Privatisation and Commercialisation of Investments: How Beneficial are they to Developing Economies in Africa?

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1. INTRODUCTION

Emerging markets present exciting challenges for international finance and foreign investments. New markets hold both promises and peril. They have the potential for remarkably high returns while simultaneously harbouring substantial risks.[1] The emergence of new market is one of the most important aspects of foreign investments, finance and economic developments in contemporary Africa.

Emerging Capital Markets have continued to attract the attention of global investors and scholars alike;[2] this is because the markets are characterised by high average returns, excellent diversification prospects and at the same time high volatility.[3]

Emerging markets are by their nature characterised as transitional i.e. they are in the process of moving from a closed to an open market economy.[4] In essence, the labelling of a market or economy as emerging or developing is such that the market/ economy is embarking on an economic reform programme that will lead it to stronger and more viable economic performance level, as well as transparency and efficiency in the capital markets.

Consequently, a prime indicator of an emerging market is the departure from public sector led development and the introduction of a market oriented development process with emphasis on smaller government, efficient resource allocation and market-determined prices. Major programmes for increasing private sector driven economy

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[1] J.R. Kehl, 'Emerging Markets in Africa', African Journal of Political Science and International Relations Vol. 1, No. 1, May 2007, www.academicjournals.org/AJPSIR accessed on 28/02/09.

[2] See C.B. Barry and L.T. Lockwood, "New Directions in Research on Emerging Capital Markets," Financial Markets, Institutions and Instruments, Vol. 4, No. 5, (Oxford: Blackwell Publishers, 1995), p. 15; K. Mwenda, 'Securities Regulation And Emerging Markets: Legal And Institutional Issues For Southern And Eastern Africa', Murdoch University Electronic Journal of Law, Vol 7, No. 1, March 2000.

[3] Ibid.

[4] Reem Heakal, *What is an Emerging Market Economy?* Retrieved from htpp://www.investopedia.com/ articles/03/073003.asp on21-01-2009.

include trade liberalisation, deregulation of interest rates, public sector reforms, privatisation and commercialisation.[5]

As the title suggests, the major thrust of the paper is an examination of the prospects and challenges inherent in the implementation of the deregulatory policies of privatisation and commercialisation on the economies of developing nations.[6]

2. African Countries as Emerging Markets

In time past, talk of investments in the African continent was often dismissed as a blatant day-dreaming and nothing but mere idealism.[7] Surprisingly however, global investors are now turning their eyes – and their funds – to a new investment haven: Africa. To say that Africa is on the brink of becoming an emerging market frontier will not be out of place for so many obvious reasons as will be articulated in the course of the paper.

Not until recently, when investors talk about emerging markets in Africa, what readily came to mind was South Africa and possibly Egypt.[8] Thus, despite the fact that the International Finance Corporation considers most African countries to be developing, yet the Emerging Markets Indicators (EMI) Report from the Economist *'does not regard many African countries as having markets (other than South Africa and Egypt)'*.[9] The EMI report does not acknowledge other African countries as having markets in any form, be they capital, labour, natural resources, consumer or stock markets.[10]

With the recent positive developments in emerging markets in favour of Africa, one begins to doubt the correctness or accuracy of the EMI Report. Even though the whole euphoria started with South Africa, it is no longer confined to that African State. For instance, Kenya, Ghana and Botswana are the recent beneficiaries from bases in London and New York.[11] This new investment drive is further epitomized below.

As recently as February 2007, the Russian-based investment bank, Renaissance Capital, announced the launch of a billion dollar pan-African investment fund. And by April 18, 2007, the company announced that it was well on the way to creating *'a fully-fledged, pan-regional investment banking, research and asset management operation'*, with offices in Lagos and Nairobi.[12]

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[5] Hassan Adamu. 'Nigeria: A Profile' in Bankole Sodipo and Bunmi Fagbemi (eds), *Nigeria's Foreign Investment Laws and Intellectual Property Rights* (Intellectual Property Law Unit, Queen Mary & Westfield College, University of London, London 1994)16.

[6] For the purpose of this paper, the term developing economies means emerging markets. Various definitions have been used to explain what an emerging market means. Antoine Van Agtmael defines emerging market as an economy with low to middle income per capital income. Also in wikipedia, emerging markets is used to describe a nation's social or business activity in the process of rapid growth and industrialisation.

[7] Javier Santiso, 'Africa: an emerging markets frontier', OECD Observer, http://www.oecdobserver.org/news/fullstory.php/aid/2350 accessed on 02/03/09.

[8] Mwenda, 'Securities Regulation And Emerging Markets: Legal And Institutional Issues For Southern And Eastern Africa'.

[9] Ibid.

[10] This is the basis of the criticism of Kehl against conceptualization of emerging markets. See Kehl, J.R., *Emerging markets in Africa*.

[11] Javier Santiso, 'Africa: an emerging markets frontier', OECD Observer, op cit.

[12] Ibid.