



TOWARDS SURVIVAL OF STATE OWNED ENTERPRISES IN SUB-SAHARAN AFRICA: DO FISCAL BENEFITS MATTER?

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Abstract

State Owned Enterprises (SOEs) have for many decades delivered essential goods and services in both developed and developing economies. However, in recent times, a majority of SOEs have become a drain on national budgets in many developing countries, partly as a result of poor investments and various structural problems. While the Washington Consensus thought that privatization was going to provide the needed solution through fiscal benefits, the results have largely proved elusive in developing countries. This paper assesses the extent to which fiscal benefits could determine the survival or privatization of SOEs in sub-Saharan Africa. It also examines the nonconventional factors that mitigate against privatization of failing SOEs in these countries. The World Bank's World Development Indicators for 2018 were the main source of data for the study. A Binary Logistic Regression Model was estimated for the survival of SOEs in a representative sub-Saharan Africa country with substantial experience in development partner induced privatization. The results show that fiscal benefits do not significantly influence SOEs surviving privatization efforts. Real lending rate, inflation rate, and a combined effect of mismanagement, corruption, political and external influence significantly influence SOE survival. Economies of sub-Saharan Africa will have to refrain from privatizing SOEs for short term fiscal benefits and rather concentrate on significantly reducing

mismanagement, corruption, political and external influence. Also, managing and assessing SOEs mainly by financial performance must give way to more inclusive management and assessment, which can secure sustainable benefits for SOEs in sub-Saharan Africa.

Keywords: Fiscal benefits, External factors, Ghana, Privatization, State-owned enterprises, sub-Saharan Africa

INTRODUCTION

Most economies in sub-Saharan Africa devote substantial amounts of their annual budgets to keep SOEs alive. These SOEs were considered economically essential mainly after the countries obtained political independence, for the production of public goods, particularly infrastructure, health and education. This was intended to spur on the quest for accelerated development under government supervision. However, in recent times, a majority of the SOEs have become a drain on national budgets in many developing countries, partly as a result of poor investments and various structural problems (Agenor and Montiel, 2015).

Privatization, in many cases, has become an attractive way to help cope with fiscal deficits, much of which accrued from state support to failing SOEs. Privatizing has been seen as one way the government can achieve a credible fiscal adjustment. Credibility in this case comes from the fact that the source of the deficit was the location of the enterprise in the public sector, and renationalizing it would be costly. Under such circumstances, the government can secure a present and future fiscal adjustment by divesting itself of the enterprise (Agenor and Montiel, 2015).

However, the annual ratio of gross privatization proceeds to Gross Domestic Production (GDP) in sub-Saharan Africa, has on average been 0.35 per cent. Only 12 countries with small GDP achieved performances above the average by 2002 (Berthelemy et. al., 2004). Sub-Saharan Africa's total privatization proceeds by the end of 2002 were about US\$8.8 billion, which is extremely small compared to what developed countries received. For instance, only Italy received privatization proceeds of US\$108 billion from 1985 to 2000 (Mahboobi, 2002). It thus appears privatizing SOEs for fiscal benefits could be elusive in sub-Saharan Africa.

Background of the study

The divestiture of state-owned enterprises in developed economies within the past four decades aimed at enhancing economic efficiency of firms, to decrease government intervention and increase revenue, while encouraging competition in monopolized sectors (Vickers and Yarrow,

1988). Some governments privatized public assets because of critical budgetary conditions. For instance, the first Japanese privatizations were initiated in 1982 when the Japanese public deficit reached 41.2% of GDP. Similarly in the United States of America, Lopezde-Silanes et al. (1997) showed that privatizations had been more likely in states where fiscal constraints were more binding.

However, the results and experiences of developing country privatizations, within the same period, have shown the need to examine the context of specific country development process as an integral part of the conditions for privatization. Estrin and Pelletier (2018) contend that while the traditional objectives of improving efficiency and reducing government subsidies to state-owned enterprises (SOEs) are valid, ownership reforms need to take into account national economic circumstances, with strategies for privatization being adapted to local conditions.

The foremost reason for a state owned enterprise (SOE) to be privatized appears contested in the literature on privatization. For some, privatization was solely to improve firm efficiency (Mackenzie, 1998; Kikeri et al, 1992; BOG, 2005), while others contend it should be to improve an economy's fiscal condition (Pinheiro and Schneider, 1994; Przeworski, 1991; Potter, 2015).

Pinheiro and Schneider (1994) found state operated enterprises to have generated deficits of four percent on average in the late 1970s, encouraging privatization due to fiscal necessity, rather than the desire for improved efficiency (Przeworski, 1991). Revenues accrued from the sale of state- owned enterprises could be a potential solution to persistent state deficits. In this case getting rid of a deficit creating firm would be one way of improving a government's fiscal condition as subsidies and other transfers to maintain failing SOEs would decline (Young 1998, Davis et al, 2000).

Also, privatization revenues could be used to reduce public debt, thereby lowering the national deficits. Falling public debt may indicate a government's commitment to stable macroeconomic environment. This may contribute to increased market confidence with a reduction of interest payments (Davis et al., 2000), which could improve the fiscal balance and the status of the economy as a whole. For instance, privatization yielded about US\$50 billion per year in non-OECD countries, no less than one-third of the worldwide proceeds of privatization (Mahboobi, 2000; Gibbon, 1998, 2000).

Some evidence suggest that the privatization of failed state owned enterprises can lead to an improved macro economy. Under such conditions, high growth rates of output could be associated with higher share of output produced by the private sector (Barnett 2000, Davis et al., 2000). In addition, privatization can be associated with a decrease in unemployment, despite

the fact that many claim that state owned enterprises owing to their “soft” budgets are likely to be overstaffed with privatization leading to many losing their jobs (Davis et al., 2000). Some further evidence shows that firms pay higher taxes after they have been privatized (Katsoulakos and Likoyanni, 2002; Davis et al., 2000). Based on the evidence above, it is likely that the real fiscal gain of privatization may not be obtained immediately in the form of direct revenues, but rather in improvement on long run macroeconomic performance (Pinheiro and Schneider, 1994).

The Problem

Economic literature on privatization has been skewed towards microeconomic issues (Megginson and Netter 2001; Pinto et al. 1993, LaPorta et al. 2000; Auriol and Picard, 2008). Also, within the limited literature on macroeconomic effects of privatization, empirical studies are in the minority. In addition, studies on the macroeconomic impact of privatization largely have not captured developing country issues. This study contributes a developing country analysis within the macroeconomic domain.

The assertion that state owned enterprises tend to be inefficient due to their “soft budget constraint” problem (Kornai, 1980; Young, 1998; Pinheiro and Schneider, 2004) ties in well with their being overstaffed and paying excessive wages (Davis et al, 2000). This makes them require subsidies to stay operational, thereby draining the economy. Thus it is expected that disposing of these SOEs would improve the fiscal situation of the government (Young, 1998; Pinheiro and Schneider, 2004). However, some literature conclude that privatization has had little fiscal impact. They assert that revenues from privatization have been relatively insignificant to provide solutions to many fiscal crises (Pinheiro and Schneider, 1994; Hachette and Luders 1993, Mackenzie, 1998).

The important point is that by selling a loss-making enterprise, the government can secure a future fiscal adjustment. It can increase the primary surplus in the current and future periods at the same time. This means creditors would not have to rely on promises of future fiscal actions that may not be kept the same way by a different government. It is also important that the actual impact of privatization on national budgets are measured correctly in sub-Saharan African economies. The main issue of concern thus remains the extent to which the sustainable non-SOE primary surplus will be affected by privatization (Agenor and Montiel, 2015).

This study therefore assesses the extent to which fiscal benefits could drive privatization of SOEs in sub-Saharan Africa. The next section examines the trends of privatization in sub-Saharan Africa. This is reinforced with observations from a representative sub-Saharan African

country, Ghana, which has had a vast experience with the privatization of about 226 SOEs between 1989 and 2010, receiving the second highest privatization proceeds by 2002. A review of some relevant theoretical literature on privatization in developing countries and their fiscal effects then follows. To provide in-depth analysis from the representative economy, a model for SOEs surviving privatization in Ghana is estimated and the results discussed. The paper concludes with some policy recommendations towards sustainable SOE privatization in sub-Saharan Africa.

THE SUB-SAHARAN AFRICA EXPERIENCE

Trend of Privatization

Bennel (1997) observed that privatization programs in sub-Saharan Africa (SSA) occurred in succession among various groups of countries during different periods of time. The late 1970s to early 1980s saw the first group of privatizations composed of francophone West African countries (e.g., Benin, Guinea, Niger, Senegal, and Togo) characterized by limited success. The second group, both Anglophone and Francophone countries (Ghana, Nigeria, Ivory Coast, Mali, Kenya, Malawi, Mozambique, Madagascar, and Uganda), joined the privatization program in the late 1980s. An observable feature of these programs was that they were often influenced by pressure from the international financial institutions (Nellis 2008), but made no significant progress (Bennell 1997). Another group started privatizing SOEs in the early to mid-1990s.

Smaller manufacturing, industrial, or service firms were generally the ones that got divested in most of these countries. Bennell (1997) reports that smaller SOEs were usually targeted during the initial stages of privatization programs in SSA because they were easier to sell. Five industries in particular were prominent in most programs: food processing, alcoholic beverages, textiles, cement and other non-metallic products, and metal products. These industries accounted for 60% of the total proceeds from the sale of manufacturing SOEs from 1988 to 1995 (Bennell 1997).

Privatization in the 1990s was hindered by a lack of political commitment and strong opposition from vested interests of stakeholders. However, in the late 1990s, significant economic reforms, under the supervision of the World Bank and the IMF, in which privatization was an integral part made way for some progress. In addition, the weak financial position of SOEs in many SSA countries and their rapid deterioration, within the fiscal crisis of the 1990s, also compelled some governments to sell-off some SOEs to raise government revenues and reduce expenditures (Bennell 1997).

Privatization in Ghana

By 1966, there were 53 SOEs and 12 state-private ventures (Sandbrook and Oelbaum, 1997) operating in nearly every sector of the economy of Ghana (Asante, 2014). Sandbrook and Oelbaum (1997) argued that political interference had a damaging effect on SOEs in Ghana. Politicians expected their constituents to be hired and their supporters to win contracts at inflated prices. The expansion of failing SOEs was funded by heavy taxes on the cocoa production sector, and by excessive foreign borrowing (Sandbrook and Oelbaum, 1997). Huq (1989) found that by 1965 government had spent the equivalent of £40 million on 32 state enterprises, only two of which showed profit. In the late 1960's and early 1970's government closed particularly unprofitable SOEs and fully privatized a number of others on the recommendation of the World Bank (Potter, 2015).

By 1987, the number of Ghana's SOEs had grown to approximately 324. These SOEs dominated nearly every sector of the economy (World Bank, 1995). SOEs dominated employment in utilities (over 94 percent of total employment in the sector), mining (over 85 percent of total), business and financial services (almost 70 percent) (State Enterprise Commission, 1995). Despite the enormous role of SOEs in the economy, the enterprises performed poorly almost from their establishment and required government subsidies as opposed to providing revenues. Subsidies to SOEs accounted for 10 percent of government expenditures in 1982 and the firms were heavily indebted to private lenders (both national and international) (State Enterprise Commission, 1995). By this period, SOEs were a major contributor to rising inflation and the general deterioration of the Ghanaian economy (Potter, 2015).

According to the Ghanaian government, the motivation for privatization was based much more on factors such as excessive bureaucracy, overstaffing, a lackadaisical attitude towards state activities, a lack of entrepreneurial drive and acumen which constituted the hallmarks of private business, poor incentives for management and low working capital and investment (Bank of Ghana, 2005).

The main benefits of privatization came in the form of reduction in Government subvention which was 2,597 billioncedis in the 2004 budget estimates. It also helped to raise revenue to fund budget deficits, if only the latter could be called a benefit (Adei, N.D.).

The post 1983 account of privatization illustrated a lack of knowledge about the desirable size and nature of the state sector (Killick, 2010). The policies of the Economic Recovery Program (ERP) period included a stated commitment to a program of divestiture with a special state commission to implement it. Political resistance, however, caused the State Enterprises Commission (SEC) to fail. By about 1988 there were still estimated to be an

extraordinary 350 SOEs. The replacement of the SEC by a divestiture implementation committee still resulted in limited progress, due to politics (Herbst, 1993). In 1989-93 only 69, mostly small- or medium-sized, of the 350 SOEs were divested. It took the fiscal crisis that emerged around the 1992 elections to revive the process. Here, government expected to use the proceeds of divestiture to augment its regular revenues and reduce the large budgetary gap. Particularly in the mid-1990s, there was acceleration, with 79 enterprises divested in 1994-96, including sale of government interests in some major enterprises, notably Ashanti Goldfields, three state- owned banks and Ghana Telecom. Again, these important moves were a response to fiscal pressures, rather than derived from a desire to move the state out of the production of goods and services (Killick, 2010).

While the contribution of divestiture proceeds to government revenues in 2000-07 were negligible in most years, the outcome of a World Bank program of technical assistance for privatization in 1996-2004 (IMF, 2007) had failed. The World Bank's efforts were on achieving reduced state participation in five major enterprises. These five-the Electricity Corporation of Ghana, Ghana Commercial Bank, Ghana Water Company, Tema Oil Refinery and Volta River Authority- were of large economic importance. Their combined operating expenditure in 1999-2001 were equivalent to nearly a fifth of GDP, and their overall deficit in the same years was equal to nearly a tenth (9.3 percent)of GDP and a third of total central government spending (Killick, 2010). They were thus a source of strain on the budget and their large needs for financial support were among the main proximate reasons for the deteriorating fiscal situation after 2005. All of these major loss-making companies survived privatization attempts.

The Government of Ghana currently holds varying equity interests in about Eighty-Four (84) companies, comprising forty-four (44) wholly-owned State-Owned Enterprises (SOEs) and Forty (40) Joint Venture Companies (JVCs). Many of these companies have been underperforming compared to their own objectives, while others are incurring losses. Furthermore, the expected returns to Government from the SOEs and JVCs have not been commensurate with the level of investments that have been channeled into them (MOF, 2016).The IMF (2019) observed that Ghanaian SOEs continued to make significant losses, which could add to government's risk of debt distress and further constrain growth. Given the current state of the SOEs, it remains a puzzle why government appears unable to privatize nonperforming SOEs, at least to secure future benefits. This dilemma appears to be a common feature of most economies in sub-Saharan Africa.

A REVIEW OF LITERATURE

Theoretical Perspectives of Privatization

Privatization can be seen as any transaction that reduces a government's ownership in or control over a public enterprise (OED, 1995). As a process, privatization denotes reducing the roles of government while increasing those of the private sector, in activities or assets ownership (Gayle, 1990).

There are three main approaches to privatization. The first approach which is normally referred to as denationalization, divestment or divestiture refers to a change in the ownership of an enterprise (or part of an enterprise) from the public to the private sector. This can be done in a number of ways, either by the sale of all or part of the privatized enterprise's equity to the public via the capital market. This is often carried out in the developed countries where capital markets are very efficient. However, in developing countries where capital markets are not well developed or non-existent, divestiture may involve the sale of the enterprise as a complete entity (Cook and Kirkpatrick, 1988; Bennet, 1997).

Divestiture may also take the form of joint-ventures, where there is an introduction of a private sector involvement into the public enterprise. It may also involve a formal liquidation of the state-owned enterprise (Bennet, 1997).

The second approach of privatization involves the liberalization of deregulation of entry into activities previously restricted to public sector enterprises. This mode of privatization may not necessarily involve the transfer of ownership of asset, but the removal of restrictions on market entry will (all things being equal) increase the rate of competition, thereby making it possible for private enterprises to enter into the hitherto protected markets (Cook and Kirkpatrick, 1988).

The third approach involves a situation where the provision of a good is transferred from public to private sector while the state maintains ownership and ultimate control (Bennet, 1997) and the responsibility for supplying the service (Cook and Kirkpatrick, 1988). Examples of this form of privatization are the leasing of public assets to the private sector, franchising, or contracting out of public services, etc (Bennet, 1997).

Privatization of government-controlled industries, services and agencies is seen as an instrument to offer the prospect of both benefitting the public finances and improving economic performance.

Rationale for Privatization

Privatization in developing countries emerged as a major policy issue during the second half of the seventies, in part as a result of a general shift in the dominant development paradigm and in

part due to the perceived weaknesses in the public enterprise sector (Kirkpatrick, 1988; Cook and Kirkpatrick, 1988).

The new orthodoxy

The 1950s and 1960s were dominated by the Keynesian development orthodoxy at the heart of which were state led development policies. The interventionist policies were justified on the grounds of “market failure” (Meier, 1995; Todano, 1997). This interventionist approach was supported by the major international and bilateral aid agencies, which encouraged development planning, provided technical assistance to strengthen planning capabilities, and allocated investment funds to public sector projects (Cook and Kirkpatrick, 1988).

However, the results of planning in developing countries were disappointing. Evidence shows that most countries failed to achieve the planned objectives of the set targets (United Nations, 1977; Killick, 1983).

The perception that development planning had failed therefore, led to a shift in the dominant paradigm towards a neo-classical, market-oriented view of the development process and policy (Cook and Kirkpatrick, 1988). It is argued that a reduction in the size of the public sector, the removal of government regulation and controls, and the fostering of competition in the economy, makes it possible for the market to operate efficiently in resource allocation resulting in economy wide efficiency gains. This, Cook and Kirkpatrick (1988) note, is a pre-condition for economic growth.

Poor Enterprise Performance

The growth of the public enterprise sector was seen by developing country governments as an important instrument for fostering rapid economic progress and change. However, the sector’s performance in many developing countries has been disappointing (World Bank, 1983).

This has been due to poor financial performance of most of the public enterprises as a result of lack of managerial and technical competence, over-stretched bureaucracies, abuse of monopoly power, corruption and indebtedness (Jefferies, 1994; Sandbrook, 1988; Killick, 1983). These factors surely replaced the laudable goals and expectations which underpinned the establishment of the public enterprises (Appiah-Kubi, 2001).

Economic theories Underpinning Privatization

The case for privatization in developing countries, can be made on the grounds of Productive Efficiency, Property Rights, Agency and Allocative Efficiency theories.

Production Efficiency Theory

The production efficiency theory asserts that, privatization in the form of a change of ownership may have a significant impact on productive efficiency. A change to partial or complete private ownership will reduce the scope for political intervention in the operations of the enterprise. It is expected that complex networks of dysfunctional bureaucratic controls will be reduced and the possibility of arbitrary “interference” in operating decisions will be reduced and enterprise objectives will be simplified, in the sense that it will have a more focused narrow goal which enables more efficient monitoring and incentive (Adam, 1994; Cook and Kirkpatrick, 1988). All these changes will invariably contribute to improvement in productive efficiency.

However, it is relevant to note that these changes are not conditional on privatization. It is argued that the key factor determining the efficiency of an enterprise is not whether it is publicly or privately owned, but how it is managed. In theory, it is possible to create the kinds of incentives that will maximize efficiency under any type of ownership (World Bank, 1983).

Property Rights Theory

The property rights theory suggests that by altering the structures of property rights, a change in ownership will improve incentives for productive efficiency performance. The theory further argues that the change in ownership will impose the discipline of private capital markets on the enterprise, thereby improving productive efficiency. Martin (1997) argues that monitoring by residual claimants is more efficient than monitoring through the political process. This is because the private owner has a direct financial stake in enterprise performance or results (Jasinski, 1996) unlike the political decision-maker.

However, it must be noted that this argument may be important in developed countries and may have limited relevance in developing countries. This is because the capital market in developing countries is underdeveloped and divestiture or denationalization will normally involve the sale of the enterprise to individual purchasers, or the introduction of private capital into joint ventures (Cook and Kirkpatrick, 1988).

Allocative Efficiency Theory

This theory argues that public enterprises cannot allocate resources as efficiently as private corporations. This is because most public enterprises are protected from competition since they have monopoly power over the production of certain goods and services (Marsden and Belot, 1987). As a result, these protected public enterprises are economically inefficient and waste resources. Allocative efficiency is therefore undermined. Privatization is said to improve

allocative efficiency because it is believed within the neo-classical orthodoxy that it improves competition.

However, Cook and Kirkpatrick (1988) argue that allocative efficiency is a function of market structure rather than ownership-transfer and does not necessarily bring about competition. Thus, in the absence of competition, privatization in the form of assets sales is not likely to result in gains in allocative efficiency.

Agency Theory

The agency theory argues that the agent will act in a self-interested way. The principal must therefore structure incentives for agents so that they act for him. This implies that principal and agents should have a clear relationship to make the enterprise efficient (Uddin, 1997). However, an agency problem arises from a disparity between self-interested principals and agents. Owners of both private and public enterprise face a similar agency problem. But agency relationships in public enterprises are more complex than the principal agent relationship in the private sector (Martin and Parker, 1997).

Thus, it is simpler to devise effective contracts in private enterprises. This theory assumes that the private sector will operate in perfectly competitive markets and have access to complete information. However, in practice, this is unlikely to occur in developing countries, where there are imperfect markets and inefficient capital markets (Uddin, 1997).

The general assumption behind the economic theories discussed above is the fact that infusing private property rights into failing public enterprises will increase efficiency through better controls (including accounting ones) and personalized economic incentives. This will lead to an increase in capital investment, profits, government revenues, employment and improve managerial technologies and the capital market will ensure that inefficient enterprises will either fail or be taken over (Uddin and Hopper, 2001).

However, it must be noted that in addition to the irrelevance of the assumption of strong capital markets made by these economic theories, (especially in developing countries where inefficient capital markets prevail) internal matters of organization are left unaddressed (Uddin, 1997). For example, internal states, internal labor markets, the nature of control, and accounting practices are ignored, in the belief that efficiency gains following privatization will trickle down to employees and society through market forces (Uddin and Hopper, 2001). Furthermore, issues of power and existing inequalities of wealth, politics and vested interests are ignored in the theories. Meanwhile, these issues are important since they have a bearing on management control in organizations.

Social value argument

While in many respects SOEs face similar opportunities and threats as private sector businesses, there are also important differences which have a major influence on their role in creating value for society as a whole.

SOEs have to balance economic, social and other objectives. As such, and perhaps even more so than their private sector counterparts, they need to find a way to remain financially sustainable while creating value for citizens and society (PWC, 2015). It is thus advocated that SOEs should not only be evaluated for financial results based on profit and loss statements, but on how they contribute to societal value creation, based on an integrated and holistic approach. A purely profit and loss focus in the short term may risk the achievement of wider goals and even contribute to social value deterioration.

As major players in their domestic economies, while increasingly competing in global markets, SOEs can also play a major role in driving improvements in quality e.g. by requiring an increase in the standards of goods and services being provided by the small – and medium-sized enterprises (SMEs) which may comprise their supply chains. This can not only encourage SMEs to be more economically competitive, but can also provide other social benefits such as safer, more reliable products for citizens, environmental compliance, and skills development or enhancement. This will require looking beyond just profit and loss to an evaluation for sustainability.

Fiscal Effects of Privatization

Davis et al. (2000) found from 18 developing and transition countries that the net fiscal effects of privatization were receipts in the order of 1% of GDP. In some countries, the main fiscal benefits of privatization were the elimination of subsidies. Subsidies in critical infrastructure services have often led to the rationing of underpriced services, hardly affecting poorer households that often had little or no access to these services, while the non-poor enjoyed the underpriced access. If privatization stops these flows of subsidies, it produces indirect benefits in terms of increased retained revenues (Birdsall and Nellis 2003), which could indirectly benefit the poor. Also, privatization may affect real income if it reduces the tax burden differentially across households, or if it leads to increased access by the poor to government services funded by new tax flows.

Contrary to what has been proposed by some authors and what some governments practice, the main point regarding the fiscal effects of privatization is that they are not generally equal to privatization revenues. This is because measuring fiscal effects that way fails to take the effects on the government's budget of keeping the enterprise into account.

Agenor and Montiel (2015) discussed the issues relating to fiscal effects and privatization, starting from the assumption that there was no debt financing by the economy. Under such conditions, the government budget constraints could be written as:

$$-d_p + (\pi + n)m = (r - n)\Delta \quad (1)$$

Where, d_p represents the primary surplus, π the inflation rate, m real money balance, r the real interest rate, n the rate of growth of output, and Δ the stock of public debt. To simplify the issue, an initial assumption is made to ensure that the government owns only one SOE. Splitting $-d_p$ up into the portion contributed by the SOE and the rest of the primary surplus, p^s , yields

$$-d_p = p^s + (r_G - n)k_G \quad (2)$$

Where, k_G is the SOE's capital stock valued at replacement cost relative to GDP, and r_G is the ratio of SOE's net income (profit minus depreciation) to its capital stock, k_G . The value $r_G - n$ is what the government receives on a permanent basis as a result of the SOE maintaining a capital-output ratio k_G (since for each period the SOE has to plow back nk_G into investment).

Using (2), the public sector budget constraint can be written as:

$$p^s + (r_G - n)k_G + (\pi + n)m = (r - n)\Delta \quad (3)$$

An inverse relationship exists between the government budget and its maintenance of the SOE. The drain on the budget is larger, when $r_G - n$ is smaller. This puts pressure on p^s , the rest of the primary surplus within the economy.

To ascertain the fiscal prudence of selling k_G , we have to know the direction in which p^s would have to move in order for equation (3) to continue to hold, if the government sold k_G . If k_G were given away, there would be no privatization revenue, but privatization would still have a fiscal effect: since the government would lose a permanent flow of income as long as $r_G > n$. This makes the point that the fiscal implications of privatization are not limited to the direct revenue effects.

On the other hand if the government sells k_G , and suppose that the private rate of return on capital is $r_p - n$. Then the private sector would pay

$$Y = \frac{r_p - n}{r - n} k_G$$

for k_G . If $(r_p - n) < 0$, then no one will buy the SOE's capital. Now suppose that stock of debt is constant at Δ ; the public sector budget constraint (3) can be rewritten as:

$$\frac{p^s + (r_G - n)k_G + (\pi + n)m}{r - n} = \Delta.$$

If the private sector pays Y , then the effect of the sale is to replace $((r_G - n)k_G)/(r - n)$ on the left-hand side by Yk_G .

Thus, the fiscal impact of the sale is given by:

$$\frac{\Delta p^s}{r-n} = - \left(Y - \frac{r_G - n}{r-n} \right) k_G.$$

This means that the government's fiscal position will be eased since the required adjustment in p^s will be negative, as long as $p^s > r_G$, making the term inside the parentheses positive. The following conclusions therefore define the theoretical expectations from SOE privatization. First, the SOE can be sold only if the private sector can make it profitable. Secondly, the government may be fiscally better off selling it even if the SOE is profitable. And thirdly, the fiscal benefit to the government from the sale could be

- i) less than the sale price if $r_G - n > 0$;
- ii) negative if $r_p < r_G$;
- iii) equal to the sale price if $r_G - n = 0$;
- iv) more than the sale price if $r_G - n < 0$.

Thus, it is not under all circumstances that governments can realize direct fiscal benefits from privatizing SOEs.

METHODOLOGY

Data Sources and Variables

Data for the study was obtained mainly from the World Bank's World Development Indicators (WDI) of 2018 and augmented with some data on divestiture from ISSER (2015, 2016). Data was analyzed for the period 1960 to 2017 – beginning from the period Ghana became a Republic to the current period. This provides enough time to examine the entire period of effective state ownership of enterprises. The analysis sought to ascertain the effects of fiscal budget balance on privatization of SOEs in Ghana. The independent variables were selected to satisfy the government budget constraint specified in equation (1). These are the rate of inflation, the budget balance, the real money balance, the real interest rate, the rate of growth of output and the stock of public debt. Based on assessments for multicollinearity and unit roots as well as the requirements for using a minimal set of relevant variables for a good logistic binary analysis, the study settled on privatization as the dependent variable. This was a dummy variable with zero for years when there was no privatization and one for years when SOEs were privatized in Ghana. Thus a logistic regression analysis was performed using variables that make up the government budget constraint.

Measuring fiscal deficits

Fiscal policies have been applied inappropriately in some situations because conventional measures of the fiscal deficit miscalculated the public sector's true budget constraint, giving a misleading picture of the economy's fiscal stance (Blejer and Cheasty, 1991). To correctly capture economic problems and find appropriate fiscal policies to address them, the correct measurement of the public sector's net requirements is a vital prerequisite. This requires assessing a country's budget from several perspectives, making the considerations that need recognition in budgetary analysis (for instance, level of development and openness) to vary widely from country to country. Hence, the search for the single perfect deficit measure may be futile (Blejer and Cheasty, 1991).

The most general concept of public sector deficit is the change in the government's net worth, which equals the expected present value of all taxes, including seigniorage revenue, plus the net value of current assets (including natural resources and fixed capital), less the current value of all noncontingent and contingent liabilities (Buiter, 1983). However, few attempts have been made to use this concept in practice. The difference between alternative measures of fiscal balance can be substantial. Care must therefore be exercised in choosing a particular measure to assess the stance of fiscal policy (Agenor and Montiel, 2015).

Generally, a fiscal deficit has been viewed as a summary of government transactions during a single budget period, usually one year, without reflecting their longer run implications. Two categories of such measures exist: variants of the "accounting," or conventional, deficits that country authorities refer to in their budgets; and some refinements of these conventional deficits. While the conventional deficit measure exists in different versions, all versions tend to calculate the budget balance by including all government transactions, weighted equally. However, policy makers have, from time to time, calculated alternative measures of the deficit, with the aim of highlighting the differential impact of various budgetary transactions on important macroeconomic variables (Blejer and Cheasty, 1991).

The primary deficit seeks to remove the effects of previous deficits on the budget while the operational deficit removes the effects of inflation from interest payments as reflected in the budget (Blejer and Cheasty, 1991). This study used the budget balance deficit as provided by the World Bank's World Development Indicators as the measure of fiscal deficit. This deficit measure shows the extent of funding required by the economy annually.

Local Economic Conditions(external factors)

The Intercept of the regression analysis normally captures all the variables which are considered under the *ceteris paribus* assumption in economic analysis. Theoretically in this

study, most of these factors derive their existence from Adam Smith's "Theory of Moral Sentiments" (1759), which discussed the ethical forces that bind men together in a workable society. This was a prelude to the "Wealth of Nations", which assumed the existence of a just society as an underlying requirement for the success of economic activity to generate wealth for development.

These factors differ from the traditional or conventional variables provided by economic theory discussed in the previous section. As far as privatization of SOEs in developing countries are concerned, these conditions have been observed to differ from country to country. Various scenarios depicting these conditions have been discussed alongside the conventional variables in this study. Estrin and Pelletier (2018) referred to these variables as the national economic circumstances, on account of which privatization must adapt to local conditions, without neglecting the traditional variables discussed above. Price Waterhouse Coopers (PWC) (2015) identifies the most essential of these to be corruption, bribery and inefficiency. Killick (2010) identifies lack of knowledge while Sandbrook and Oelbaum (1997) identified political interference. The Bank of Ghana (2005) also summed these up as bureaucracy and inefficiency.

This study describes these factors as external factors. Corrupt officials use SOEs as a source of enriching themselves and funding their political activities. Corruption has always been a source of deprivation for the under privileged, thereby creating third party costs for society as a whole. This also affects private sector institutions which are supposed to be positioned to save the situation in the event of SOEs being privatized. Thus the local economic situation of any economy would need special attention and consideration for a successful privatization policy.

Since the impetus towards privatization was mostly precipitated by pressure from the International Monetary Fund (IMF), World Bank and related organizations in developing countries, such influence for most of these economies would also constitute an external factor.

The expected outcome is that an improvement in each or all the external factors would reduce the odds of SOEs surviving privatization moves. Agenor and Montiel (2015) expect these factors to weigh more in determining the decision to privatize SOEs.

RESULTS AND DISCUSSION

The descriptive statistics in Table 1 show that since 1960 the GDP growth rate has varied between -12.43% and 14.05% annually, giving an annual mean of 3.6% in Ghana. The rate of inflation also varied between -8.42% and 122.8% with an annual mean of 20.06%. Real lending rate varied between -48.04% and 21.43% with an annual mean of -0.04% while the budget balance within the period varied between -15% and 2.0% with an annual mean of -6.51%. It is

worth noting that the mean for the budget balance has been negative and quite substantial over the 58 year period.

Table 1: Descriptive Statistics

| Variable | Number of Years | Minimum | Maximum | Mean | Standard deviation |
|-------------------|-----------------|---------|---------|---------|--------------------|
| Inflation | 58 | -8.42 | 122.87 | 20.0853 | 26.82001 |
| GDP growth rate | 58 | -12.43 | 14.05 | 3.6478 | 4.31621 |
| Budget balance | 58 | -15.00 | 2.00 | -6.5121 | 3.62027 |
| Real lending rate | 58 | -48.04 | 21.43 | -0.0367 | 16.36492 |
| Privatization | 58 | 0.00 | 1.00 | | |

Ghana's fiscal deficits skyrocketed in 2012 (-12.13% of GDP) largely because of the implementation of the Single Spine Pay Policy which led to a huge public wage bill. Since then, there have been attempts to reduce deficits, which have been trending downward (ISSER, 2016).

In 2015 Ghana's overall budget deficit (including divestiture receipts) was 6.9% of GDP, declining from the 2014 deficit of 9.7% of GDP. The 2012 and 2013 deficits were the worst, irrespective of the increases which were realized in GDP growth (ISSER, 2015). The deficit outturn in 2017 represented a considerable improvement over the 7.8% deficit in 2016, by nearly 2 percentage points. Even though recent times appear to have declining deficits, the general level of deficits remains problematic and underscores the structural nature of the deficit problem (ISSER, 2016).

Figure 1 reveals the trends of privatization and budget balance, which has for all of the period been negative except between 1985 and 1992, have shown no consistency over the period.

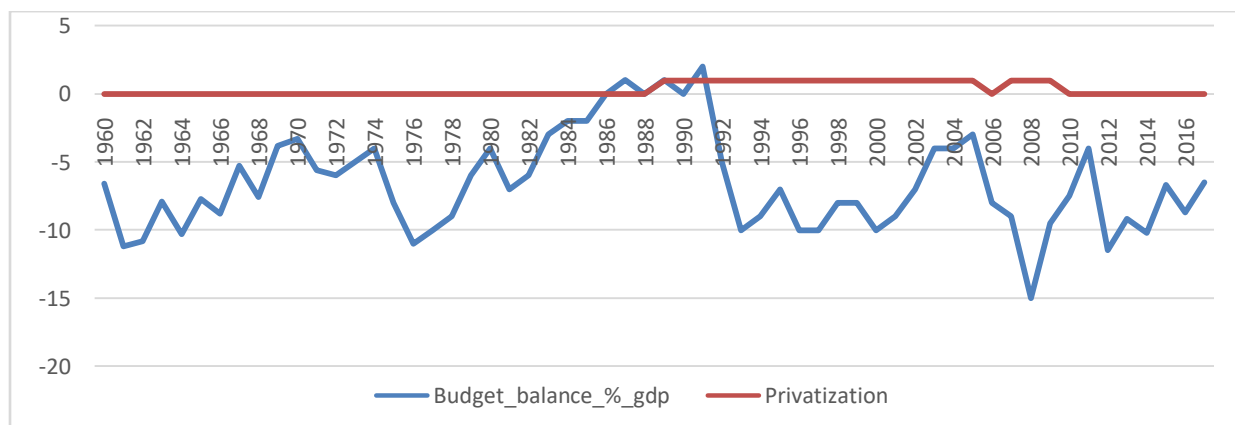


Figure 1: Trends of budget balance and privatization in Ghana from 1960 to 2017

Regression Analysis

A direct logistic regression analysis was performed through the SPSS Binary Logistic program to assess prediction of SOE privatization or non-privatization on the basis of the budget balance, GDP growth rate, real lending rate and inflation rate. Data for 1960 to 2017 from the World Bank Development Indicators were analyzed.

A test of full model with the four predictors against a constant only model was statistically reliable ($\chi^2 = 14.779$, $df = 4$, $p = 0.005$), indicating that the predictors as a set reliably distinguished between the privatization and non-privatization of SOEs in Ghana. The variance in privatization accounted for was acceptable (Nagelkerke $R^2 = 0.359$), indicating about 36% of shared variance between an SOE not being privatized and the set of predictors.

Table 2 shows the results of the direct logistic regression analysis predicting an SOE surviving privatization from budget balance, real lending rate, GDP growth rate and inflation rate. According to the Wald test, real lending rate ($\chi^2 = 9.842$, $DF = 1$, $P = 0.002$), and inflation rate ($\chi^2 = 7.385$, $df = 1$, $p = 0.007$) reliably predicted an SOE surviving privatization. The results suggest that budget balance ($\chi^2 = 0.293$, $df = 1$, $p = 0.589$) is not a significant predictor when the effects of inflation rate, real lending rate and GDP growth rate are controlled for.

Table 2: Logistic Regression Analysis Results for SOEs surviving privatization in Ghana

| Variables | B | S.E | Wald | df | Sig. | Exp(B) | 95% C.I. for EXP(B) | |
|-------------------|--------|-------|-------|----|-------|--------|---------------------|-------|
| | | | | | | | Lower | Upper |
| Inflation | 0.083 | 0.031 | 7.385 | 1 | 0.007 | 1.087 | 1.024 | 1.154 |
| Budget balance | 0.049 | 0.091 | 0.293 | 1 | 0.589 | 1.050 | 0.879 | 1.255 |
| Real lending rate | 0.163 | 0.052 | 9.842 | 1 | 0.002 | 1.177 | 1.063 | 1.302 |
| GDP growth rate | 0.054 | 0.101 | 0.280 | 1 | 0.597 | 1.055 | 0.865 | 1.287 |
| Constant | -3.016 | 1.154 | 6.830 | 1 | 0.009 | 0.049 | | |

Interpretation and discussion of predictors

Budget balance

From the Wald test budget balance has a b-value of 0.049; Wald statistic of 0.293 and significance of 0.589. These values suggest that the contribution of budget balance to the predicting power of the model can be ignored since it is not significant, with a p-value greater than 0.05. It can therefore be asserted that when the effects of inflation, real interest rate and GDP growth rate are controlled for, budget balance does not have any significant effect on SOEs surviving privatization efforts in Ghana. We thus conclude that fiscal benefits from privatization cannot significantly influence SOEs surviving privatization efforts and should thus not be used as a basis for privatization of SOEs.

This finding is supported by Agenor and Montiel (2015) who argue that, whether privatization is worth pursuing does not depend solely on its fiscal implications. It depends, more generally, on whether the resource involved yields a greater social return in public or private sector use. But whether their return is greater, the decision to keep the resources in the public sector or transfer them to the private sector will invariably have fiscal implications, and these have to be taken into account when analyzing public sector solvency.

The result helps to explain the Ghanaian SOE situation. By the end of 2016, there were a total of 31,089 people employed by 18 selected SOEs, with each SOE employing an average of 1,727 people. The total net assets of Government of Ghana (GoG) in the 18 SOEs amounted to GHS 29,565 million. The total on-lent loans outstanding to the sector totaled GHS 6,004.70 million whereas GoG support to 6 of the SOEs was GHS 7,276 million.

The financial performance of the 18 SOEs was mixed, with five (5) SOEs making losses in 2016. The rest made profits in 2016, with 7 of them making profits in the last 3 years. The SOEs achieved a net loss of GHS 791 million, which translates into an average net loss of GHS 44 million for each SOE. The total loss of 5 SOEs was GHS 1,795 million against total profit of GHS 1,004 million by the rest.

The financial indicators of the individual SOEs show a disturbing trend of low liquidity and overly high leverage for some of them. Eight (8) of them did not have adequate liquid resources to cover their short term financial obligations thereby resorting to bank overdrafts, which came at huge costs to them. Five (5) SOEs were overly leveraged with debt to equity ratios above 200%, which threatens their commercial viability and survival. Government may therefore want to, as part of its strategy for SOE sector, explore the possibility of securing long term loans to recapitalize the operations of SOEs that have shown promising potential. Despite current and obvious future fiscal difficulties posed by most of Ghana's SOEs, they have survived privatization efforts.

Inflation

Inflation has a b-value of 0.083, a Wald statistic of 7.385 and a p-value of 0.007, showing that it is very significant in determining whether an SOE will be privatized or not. The Exp(B) for inflation is 1.087 with a C.I. of between 1.024 and 1.154. The coefficient of 0.083 for Inflation means that on average, 1 unit of change in inflation rate adds 0.083 to the log odds in favor of an SOE not being privatized. This means, the odds in favor of an SOE not being privatized is multiplied by 1.087, which is the predicted change in odds for a unit increase in the predictor. Therefore, a one unit change in inflation rate increases the odds of SOEs not being privatized by a multiplicative factor of 1.087 if the other variables are held constant. The confidence

interval values (1.024 to 1.154) do not cross 1, so it can be said with 95% confidence that this finding can be generalized beyond the sample to the population.

Real lending rate

Real lending rate has a b-value of 0.163, a Wald statistic of 9.842 and a p-value of 0.002, showing that it is very significant in determining whether an SOE will be privatized or not. The Exp(B) for real lending rate is 1.177 with a C.I. of between 1.063 and 1.302. The coefficient of 0.163 for real lending rate means that on average, 1 unit of change in real lending rate adds 0.163 to the log odds in favor of an SOE not being privatized. This means, the odds in favor of not privatizing an SOE is multiplied by 1.177, which is the predicted change in odds for a unit increase in the predictor. Therefore, a one unit change in real lending rate increases the odds of SOEs not being privatized by a multiplicative factor of 1.177 if the other variables are held constant. The confidence interval values (1.063 to 1.302) do not cross 1, so it can be said with 95% confidence that this finding can be generalized beyond the sample to the population.

GDP growth rate

From the Wald test GDP growth rate has a b-value of 0.054; Wald statistic of 0.280 and significance of 0.597. These values suggest that the contribution of GDP growth rate to the predicting power of the model can be ignored since it is not significant, with a p-value greater than 0.05. It can therefore be asserted that when the effects of inflation, real interest rate and budget balance are controlled for, GDP growth rate does not have any effect on an SOE not being privatized in Ghana.

The inclusive wealth report of the United Nations Organization highlights this well. It evaluated the “inclusive wealth” of countries, which is the sum of three kinds of assets: manufactured capital (e.g. roads, machinery, buildings); human capital (people’s health and skills); and natural capital (e.g. forests and fossil fuels). The report revealed that even though global GDP rose by 50% between 1992 and 2010, inclusive wealth increased by only 6%. Equally, it needs to be recognized that state ownership can destroy value as well if best practices in ownership and management are not applied. In this respect, management is mostly concerned about issues of corruption, bribery and inefficiency (PWC, 2015).

The estimated logit equation is

$$\text{Logit (SOE surviving privatization)} = -3.016 + 0.08\text{Inflation rate} + 0.049\text{Budget balance} + 0.163\text{Real lending rate} + 0.054\text{GDP growth rate}$$

The Hosmer and Lemeshow's goodness-of-fit test compared observed with predicted number of cases for privatization and non-privatization, using all the predictors in the model very strongly showed a good fit with ($\chi^2 = 8.689$, $df = 8$, $p = 0.369$). The table also shows that the most reliable predictors of privatization and non-privatization are real lending rate and inflation rate. Additionally, the odds ratio values in Table 2 indicate that the odds in favor of an SOE not being privatized increases by a multiplicative factor 1.087 for a one unit change in inflation rate, while the increase in odds are higher (1.177) for real lending rate.

The ability of the model to correctly classify SOE privatization and non-privatization was found to be very high (75.9%). The model's sensitivity was moderate (i.e 50% of privatizations were correctly classified) while its specificity was very high (i.e 89.5% of non-privatizations were correctly classified). In addition to the above observations, an inspection of cases for which the model predicted most poorly, that is, cases with standardized residuals (z) = +/-2 or above, revealed that there was only one case out of the 58 years.

External Factors

The results indicate that the constant term explains about 65% of the variation leading to SOEs surviving privatization efforts in Ghana. This term has a negative sign (-3.016) and is highly significant at the 5% level of significance, except that consistent with its sign, an improvement in it reduces the odds of significant SOE survival under privatization policy implementation ($\text{Exp}(B) = 0.049$). If the external factors deteriorate, it would increase the odds of significant SOE survival under privatization policy implementation. This is supported by Auriol and Picard (2008) who found that in the absence of credible regulatory agencies, regulation is achieved through public ownership in developing countries.

The factors which make up this term are the nonconventional factors which define the local framework within which privatization is carried out (Estrin and Pelletier, 2018). These factors, as discussed earlier are external factors, mainly showing up through corruption and mismanagement of SOEs in sub-Saharan Africa as well as the influence of political institutions, the IMF and World Bank and related institutions. The following discussions show how these factors have played out in Ghana to influence the survival or privatization of SOEs.

Mismanagement of SOEs

In 2015, the Minister of Finance of Ghana disclosed to Parliament that the Divestiture Implementation Committee (DIC) had failed to recover an amount of US\$21.3million and GHS4million from the sale of 5 state-owned enterprises to private individuals and institutional investors. The assets were sold from 2009 to 2013 at a total cost of US\$30.7 million and

GHS6million but less than 30 percent of the amount due the state had been retrieved (GNA, 2015).

In another instance, Head of Finance and Administration of the DIC told Parliament that eight million, eight hundred and fifty–five thousand Ghana cedis (GHS8, 855,000) was owed the government by organizations and individuals to whom 36 SOEs had been divested. In some cases the DIC was unable to reach the debtors to claim what was owed. In other cases the DIC could not tell which individuals or organizations the enterprises had been divested to (peacefmonline.com, 2013).

Acting contrary to Section 95 of the Public Financial Management (PFM) Act, 2016 (Act 921) which required SOEs to submit their audited financial statements to the Minister of Finance not later than four months after each financial year, all Ghana's SOEs except Ghana Re and COCOBOD had not finalized their financial statements, with 5 SOEs in arrears for both 2015 and 2016 when the statements were needed. There were also instances of partial disclosure of financial information by some SOEs, indicating the need for the Ministry to sensitize SOEs in particular and the general public on the provisions and requirements of the PFM Act on financial reporting and disclosure by SOEs and public corporations (Ministry of Finance, 2016).

Thus by the results, a significant improvement in the management of SOEs would decrease the odds of their surviving privatization efforts in Ghana. Given the current situation of high mismanagement however, the stagnation of the privatization process is explained by the sustained mismanagement. Since the release of the 2016 SOE report, the promised reforms have not been forthcoming (Economy Times, 2019).

Corruption

Ghana scored 41 points out of 100 on the 2018 Corruption Perceptions Index reported by Transparency International. Corruption Index in Ghana averaged 38.86 points from 1998 until 2018, reaching an all- time high of 48 points in 2014 and a record low of 33 points in 1999.

Ghana is the 78 least corrupt nation out of 175 countries, according to the 2018 Corruption Perceptions Index reported by Transparency International. Corruption Rank in Ghana averaged 64.71 from 1998 until 2018, reaching an all- time high of 81 in 2017 and a record low of 50 in 2002. These scores show a consistent presence of high corruption. Being an external cost mainly working against public sector, the poor and vulnerable, if corruption is reduced significantly, this would decrease the odds of SOEs surviving privatization moves in Ghana. As it stands, given the high level of corruption captured by Transparency International over the past decade, the odds for SOEs to survive privatization moves have increased. Thus the SOEs understandably have to a large extent become the avenues for corrupt state officials

to continue to carry out corrupt practices. Some examples to support the results are discussed below.

In January 2018, Ghana's Auditor General submitted a report to Parliament covering the audit of liabilities of Ministries, Departments and Agencies (MDAs) as at 31 December 2016. In that report, out of the total claims or liabilities amounting to GHS11,810,579,603.55 submitted by the Ministry of Finance to the Audit Service, the Service was able to certify a total of GHS6,331,326,592.29 and disallowed GHS5,479,253,011.26. This means about 48% of the claims for government payments were either fraudulent or improper. A follow up on the status of implementation of recommendations in the Auditor-General's previous reports resulted in the recovery of a total sum of GHS67,315,066.126 from public officers, individual and institutions who committed financial infractions in the course of performing their duties (Ghana Audit Service, 2018).

Even the private sector, which would be entrusted with divested companies have not come clean on corruption. The Economic and Organized Crime Office (EOCO) of Ghana recovered GHS51million of taxes owed to the state by some private companies, institutions and individuals. The recovery was over a period of one-and-a-half years. The Ghana Revenue Authority (GRA) had been tasked by the Ministry of Finance to recover GHS4.40 billion from 427 corporate tax defaulters and other entities in unpaid taxes (Appiah-Adjei, 2019). The Executive Director of the Ghana Integrity Initiative (GII) observed that although most private companies had codes of conduct that guided their activities, implementation was a problem, because of the system where many public officials demanded bribes and sanctions against corrupt officials were not forthcoming (Appiah-Adjei, 2019).

Political Influence

The Chairman of Ghana's Public Interest and Accountability Committee (PIAC), in a public forum called for the depoliticisation of the Ghana National Petroleum Corporation (GNPC), to serve the common good of all citizens of Ghana. He argued that anything governments wanted to fund but could not finance, eventually got funded by the corporation, to the detriment of its core mandate. He explained that Ghana did not make satisfactory progress at the 2016 Extractive Transparency Initiative (EITI) international evaluation largely on account of how GNPC conducted its operations. He was emphatic about the fact that all governments in Ghana had been guilty of the deliberate mismanagement of GNPC through political influence, to create an avenue for funding their political party activities (Owusu-Akyaw, 2019).

Thus, a depoliticisation of the SOEs environment would, according to the results of this study, decrease the odds of SOEs surviving privatization efforts in Ghana. The highly politicized

SOE environment however, results in an increase in the odds of SOEs surviving privatization efforts in Ghana.

World Bank and IMF Influence

The only times significant privatization had occurred in Sub-Saharan Africa was when there was pressure from the World Bank and IMF to do so in exchange for bailouts. Interestingly, Ghana's president, in a meeting with the World Bank Vice President for Africa, stated that Ghana had had sixteen bailouts with the International Monetary Fund (IMF) since her independence in 1957. This had been so largely because of indiscipline on the side of those vested with the power to manage the economy (starrfm.com, 2019).

Given the circumstances which call for developing countries to work their economies on track through IMF conditionality, accepting the IMF offer mostly becomes a last resort measure. Thus, if economies are able to manage their affairs prudently, they could avoid coming under IMF instructions and therefore may to a large extent, not be under any obligation to privatize some cherished SOEs. This assertion follows from the result that less World Bank and IMF influence would reduce the odds of SOEs surviving privatization moves in Ghana. This result is supported by Estrin and Pelletier (2018) and Agenor and Montiel (2015), who contend that successful privatization can only be achieved if local conditions are given priority in the decisions that lead to privatization.

It is worth noting that the external factors do not work in isolation or independently. They work together as the underlying factors for SOE survival, and so any attempt to rely on any one of them alone as a means of curbing the influence of external factors would not be successful. Here, the effect of the theory of second best could be fully at work, where it is required that all these factors are tackled together to guarantee success. Any one of them that is ignored undoes the one that is executed. Thus, the economies of Africa will need to tackle together the issues of mismanagement, corruption, political and external influence if SOEs have to be privatized to improve current and future fiscal difficulties. The current state where nonperforming SOEs cannot be divested is enough testimony of the extent of dominance the external factors have on these economies.

CONCLUSION AND SCOPE FOR FURTHER RESEARCH

Distressed by sustained fiscal deficits, one of the solutions found by African economies and development partners was the privatization of nonperforming SOEs to increase current and future primary surplus. It is also important that the actual impact of privatization on budgets of African economies are measured correctly. The key issue of concern being the extent to which

the sustainable non-SOE primary surplus will be affected by privatization (Agenor and Montiel, 2015). The important point is that by selling a loss-making enterprise, the government can secure a future fiscal adjustment to create confidence in the economy for investment.

This paper therefore assessed the extent to which fiscal benefits could drive privatization of SOEs to improve macroeconomic conditions in sub-Saharan Africa. With Ghana as a typical representative country, the study found that fiscal balance and economic growth rate did not have any significant influence on SOEs surviving privatization efforts. Real lending rates and inflation rates significantly influenced the odds of SOEs surviving privatization efforts in Africa. Also, the combined effect of external factors like mismanagement of SOEs, Corruption, Political influence and the influence of the IMF and World Bank played a major and significant role in determining whether SOEs would survive privatization efforts. The results also showed that significant improvement in the external factors- improved management, minimal corruption, eradication of political and external influence would reduce the odds of SOEs surviving privatization efforts. Thus creating enabling conditions for significant macroeconomic gains.

While the combined effect of external factors exert a significant influence on the survival of SOEs, it would be useful to examine how these factors are related and the extent to which each affects the survival or privatization of SOEs. It is proposed that further research could examine this as well as the factors that determine the broader and long term benefits of SOEs rather than short term fiscal benefits.

RECOMMENDATIONS FOR POLICY

From the major findings, it is recommended that sub-Saharan Africa countries should refrain from privatizing SOEs for the sake of fiscal benefits. Such benefits are not guaranteed in the short to medium term to provide needed relief from fiscal deficits. This means that SOEs privatization decisions should go beyond financial gains.

This is only possible if SOEs have a wider purpose and set of desired outcomes such as creating social and environmental value for society. In such a case, the wider purpose should be reflected in how their performance is managed and assessed. As such, a new way of assessing SOE success should go beyond financial results to consider impact on other societal capitals like social and human welfare, innovation, and environmental benefits.

Such objectives should be made explicit and linked clearly to the purpose of the SOE. For long term sustainability, there needs to be a balance financially over time, with investments by SOEs looking for long term gains for the economy and society as against short term financial benefits.

Sub-Saharan Africa countries should pay much attention to efforts at improving real lending rates and also reducing inflation rates. These would boost the environment for the privatization of nonperforming SOEs to generate investment for growth. The current high rates of inflation and real lending rates are disincentives for privatization and investment.

It is also recommended that policies to check mismanagement of SOEs, corruption, political and external influence be implemented speedily and efficiently in these economies. Such policies if well implemented have the tendency to improve the chances of nonperforming SOEs being privatized. This is because the improved local conditions can generate investor confidence to create investment, some of which would be private sector purchase of nonperforming SOEs, to spur growth. The existing external conditions of mismanagement of SOEs, corruption, political and external influence have to a large extent restrained privatization and investment.

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