processes.

The Conceptual Framework

When talking about privatisation, one must be aware that basically this concept is made up of two notions: *deregulation of the economy*, ie transfer of decision-making on economic parameters like prices and import priorities from the state to the market, and *denationalisation*, ie transfer of the ownership of economic entities from the state to private agents.

In mainstream literature, privatisation tends to be treated as synonymous with denationalisation. In recent years this approach has been complemented by a more comprehensive approach which, along with deregulation, also relates to non-divestiture options. Still, the definition of 'privatisation' differs widely, at times referring to denationalisation and divestiture only, and at others referring to a much broader scope of instruments and reforms.

The Objectives for Privatisation

Various objectives for privatisation are found in the literature and in policy statements. In short, privatisation is seen as related to the fulfilment of two basic objectives: *public finance rationalisation* and the improvement of *economic efficiency*. Public finance rationalisation implies that privatisation is seen as a way of reducing government spending and net budgetary transfers, as the budget will no longer be burdened with expenditures related to state enterprises. Further, the sale of enterprises to private investors is expected to generate state revenue, thus allowing for the state's resources to be used in other areas or to reduce deficit spending. Improving economic efficiency by means of privatisation is an objective based on the hypothesis that the production of goods and services will be achieved more efficiently under private rather than public ownership.

Other objectives often formulated include divestiture, seen as a means of getting the private sector more involved in the economy; a way of developing local capital markets; a means of attracting foreign investment capital; and, freeing government administrative capacity from the management of enterprises towards other activities that only governments can perform. The extent to which these objectives might be met through privatisation is still widely discussed in the literature. To sum up roughly, it might be said that the theories leave us with no definite answers on whether these objectives will be fulfilled by privatisation. Empirical studies have shown that the objectives might be met in some cases and not in others, depending on a number of economic, institutional and political factors related to each privatisation.

Privatisation as a Set of Interrelated Changes

Privatisation is a dynamic process that is related to various changes within an economy. Thus, privatisation should not be seen within the context of denationalisation alone, but within a broader framework, including different forms of *marketisation* of enterprise operations. The question of ownership is central to any analysis of privatisation, but more than this, privatisation is related to numerous changes in the division between the state, the market and the enterprise in a given economy. Such changes can be divided into four: changes in the overall functioning of the economy (deregulation), ownership changes (denationalisation/divestiture), organisational changes and operational changes.

Deregulation

The first type is related to changes within the overall functioning of the economy. These changes imply that the economy is being deregulated, ie a transfer of decision-making on economic parameters like prices and import priorities from the state to the market. Such deregulation sets up the basic conditions for privatisation to take place, and through measures such as new investment laws and the abolition of price subsidies aims to create an enabling environment for its implementation. Deregulation normally constitutes a first necessary (but not sufficient) step in the privatisation process and, unless it is in place, there is an inherent risk that divestitures become an end in themselves without necessarily leading to the realisation of their objectives (Ramanadham, 1994). In numerous developing countries deregulation has been carried out within the framework of the structural adjustment programmes advocated by the World Bank and IMF.

Ownership Changes: Denationalisation and Divestiture

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

Popular conceptions of privatisation suggest that there is a clear and well-defined body of theory that explains the superiority of private over public ownership. However, as pointed out by Adam et al (1992:12), closer examination reveals that this is not the case. Rather, the economic arguments for privatisation rest on a number of hypotheses about the relationship between ownership, information and incentives, and their impact on market structure and performance. However, these arguments can be distilled into two main ideas: privatisation, it is argued, will enhance *productive efficiency* (ie it leads to lower-cost production) and *allocative efficiency* (ie it forces down consumer prices so that they are closer to the marginal cost of production).

In most cases a move towards a regime of freer competition will improve the allocation of resources rather than make it worse. But, as pointed out by Paul Mosley (1988:127), privatisation may not be necessary to bring about freer competition, and will only contribute to such an improvement to the extent that it is accompanied by legal and policy reforms that bring about freer competition.

Organisational and Operational Changes

Non-divestiture options have been given relatively limited attention in the literature and in public debate; still, such options have been widely used in many developing countries, often in a phase between deregulation and divestiture. Ghana, for example, has a two-phase strategy of privatisation: firstly, rationalisation and, secondly, divestiture (Ramanadham, 1994:2). Numerous other developing countries follow similar phase-strategies, underlining the fact that privatisation is a prolonged and dynamic process and not confined to ownership issues.

The operational measures related to marketisation of enterprise operations include different changes or reforms in the functioning of the state enterprises, eg restructuring, rationalisation of government controls, incentive rewards and investment criteria. The organisational measures - equivalent to a privatisation of management - include options such as leasing and management contracts, corporatisation, creation of competition and changes in company holding structure. None of these measures involves ownership changes but aim at creating more efficient enterprises through reforms of the operational and organisational set-up of state enterprises; such measures are closely related to the deregulation of the economy as such, creating an enabling environment for the enterprises to carry out market-determined behaviour. It is important to bear in mind that in the real world privatisation involves numerous measures, and that the analysis of such processes should not be confined to divestiture.

Privatisation: the Role of the World Bank and IMF

In this section, the role and experience of the World Bank and IMF in the privatisation processes of developing countries will be discussed. Looking back at the experiences of World Bank programmes during the past ten years, deregulation has been dominant as a policy instrument compared to denationalisation. Since the early-1990s, however, the Bank has increasingly stressed the need for denationalisation and advocated private ownership as an instrument for development.

The *World Development Report 1991* discussed a more market-friendly approach to development, and subsequent studies from the Bank have highlighted the positive economic gains involved in the shift in ownership from the state to private sector. Thus, a comprehensive World Bank inquiry based on empirical studies of privatisation in the UK, Chile, Mexico and Malaysia concluded that privatisation in these countries have yielded important gains, and the findings show that ownership does matter (Galal et al, 1994).

Further, in a comprehensive study from 1995, the World Bank assessed the results of structural adjustment programmes in 29 African countries (World Bank, 1994:103). It concluded that the available data on public enterprises is sparse and disappointing, showing no significant reduction in these enterprises, little improvement in their financial performance, unacceptable returns on government investment, and inability to meet the demand for cost-effective, efficient provision of public utilities. Divestiture was proceeding slowly among small and medium-sized firms and scarcely at all among large enterprises. Further, the study found that non-divestiture reforms, such as performance contracts, have not been effective generally in improving the performance of enterprises, and have diverted attention from more fundamental reforms, such as divestiture. The study also found that evidence from Africa reinforced the conclusion that ownership does matter - Kenya and Tanzania showed significantly increased productivity in private enterprises, while productivity and output declined in large state enterprises.

The study suggested that there is an urgent need to rethink the approach to reforming the public enterprise sector in Africa. How this should be done is not answered specifically, but suggested the focus should be on divestiture rather than budget constraints and deregulation.

Thus, increasingly the Bank is emphasising in its policy papers the need for divestiture measures, as deregulatory measures have yielded few results. Generally, studies and policy recommendations made by the Bank tend to focus on privatisation aspects within a macro-economic context, with less attention being given to the more concrete and 'practical' issues of privatisation (especially denationalisation) and the actual carrying out of such a process. Further, privatisation tends to be regarded as a universal panacea that any country will benefit from, with little reference to the specific economic, political, social and cultural preconditions prevalent in each country, which might affect the result of the privatisation.

In view of the lack of clear, undisputed empirical and theoretical evidence of denationalisation as a panacea for economic and allocative efficiency, and given the insufficient attention paid to social and political issues in the Bank's privatisation programmes, one might be sceptical of the positive outcome and gains of any hasty privatisation efforts. Although the Bank's emphasis on denationalisation is predicated on grounds of economic efficiency, the underlying ideological arguments in favour of denationalisation should probably not be underestimated, giving some credibility to the often expressed view that the Bank sees privatisation as a goal in itself rather than strictly as a means to improve economic efficiency.

Current Experiences with Privatisation in Developing Countries

Empirical studies of privatisation have increased in recent years, reflecting the rise in the number of countries where privatisation programmes have been implemented. The main findings from three major empirical studies of privatisation in developing countries are presented below. These studies have been selected because of their impact on the privatisation debate, because they focus on the more conceptual and generic issues related to privatisation, and their conclusions are based on a large number of comprehensive country-studies.

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

Conclusions drawn from case studies in nine developing countries, Adam et al state that the options for and value of privatisation as an active adjustment policy have been found to be severely limited by a number of constraints. These include: lack of capacity for efficient and credible regulation, small capital markets with little absorptive capacity, and attempts to make political capital from privatisation by governments in countries characterised by narrowly-based private sectors with high levels of effective production and widespread domination of many sectors by state-owned enterprises. The study concludes that the lifting of these and other constraints represents a goal of the development process in general, rather than an impediment to the privatisation process in particular. Not surprisingly, the countries with the most successful programmes (Jamaica and Malaysia) are far more 'developed' than those where the programmes failed (Kenya, Sri Lanka, Malawi and Papua New Guinea) (Adam et al, 1992:95).

Paul Mosley finds that failures in implementation have been more common in the case of outright and partial privatisation than in financial reforms carried out within state enterprises. As a result he concludes (1988:138) that since privatisation is often not necessary from an economic point of view, the Bank might be well advised to advocate that state enterprises increase efficiency by stimulating competition or through reforms, rather than by outright divestiture.

A similar point is made in Ramanadham where case studies of 13 countries show that constraints generally experienced in undertaking rapid and large-scale divestitures have prompted governments to take seriously measures that improve performance through non-divestiture options; many of the least-developed African countries are this category. His study concludes that the argument that reforms do not work and that ownership change is a necessary condition for performance improvement warrants rigorous circumspection today, thanks to the inviolable pressures of the IMF on the public exchequer of developing countries (Ramanadham, 1994:335).

The summary of the findings from the case-studies lists a number of constraints related to the privatisations. An important conclusion relating to privatisation in Sub-Saharan Africa is that in countries where a majority of public enterprises have generated poor profits it is because of the difficulties in attracting private investors and these concerns are not sufficiently viable economically to survive without the protection of the state. This is seen as a justification for restructuring an enterprise prior to divestiture, if the restructuring is calculated to put it on the road to viability.

One general conclusion to be drawn from the case studies is that denationalisation *per se* has not been found to lead to any noticeable increase in either productive or allocative efficiency. Another general conclusion is that the creation of competition between different economic entities is a crucial factor in enhancing efficiency, emphasising the point that divestiture should be studied within the framework of numerous non-divestiture measures in the privatisation process. However, as the divergence between World Bank studies and the studies mentioned in this section demonstrate, there is still widespread disagreement on what are the lessons to be learnt from such case studies and what precisely are the effects of privatisation in developing countries.

Social and Cultural Factors

This presentation of mainstream theory and empirical analysis on privatisation indicates that the issue is generally seen as forming an integral part of *economic* theory and 'economic man' rationality. Thus, an underlying assumption linked to mainstream thinking on privatisation is that a certain rational economic behaviour is embodied in the productive activities undertaken by the agents involved. According to this thinking, economic agents first and foremost attempt to maximise the profit obtained from the activity (rent-seeking behaviour). Privatisation is seen as a means to provide economic agents with an appropriate framework, enabling them to fulfil their rent-seeking interests for the benefit of the economic agent as well as the economy at large. However, we would argue that even though rent-seeking behaviour does exist within all institutions and societies, it takes different forms in different societies. Social and cultural conditions and relations thus influence the behaviour of economic agents and the specific form and character that their rent-seeking behaviour will take. Consequently, to a large degree the outcome of privatisation attempts will be defined by the specific patterns of rent-seeking behaviour found in the socio-cultural context.

How behaviour and institutions are affected by social relations is one of the classic questions of social theory. Much of the utilitarian tradition, including classical and neo-classical economics, assumes rational, self-interested behaviour affected minimally by social relations. As pointed out by Mark Granovetter (1985), at the other extreme lies what he has called the argument of 'embeddedness', ie that the behaviour and institutions to be analysed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding.

Granovetter finds that it has long been the majority view among sociologists, anthropologists, political scientists and historians that economic behaviour was heavily embedded in social relations in pre-market societies but became more autonomous with modernisation. This view sees the economy as an increasingly separate, differentiated sphere in modern society, with economic transactions defined no longer by the social or kinship obligations of those transacting but by rational calculations of individual gain (Polanyi, 1994; Pearson, 1957).

Few economists have accepted this conception of a break in embeddedness with modernisation; most of them assert that embeddedness in earlier societies was not substantially greater than the low level found in modern markets. This position has recently received fresh impetus as economists and other social scientists have developed a new interest in the economic analysis of social institutions - much of which falls into what is called 'new institutional economics' - and have argued that behaviour and institutions previously interpreted as embedded in earlier societies as well as in our own, can be better understood as resulting from the pursuit of self-interest by rational, more or less atomised individuals (eg Williamson, 1985).

In contrast, Granovetter suggests that while the assumption of rational action must always be problematic, it is a good working hypothesis that should not easily be abandoned. What looks to the analyst like non-rational behaviour may be quite rational when situational constraints, especially those of embeddedness, are fully appreciated. When the social situation of those in non-professional labour markets is fully analysed, their behaviour looks less like the automatic application of 'cultural' rules and more like a reasonable response to their present situation. That such behaviour is rational or instrumental is more readily seen, moreover, if we note that it aims not only at economic goals but also at sociability, approval, status and power.

In terms of the objective of this article, we find that the empirical and conceptual arguments point towards the same position, ie that when considering privatisation in developing countries, analysis is needed of the economic self-interest of the parties involved, in relation to their social situation. This position can avoid the pitfall of the World Bank's under-socialised approach, which does not properly take into account existing forms of social relations, as well as an over-socialised approach, which neglects the notion of economic self-interest within the understanding of social relations. The case study of privatisation in the small-scale fisheries sector in Mozambique illustrates the importance of combining social relations analysis with economic analysis.

The Privatisation Process in Mozambique

Among the candidates for a case-country, Mozambique seems to be of particular interest. Firstly, most empirical studies on privatisation in the Third World have tended to focus mainly on privatisations taking place in better-off developing countries and those of very large public enterprises. Therefore, it is of special interest to examine privatisation in a low-income country with an enterprise structure characterised by few and small-scale entities, as is the case in many countries in Sub-Saharan Africa. Secondly, privatisation in Mozambique is an extensive process, signifying a transformation from a command-type economy, where the state is involved in most productive activity, to a market-dominated economy where the role of the state in the productive sphere is expected to become marginal.

Thirdly, Mozambique since 1987 has undergone a process of privatisation that all along has included deregulation as well as denationalisation. The two processes of interest for our analysis can therefore be highlighted through the choice of Mozambique as case-study. Finally, the privatisation policies in Mozambique to a large extent have been set up under the influence of the international donor community, notably the World Bank, as part of its structural adjustment programmes. The role and influence of the World Bank in Mozambique's privatisation can thus be expected to be relatively extensive compared to countries less dependent on foreign aid.

The Economic Recovery Programme (PRE) was initiated in 1987 and has led to the liberalisation of prices, a continuous devaluation of the local currency and cuts in the state's expenditures. This led to a severe drop in the purchasing power of Mozambicans, and to a worsening of the terms of trade, especially for producers selling to the local market. PRE also paved the way for greater involvement of the private sector in the economy on behalf of the state, which was seen as a way of diminishing public expenditure on non-profitable economic activities and of increasing production through the activities of more efficient private agents. The liberalising of the economy and increased private participation in the production process are basic deregulation measures that constitute the overall framework for the denationalisation of Mozambican state enterprises.

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

The process of transforming statal entities to private ones has been intensified gradually since 1989 when a legal framework for privatisation was introduced; however, it was not until 1991, when a new set of laws was introduced, that objectives for privatisation were formulated. The objectives for the privatisation of statal enterprises include goals such as increasing the level of technology and the capacity of the labour force; raising the quality of products; raising the export earnings; opening up financial markets; and creating income for the state. It is emphasised that all privatised entities are to keep their existing labour forces.

However, by the mid-1990s no long-term strategies or time schedules for the ongoing process seem to have been formulated, and no explicit definition of the state's role within the new joint ventures has been made. Neither is it clear what will happen to the state's portion of the shares, ie for how long the state will keep the shares, and to whom the shares willl be sold eventually. Thus, the privatisation process has not followed any overall strategies, but has been carried out on a mainly case-by-case basis by individual ministries and secretariats. On the one hand this has allowed a certain flexibility for the parties most involved to carry out the privatisations, but, on the other, has raised complaints that the process has not been transparent and retained in the hands of very few people.

The Mozambican economy has undergone significant changes since 1987, and PRE opened the way for its liberalisation. But it is still too early to judge the effect of the privatisation process on denationalisation and the increased participation of private agents in economic activities. Overall goals for the privatisation process have been set by the government, but at the same time there seems to be a lack of clear perceptions on what is to be the future role of the state vis a vis private agents. This goes for the short-term as well as the long-term implications of the process.

The severe crisis facing the economy has hampered private involvement, and no supportive measures have been taken to facilitate private investment. Other problems related to the process have been the lack of well-defined strategies, leading to a rather random process, and a lack of supportive instruments - such as credits - to help the newly privatised enterprises *(Economic Intelligence Unit*, Country Report for Mozambique, Unit 4, 1992; *Economia* 17, 1993). New investment laws may encourage increased foreign and national investment, but the national entrepreneurs will have their difficulties resulting from a dearth of accumulated capital and access to credits.

Privatisation within the Small-scale Fisheries Sector of Mozambique.

In this section, a case study of privatisation efforts within the small-scale fisheries sector is presented to give an example of how the process is carried out in practical terms in Mozambique. The findings of this case study are not sufficiently substantial to provide general conclusions on the overall privatisation process, but nevertheless this study is illustrative and includes findings that are of general interest for the study of privatisation.

The impact of PRE on the Small-scale Fisheries Sector

The recovery programme and liberalisation of the economy has had its prime impact on the terms of trade within the sector, with a notable decline between the sale of fish and the buying of equipment needed for fishing constituting one of the main constraints. Other effects have been the decline in state investment in infrastructure and in the range of subsidies to the sub-sector.

PRE paved the way for increased participation of private agents within the sub-sector, but their opportunities have been hampered by a fall in the purchasing power of consumers, a rise in the price of inputs and the decline in state support. To a certain extent this seems to be an inherent paradox connected with privatisation - at least in Sub-Saharan Africa. Liberalisation on the one hand makes possible the increased participation of private agents within the economy, while the economic consequences of this on the other hand set up barriers for the involvement of more private agents within the sector, at least in the short term.

The Institutional Framework

The privatisation laws of 1989 gave impetus to the process, and this - together with the government's wish that the private sector should participate more in economic activities (and take over from the state) - led the Mozambican fishing authorities to regulate its activities accordingly. The State Secretariat for Fishery (SEP) created two new institutions: one to be in charge of training and extension services within the small-scale fisheries sector, and one to be in charge of the privatisation of the Fishery Support Stations (*Combinados Pesceros:* CPs).

No overall guidelines or strategies were formulated as to how - and with what means - the privatisation process within the sub-sector should be carried out, and no defined perceptions on what was to be the future role of the state and of the private agents were formulated either in SEP or in the other institutions involved.

Privatisation of the Fishery Support Stations

For some years the CPs had gone through a gradual process of reduced activity and in 1990 were in a generally degraded state. Furthermore, the institution in charge of the privatisation was handicapped by lack of knowledge of the functions and experiences of the private economic agents in Mozambique.

The privatisation of the CPs was to take place through leasing out, the establishment of joint ventures, or the sale of CP facilities but the process has been very slow. Up to late-1995 no private investment capital had been put into the CPs. Instead, efforts have been characterised by activities aimed at making the companies more acquainted with competitive mechanisms of a market economy rather than instituting direct private ownership.

The arrangements with private agents in the early-1990s consisted of Management Contracts (*Contratos de Cessão de Exploracão*), which for two to three years, and for a modest fee, put the private agent in charge of the operation and management of the assets of the CPs. By the end of 1993 eight of these contracts had been initiated. These state the intent of the partners to set up a public company (*sociedade por quotas*), carried out on the basis of a feasibility study by the private agent that defined the terms and conditions of the new company. However, no feasibility studies have apparently been done so far and no new companies formed.

In 1991 a major study of the CPs was undertaken (CASA, 1991). This included an analysis of the legalisation of CPs. The study provided a detailed description on how this could take place, but none of the CPs has been legalised apparently. The study also evaluated the assets of CPs, but these valuations have not been used, the figures have become outdated and fresh valuations will be needed if new companies are to be set up. On the evidence so far this seems unlikely.

Private agents operating CPs are contractually obliged to continue their activities,which include help for small-scale fishermen, the commercialisation of fishing, and the keeping of the station in good condition; furthermore, they are obliged to keep the existing workforce. So far these obligations, as well as the financial ones, have been taken very lightly by private agents; only three have paid the fee for the right to operate the stations, and the process of gradual degradation of the installations and functions of CPs has continued, with a limited level of action within the CPs.

On this basis, it must be concluded that the privatisation of the CPs has not reached its goals of setting up new companies and of having the CPs maintained and operated to provide services for the fishermen. The limited financial and human resources within the institution in charge of the privatisation has prevented results so far. Nor is there any means of sanction for non-fulfilment of the contracts, unless the institution rescinds the contracts, which has not happened.

Crucially, there has been lack of interest from private agents in the running and development of CPs. Criteria were initially set up giving preference to private agents in the form of associations of fishermen, and to private businessmen with long-established records in the fisheries sector. But none of the specific criteria seem to have been used in the 'recruiting' process, with the final selection based more on subjective factors than objective considerations.

The private agents holding management contracts are a mixed grouping, but generally they have not had much experience of the sector, nor the capital to undertake reinvestment, and no long-term interest in the development of fishing activities. Rather, they seem generally to have shown more interest in the prestige and local power related to the control of CPs and its assets, rather than in securing future income via investment.

The type of contract might have a negative effect on the level of investment in CPs as the private operators do not own the facilities, so in the case where no new contract or company is set up after the end of the first contract any investment that was made benefits the present owner, which is the state-owned holding company in charge of the privatisation. So far, the only privately operated CP that has been described as being administered satisfactorily is at a fishery support station where concession rights were given to a company in the fishing industry, which seems to have the will and resources to run the CP. Stricter selection criteria and a more in-depth search for partners in a transparent process could have facilitated contracts that could bring new dynamics into the CPs and the local fishing community.

The future looks bleak as CPs run down, becoming even more expensive to restore and more unattractive for serious private agents. The enabling institution does not have the means to rehabilitate the stations and it seems doubtful that donors will be willing to put further funds into the CPs. New privatisation methods have been discussed, but no fresh methods or concepts have emerged, except in a single case where equipment is being leased to a number of private agents.

Privatisation of By-catch Vessels

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

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

The *mestres* have much experience in fisheries, but none in management and do not possess accumulated capital. Basing the privatisation on the producers who are directly involved makes the process smoother than might otherwise have been the case. But it can hardly be expected that *mestres* will make investments and become participants and initiators in a dynamic economic process based on private initiative and entrepreneurship.

The *mestres* are accustomed to sharing the produce with the crew under a traditional 'catch-sharing' system, have no experience of acting as 'capitalists' or of administering salaries, amortisation etc. In the second quarter of 1993, only two of the six private operators made their payments according to contract. The vessels have faced numerous technical problems before and after the introduction of private operators, and at this stage it is not possible to draw any conclusions on the extent to which private operators have influenced productivity. The privatisation process of by-catch vessels is still in its early stages. Leasing contracts, committing operators to sell their catches to fishery stations at fixed prices, do not imply a significant change in existing productivity relations, and it cannot be seen as a form of privatisation that opens up new dynamics in local communities. Lack of capital and skills inhibits privatisation, which is unlikely to generate new economic structures or activities in the near future.

Privatisation of Open-sea Fishery Boats

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

Here, too, the lack of a productive culture within the local community, the lack of any tradition of capitalist accumulation and production methods, and the very limited finances of the operators mean that fishing income is often used for consumption instead of being saved or used to pay the leasing fee.There have been many problems with the boats (motorised vessels 8.5 to 14 metres in length) being in bad shape and badly maintained so that they are often non-operational, underlining the negative impact of the operators' lack of technical and managerial skills.

There have been other problems with the operators not fulfilling obligations by selling catches in Maputo, where prices are much higher than at the local fishery station to which they are contractually obliged to sell. This is an inherent problem with the contracts, which actually hinder operators trying to act as independent, rent-seeking economic agents. It contradicts a basic goal of privatisation - namely to initiate a long-term economic restructuring based on the rent-seeking activities of private economic agents aiming to maximise the return on the assets over which they have control.

Lessons learnt from the Mozambican Case Study

As has become clear privatisation in Mozambique between 1987 and 1995 has primarily been characterised by activities to make companies better acquainted with competitive mechanisms within a market economy rather than to institute direct private ownership.

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

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

A focal problem at both national and sub-sectoral level has been the dearth of defined strategies to achieve privatisation goals, and how these should be implemented. There seems to be no clear perception of what is to be the role of the state and what the role of the private agents under privatisation, and what will be the long-term economic and social consequences of the process.

Economic Factors

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

Irrespective of this, the direct agents involved in the privatisation process, ie the holders of CP contracts, the boat *mestres* at Inhaca and at Ilha Moçambique, all demonstrated traditional profit-seeking behaviour in that they try to maximise their return on the assets, over which they now have a certain control. Hence, the contract-holders of the CPs tried to maximise the income of the prawn-exploitation rights and the *mestres* attempted to sell at the most favourable price by avoiding the low prices offered by the state. Hence, in economic terms, they acted as they would have been expected to by the norms of neo-classical textbooks.

Political Relations and Alliances

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

Overall, the 'political mentality' of government and state institutions has to undergo drastic transformation as the role of the state vis a vis private agents is altered. It should be borne in mind that the same people who believed so strongly in the role of the state in the economy are now working to diminish the state's role. The fact that to a large extent the privatisation process has been forced on Mozambique by the international donor community is a factor influencing the process - it mày well have activated political and institutional resistance to the process.

All these constraints naturally have had - and will continue to have - a negative impact on the operations of private agents within the small-scale fisheries sector. But, a number of issues related directly to the implementation of the privatisation within the sub-sector has further complicated the process. So far none of the privatisations has included any investment of fixed capital by the private agents so that operating the boats does not involve them in economic risk. If the private agents had more of their assets involved in operations, one might expect more effort to be put in.

In addition, the contracts set up barriers for the private agents to operate in the way that they find most opportune. It must be a goal of the privatisation process to prevent rent-seeking activities by private agents, and contracts that inhibit such behaviour are questionable. To a large extent the problem here seems to stem from the lack of clearly defined strategies on what are the goals of the process.

Cultural and Social Relations

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

Firstly, labour relations were not understood by the persons involved as wage-earner versus employer negotiations for a certain daily or weekly fixed salary. On the contrary the daily catch was divided between the fishermen in the following manner: all received a certain portion of fish for their household and, where a motorised boat was used, extra fish were set aside to pay for diesel and oil. Following this, one-third of the remaining catch was given to the crew, one-third to the captain, and one-third to the owner of the boat.

Secondly, although the above system facilitated a renovation of assets in that the owner received one-third of the catch for savings and investment in the boat, this was clearly not the background of the *mestres* appointed as future boat-owners. For this group, the share was spent meeting the daily needs of the family - saving their share for future investments was not part of their culture. Finally, with regard to the CPs, it was seen that the new managers were more interested in the status that control of the assets gave them within the local community rather than in securing future income via investments.

A lesson to be learnt from this case study is that a change in ownership relations does not automatically lead to a shift in the way the productive relations are organised. Thus, the way in which productive activity is organised is not founded on strictly economic grounds, but also rooted in social relations, as evidenced by the example of catch-sharing. When setting up privatisation schemes, a thorough analysis of the prevailing cultural and social relations in the local community should be undertaken, along with an analysis of the organisation and nature of the relevant productive activities. The findings should be incorporated at the implementation stage otherwise the results might prove different to those that were initially expected.

Thus, what looks to the analyst like non-rational behaviour may be quite rational when situational constraints are fully appreciated. When the social situation of those in non-professional labour markets is fully analysed, their behaviour looks less like the automatic application of 'cultural' rules and more like a reasonable response to their situation. That such behaviour is rational or instrumental is more readily seen, moreover, if we note that it aims not only at economic goals but also at sociability, approval, status and power. Thus, when investigating privatisation in developing countries analysis is needed of the economic self-interest of the involved parties considered in relation to their social situation.

When relating this to the studies referred to in this paper, we find that political and social factors are seen as *constraints* to privatisation, rather than as fundamental conditions to which the process must be adapted. Thus, the lack of success of privatisation at certain times is explained with reference to a lack of political will and commitment in the public sector to implement such measures.

However, seeing the lack of political commitment simply as a constraint is too simple. Firstly, the lack of political commitment might be an indication that the privatisation programme - especially if set up as a result of pressure from the international donor community - is not sufficiently based on the political conditions and realities in a given country. Secondly, privatisation can be expected to affect the sharing of power between different interest groups inside and outside the public sector. This will not only affect the pace and success of the privatisation, but, more fundamentally, also affect the political structure with possibly unwarranted consequences. Thirdly, it is important to keep in mind that the political base, structure and culture of a given African country is markedly distinct from that in any Western country, leading to different impacts and reactions to privatisation..

Much the same can be said about the cultural and social aspects related to privatisation - lack of an enterprise culture; social and cultural perceptions not geared for private enterprise operations; and tribal or ethnic discrepancies that bar certain groups from participating in a privatisation. At times such observations are referred to as constraints affecting the pace and success of privatisation. But we would question whether it is the pre-conditions of the privatisation programme that do not fit with the cultural and social pre-conditions, or whether it is the socio-cultural pre-conditions that do not fit with the programme. The latter perception seems to be predominant, albeit not explicitly formulated, in mainstream economic theory on privatisation, which is based on fundamental assumptions of specific behavioural patterns and 'economic man' rationality that might not always be prevalent in cultures other than those where the theories were originally formulated.

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

NOTE

1. It also bears some obvious relation to Marxist thought.

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