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## **Privatization for Development**

### Introduction:

No matter how much the government wants to do it alone, how much the government thinks it can do it alone, the government must realize that this is not very feasible. By government I mean governments all over the world, especially governments in Africa and the developing world. There is an Akan proverb from Ghana that says that when you take a single broom stick, it cannot be used to sweep and it breaks easily, but if you put several of them together, they become useful and they don't break. It makes very little sense for any organization not to seek help when they have failed at some of the things they are supposed to do.

Many African governments have failed to provide reliable education, health care, transportation, clean water and other necessary social amenities. One of these vital social amenities is Information and Communication Technology (ICT) which this class focuses on. For any government that still has a monopoly on any of these industries, and is not able to provide satisfactory service to its citizens, it would be in its best interest to seek help, for example by privatizing, if it is really concerned about the interest of the people.

### General Background:

This section provides information about privatization of government owned companies in Ghana. It provides insight into the general issues of privatization without emphasis on ICT. A detailed look at privatization in the Ghana's ICT sector is on page three..

Ghana was a British colony. During the days of colonization, the British colonial government ran all the government agencies and companies. After independence in 1957, the government of Ghana took control of running these government owned enterprises. Like many African countries, Ghana has not had a very stable political history. Nine year after gaining independence, Ghana experienced its first military over throw of government. Three more were to follow until the first democratic change of government in 2001. Even given enough resources and qualified persons, running government enterprises would be difficult in politically unstable countries.

In 1988, the military government of Ghana established a Divestiture Implementation Committee (DIC) to privatize approximately 350 government owned companies. The government made this move under pressure from the IMF and other world economic organizations. Majority of these companies were in the agriculture and mining industry, but there were also some in the hospitality and communication industries. Most of these 350 state owned companies were making losses, and about a fifth of loans the government received were used to pay for these companies to stay above water. Many of these

companies were over-staffed by people who had no incentive to work hard, and crippled by bureaucracy and under-funding. Many government owned enterprises all over the world face varying degrees of these problems.

In Ghana, a lack of technical expertise and poor management meant that many of these companies were not operational and were a serious drain on limited government resources. In all, over forty of the 350 government owned companies were liquidated by the DIC. However, many of the government owned enterprises were successfully sold off to the private sector or partially had some of its shares sold on the stock exchange.

### Some benefits of privatization.

There are many great turnarounds success stories from the enterprises that the DIC managed to privatize. Investors from Germany bought and invested \$15 million in West African Mills, a cocoa bean processing company. Its output increased drastically and it began hiring more local people. In the mining sector, the gold and diamond mines in the western part of the country were all divested and have become more efficient. The Tema Steel Company for instance had already stopped operations before it was successfully taken over by foreign investors.

The biggest privatization deal of all, which is also Africa's biggest privatization, took place in 1994. The Ghana government sold over 50% of its stake in Ashanti Goldfields Company (AGC). This brought the Ghana stock exchange to life and made it the third biggest stock exchange in Africa. Other companies privatized include Ghana Agro-Food Company, the Coca Cola Bottling Company and Ghana Oil Palm Development Company. Other companies the DIC intends to divest are Ghana Insurance Corporation, the Electricity Corporation of Ghana, Ghana Railways, Ghana National Petroleum Corporation (GNPC), and the most controversial of them all, the Ghana Water Works. A regular supply of electricity and clean water is not guaranteed in some parts of the country, and passenger rail service is non-existent.

According to Benson Poku-Adjei, Executive Secretary of DIC, "the transfer of state-owned enterprises to the private sector means that the government is freer to concentrate on vital areas such as education and health services." Selling loss making government owned enterprises provides government with immediate cash it can use to solve other problems in the country. In his own words, "the time is ripe for foreign investors to assist us..."

### Opposition to privatization

Waste and lack of checks and balances in state owned companies present an opportunity for government officials and the CEO's of these companies to misuse the public resources they manage. Although this problem can be easily solved by privatization, government officials who are only interested in their private gain are usually against privatization. Even if they are forced to privatize the state owned organizations they run, it is not always very transparent.

Privatization almost always involves foreign investment and foreign expertise or management. This is one aspect of privatization that concerns many local people who are extremely committed to and believe in using local resources for development. Many people are not very excited about foreigners taking over local businesses and local jobs. The influx of foreign business owners and managers may pose the risk of creating tension between the locals and the newcomers. This is especially true if the industry or company being privatized is critical to national security or is of some national sentimental value. This is worsened if the investors involved are from a country that is not considered to be friendly with the host country. A good example of such a situation is when the US government tried to hand over some port operations to a Dubai firm.

Naturally, many people prefer stability to change. People are sometimes opposed to privatization because of the change, sometimes unpredictable, that it may bring about. Among these possible changes is the loss of jobs and change in the local culture. One of the biggest changes however is the possible increase in the prices of the products of the industry or company involved. The possibility of privatization of water generated a lot of debate in Ghana. Lots of Ghanaians were afraid that a private company, which is only interested in making as much profit as it can, will charge more than the average Ghanaian can afford for water. This situation also applies to any case of privatization in which the investor will potentially have monopoly over the industry in question, or supplies a very important social good such as water and electricity.

#### Privatization in Ghana's ICT sector

The opening of the broadcast sector to private companies in the early 90's was a major turning point in the fortunes of Ghana. Ghana Broadcasting Corporation was the only entity that operated television and radio stations in Ghana. The mid 90's saw the establishment of many radio stations, newspapers and a few television stations. This made it easy for public access information and harder for the government to censor information.

Perhaps the best improvement that Ghanaians experienced was in the way they communicated with each other and their friends abroad. Before the early 90's, the state owned Ghana Post and Telecommunication Corporation (GP&T) was the only company in Ghana that handled postal and telecommunication services. In 1994, only three in a thousand people in Ghana had access to a phone at home. Over 80% of these phones were found in urban homes, and about 53% of them alone in Accra, the capital city.

These unpleasant figures were not the result of a lack of demand for telecommunications services. Before GP&T was privatized, there existed many "communication centers" all over the country. These are businesses that charge people per minute to use phones and faxes. They also offered secretarial services alongside the communications business. To make a call, one had to go to the a local communication center and be charged more than GP&T charged its customers. Hence, demand was certainly not the problem. In 1988, the world bank and other partners provided Ghana with \$173 to invest in the telecommunications industry. Money shouldn't have been a problem either.

In 1995, GP&T was split into two companies to promote efficiency and effectiveness. The

two entities were Ghana Post and Ghana Telecom. Ghana Telecom was sold to a Swedish investor. Ghana Post continued to remain public. In addition to privatizing Ghana Telecom, two other telecommunications companies were licensed to operate in Ghana. A regulatory body, the National Communications Authority (NCA) was established to oversee the telecommunications industry in Ghana.

This also paved the way for mobile phone operators to begin operation in Ghana. Millicom Ghana Ltd. which had been already registered in 1993, started operations in 1995. Scancom and Celltel also entered the market in 1995. In 2001, Ghana Telecom had already developed its own mobile phone service. Soon enough, internet service providers had started operating in Ghana. Network Computer Systems (NCS), Africa Online, Internet Ghana Ltd and Ghanaclassifieds were the pioneers, but currently there are 46 internet service providers registered in Ghana. Opening up the telecommunications industry in Ghana didn't just bring mobile phone services and internet services into the country, it also dramatically increased the number of people with access to a telephone. In addition it improved the quality of telephone services in Ghana. The tables below present the picture in another way.

**Table 2: Pre-Licence Installations of Fixed Lines and Payphones by Ghana Telecom, 1994-1996**

Phone Type	YEAR			Total Existing Lines, 1996
	1994	1995	1996	
Fixed Lines	1,300	13,100	14,800	77,900
Payphones	1	1	426	453

Source: Adapted from Frempong, 2002

**Table 3: Post-Licence Installations of Fixed Lines and Payphones by Ghana Telecom, 1997-2002**

Phone Type	YEAR						Total for Exclusivity period
	1997	1998	1999	2000	2001	2002	
Fixed Lines	27,600 (25,000)*	36,082 (50,000)	26,204 (50,000)	46,080 (50,000)	45,874 (50,000)	39,065	181,840 (225,000)
Payphones	30 (300)	1,332 (300)	1,229 (300)	134 (300)	1121 (300)	699	3846 (1,500)

Source: Ghana Telecom, Accra

\* Figures in parentheses are the expansion targets in the operational licence for the period of exclusivity.

**Table 6: Quality of Telephone Service, 1992-1998**

Performance Indicators	ITU Standard	Yearly Performance			
		1992	1994	1996	1998
1. Call completion Rates (%)					
Local	90	54	74	83.3	81.7
Trunk	90	43	52.2	70.3	65.5
International out-going	80	51	45.2	64.5	67.6
International in-coming	80	25	14.4	30.3	60.7
2. Fault per 100 lines per year (%)		159	176	86	---
3. Average Down-Time (days per line per year)	5	30	9.2	6.5	---

Source: **Ghana** Telecom, Accra, as in Frempong, 2002

### Policy strategy and conclusion

Whenever a sector of the economy, for instance ICT, is not operating at its optimum level, the government should be willing to acknowledge this fact and seek help from the private sector. The examples from Ghana show that there is much to be gained from privatization. But before any government rushes into privatizing its companies, it should first look at some of the problems that privatization can bring. Some of these problems are the "Opposition to Privatization" section. The government should make sure that it doesn't get itself cheated by an investor in the haste to sell off a government property that is of little value to the government. It should also not give away control of a company which is a monopoly in its industry, without providing appropriate regulations to the investor.

Although privatization may sometimes sound like selling away a country, it is in most situations the best solution to the problem of inefficiency, mismanagement and lack of resources. In the end, the people of the country enjoy less benefits from a non operational loss making government owned firm than from an efficient privately owned firm.

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