Privatisation, Private Sector Development and Horizontal Inequalities in Post-Conflict Countries

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5.1: Introduction

One of the most important strands of contemporary writing on liberal peace-building and post-conflict reconstruction has been a critique of the donor emphasis on rapid post-conflict market reforms.1 Even in non-conflict countries, privatisation is one of the most politically controversial and technically problematic components of the market reform agenda because (i) it is very difficult to reverse; (ii) it often results in the loss of scarce formal sector jobs; (iii) the process is often accompanied by a lack of transparency and corruption (Adam et al 1992; Campell-White and Bhatia 1998; Commander and Killick 1988). Such problems and their repercussions are compounded in post-conflict countries that are struggling to deepen institutions, preserve socio-political stability, and overcome a legacy of conflict in fragile, deeply divided societies.

There has been a vast literature on privatisation over the past 30 years, but very little that is specific to the post-conflict environment as such and no study (that we are aware of) that attempts to look at this issue in comparative perspective. There is a substantial literature on the role of the private sector in conflict zones and in peace-building, often within the rubric of corporate social responsibility (CSR), but that is largely relevant to foreign direct investment and multinational corporations.2 The dominant themes in the privatisation literature have largely to do with efficacy; that is on issues of process, mode, sequencing, transparency. The debates within this topic relate to the comparative benefits of voucher based mass privatisation, which is more politically palatable, versus alternatives such as management buyouts or sales to foreign investors (which have the advantage of bringing in technical and managerial expertise, and fresh investment). As such, there are two important characteristics of this literature to note. Firstly, it views privatisation as a largely technocratic exercise. As Feigenbaum and Henig (1994) describe:

Privatisation is an intensely political phenomenon and ought to be analyzed as such. Yet much of the literature deemphasizes its consequences for political ideas and political institutions and instead presents it as a pragmatic adaptation of well-tested administrative techniques or as a necessary exercise in economic adjustment to structural constraints.

Secondly, the dependent variable in these studies is typically a measure of economic success of privatisation, such as the dollar value of privatisation receipts, increases in firm level output, or productivity.3

In contrast, there is a small alternative literature that inverts the relationship under investigation to place the social effects of privatisation as the dependent variable.4 For

1 See Benedicte, Jerve, and Sigvaldsen (2006); Paris (2004); Woodward (2002).
2 See for example, Berdal and Mousavizadeh (2010); Bray (2009).
3 See for example Netter and Megginson (2001); Brune et al (2004); Feigenbaum and Henig (1994).
4 See also Birdsall and Nellis (2003); Cook and Kirkpatrick (1995); Bayliss and Cramer (2001).
example, one recent study estimates that mass privatisation resulted in a 12.8 per cent increase in adult male mortality rates in post-communist countries over 1989-2002 (Stuckler et al 2009). One of the key methodological problems facing any such study, however, is the difficulty in isolating the impact of privatisation alone because it is not a bounded policy choice whose effects can be studied in isolation from other contemporaneous policies and non-policy effects.\(^5\)

Similarly, although it is possibly to identify similar dynamics that are unleashed as a result of the privatisation process in many post-conflict countries, the overall political, economic and social results that are ultimately manifest vary significantly from one case to another, based largely on the strength and design of state institutions, the actions and inactions of donors, and the differential evolution of state-capital relations in the pre-war, war, and post-war periods. It is as a result, complicated to undertake any comparative study on the effects of privatisation, and to arrive at broadly applicable abstract policy conclusions on how post-conflict privatisation should be approached.

This paper uses four case studies of post-conflict privatisation and post-conflict private sector development to develop a typology of its implications for post-conflict stability, and for ethnic and regional inequalities. Privatisation, foreign investment and private sector development are critical elements of the revitalisation of post-conflict economies, and are priority items on the agenda of donors and post-conflict governments. Under the urgent imperatives of generating employment, creating economic growth, and bringing new investment in war-ravaged societies, the reliance on the private sector is critical and unavoidable. In effect, the success or failure of post-conflict reconstruction often depends on the disaggregated micro-level investment decisions of thousands of small, middle, and large private sector entrepreneurs, both domestic and foreign, whose actions and inactions are modulated through their social identities, and the way that this relates to the politics of the conflict and post-conflict dispensation.

Given the extent of economic destruction and capital flight that frequently transpires during violent conflict, the creation and expansion of new private sector investment in post-conflict countries has important historical parallels to the earlier periods of transition to capitalism that must be taken into account – particularly in terms of the socio-political repercussions that it generates. The uneven transition of pre-capitalist agrarian economies to mercantile or industrial capitalism under colonial rule or in ethnically segmented societies resulted in two major problems that had significant social, economic and political repercussions over the course of the 20th century.

Firstly, it resulted in the rise of ethnicised capitalisms, such that access to business opportunity and occupation were frequently stratified by bounded ascriptive categories. In countries like India or Nigeria, commercially oriented ethnic or caste groups such as Marwaris or Igbos grew to dominate trade, finance and industry during the colonial period. In East Africa and South-East Asia, there was a clear economic trifurcation of the population with respect to the economy: the apex of banking, international commerce, and plantation agriculture was in European hands; rural commerce and small enterprises were largely in the hands of immigrant groups of Indian or Chinese ‘barefoot capitalists’. Meanwhile, the indigenous populations, who comprised the large majority, were largely restricted, sometimes through legislation and coercion, to peasant agriculture.\(^6\)

The dominance of certain ethnic groups in business ownership during the colonial period, and the systematic exclusion and under-representation of many groups, including

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\(^5\) As Cramer (2001) argues ‘it is missing the point to isolate privatisation and to make sweeping claims for its success or failure as a discrete policy tool.’

\(^6\) For example with respect to Kenya, see Vandenberg (2006).
large indigenous majorities from participation in avenues for prosperity and upward mobility often contributed to the creation of very sharp forms of rigidly bounded ethnicised inequalities. By the mid-20th century, these became the roots of substantial economic grievances that triggered mass support for anti-colonial uprisings, and populist ethnic and ‘bhumi-putra’ type political movements that have animated ethnic politics, and the dynamics of political violence in post-colonial states.

Secondly, the colonial experience resulted in very widespread geographic differences in development, often mapping onto unequal levels of welfare and income for specific ethnic groups. Due to the impact of factors such as proximity to sea-routes, the location of natural resource investment, and the differential impact and forms of direct versus indirect colonial rule within the same territories, the spread of private enterprise, commercial relations and the formal and informal institutions of capitalism has been very uneven. This unevenness has in turn helped to define and re-define differences in identity between particular regions and populations, often becoming the basis for lasting ethnic inequalities that have persisted for decades into the post-colonial period.

Both of these factors – the ethnic dominance of business, and uneven geographic patterns of private sector development – remain critical issues of concern in post-conflict economies, although there is for the most part, little explicit attention in the discourse and practice of post-conflict reconstruction to this matter. Indeed, in what appears to be a generational reversion into the past, the World Bank’s 2009 World Development Report explicitly makes a spatial version of the Kuznets curve argument against efforts at ameliorating regional inequalities:

*Economic growth is seldom balanced. Efforts to spread it prematurely will jeopardize progress. Two centuries of economic growth show that spatial disparities in income and production are inevitable.* (WDR 2009, pp.5-6).

Numerous post-conflict reconstruction programmes, particularly in the early-to-mid 1990s, featured a heavy emphasis on early, rapid privatisation, with very little if any attention to the social and regional distortions that might result. From the perspective of the donor agencies, the rationale was three-fold:

1. Firstly, this emphasis on rapid privatisation and private-sector development reflected a standard application of orthodox development theory to post-conflict countries. State Owned Enterprises (SOE’s) were identified as inefficient and a drain on government finances (Bayliss, and Cramer 2001). Privatisation would lead to better incentives, increased firm output, and contribute to private-sector led economic growth, providing the developmental basis for post-conflict stability and success. To the extent that this idea was grounded in any sensitivity to the specificities of a post-conflict environment, it was based on a very linear conception of the development-conflict nexus - the idea that conflict is the flip-side of development, and that rapid development can help to overcome the legacy of conflict and promote peace.7

2. Secondly, privatisation was explicitly identified as a desirable goal that was possible and achievable in the post-conflict ‘terra nullis’ situation. In some post-conflict countries, donor policy documents argued that politically difficult reforms could be achieved in the immediate post-conflict moment, before networks of anti-reform activism and influence could coalesce against it. The most recent and concise statement of this position, (Collier

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2009) explicitly states that ‘the political context for reform is more favourable’ in postconflict situations. Similarly, Bray (2009) contends that ‘it is harder to implement reforms later on because delays make it easier for those with post-conflict vested interests to entrench their position’.

3. Thirdly, and somewhat related to the above point, there was the conscious idea that early, rapid privatisation was actually a valuable conflict-mitigating strategy, as it would remove patronage-able assets from the state, preventing ethnically-imbalanced post-conflict governments from distributing patronage in ways that could exacerbate socio-political inequalities and risk re-igniting the conflict.

Despite the substantial differences in the analytical understanding of the conflict-development linkages that underpin these three approaches, they share a common policy conclusion that emphasises the positive aspects of privatisation at the cost of ignoring its negative consequences. Furthermore, in the relatively few cases where post-conflict reconstruction has been sensitised – at least in discourse if not in practice – to issues of ethnic/regional inequalities, their method of evaluation and intervention often concentrates on state-led and aid-led policy levers, in which average incomes, poverty rates, or political participation are the relevant indicators, rather than private sector participation.

This paper instead suggests that it is relevant to pay greater attention to the actions of business leaders, their social composition, and their investment decisions. Importantly, it starts out with an analytical frame that explores the implications that these factors bear for ethnic and regional inequalities. Through a stylised description of the privatisation experiences in four post-conflict countries, it outlines the great complexities, and the highly contingent outcomes that result from the application of very similar policies in very different societies. The findings do not result in the isolation of critical variables based on comparative analysis, but in the clustering and detailing of four broad typologies of problems that emerge through a privatisation process:

1. Privatisation is an extremely controversial policy agenda item that can involve distinct changes in welfare for specific groups, and can be conflict inducing. Opposition to privatisation, particularly where it is imposed through external pressure, can strengthen the hand of extremist and nationalist groups who seek to institute ethnic/party dominance or a return to conflict. In deeply divided societies, the fear that privatisation can result in a redistribution of ethnic ownership and employment patterns can influence the form and process of privatisation.

2. Private sector development can result in the dominance of the business elite in its formative stage by small, commercially oriented ethnic groups, or by foreign investors. It can contribute to the early creation of the basis for lasting post-conflict ethnic inequalities. In such situations, privatisation process might, with appropriate regulation and institutional support, be used in order to ensure the broadening of the ethnic structure of the private sector.

3. Private sector development can contribute to the creation or exacerbation of regional and urban/rural imbalances in development and income levels that can subsequently become the basis for social instability.
4. Private sector development and privatisation can blend into a continuation of illicit and ethnically divisive war-economies. Far from ending patrimonial and predatory forms of ethnically-biased politics, privatisation can be the vehicle for the perpetuation of corrupt elites, and for locking in the benefits of transitory political power into permanent economic gains for certain groups.

The four country cases that are used to illustrate these points are (i) Sri Lanka; (ii) Mozambique; (iii) Bosnia and Herzegovina (iv) Cambodia. In summary, the case of Sri Lanka in the 2001-2004 period is an example of the ways in which the popular backlash (particularly from the majority community) to an ambitious post-conflict privatisation and market reform agenda helped to destabilise a fragile peace process. In Mozambique, which is frequently cited as a success story of post-conflict reconstruction, post-conflict development has sharpened existing regional inequalities between the south, centre and north. In Bosnia, post-conflict privatisation and private sector development has taken place in the shadow of a highly ethnically and fragmented state authority, and has contributed in certain ways to the consolidation of a weak state and divided population. In Cambodia, the emergence of a new private sector based on close links to predatory state elites and their capture of public assets such as land has become overshadowed by a rapid industrial transformation, controlled almost entirely by ethnic Chinese entrepreneurs from neighbouring countries.

5.2 Sri Lanka

The Sri Lankan civil war which started in 1983 is the product of an underlying political conflict between the island’s majority Sinhalese community and the minority Tamils, who had by the mid-1970s developed a demand for self-determination and for the independence of the Tamil-dominated north and east of the island. In this context of several prior failed peace negotiations, and continuing war for almost two decades, the cease-fire agreement of February 2002 between the GOSL and Liberation Tigers of Tamil Eelam (LTTE) gave rise to the most promising possibility for peace to date.

Nevertheless, just over two years later, in April 2004, the government that signed the cease-fire lost power in mid-term elections, and was replaced by a new government far more hostile to the peace agenda. From that point onwards, there was no more progress on the peace process, and there was instead a slow slide towards war over the next two years. The reasons for the collapse of the peace process and the resumption of civil war in mid-2006 are complex, and blame must be apportioned to several parties, including the international community.

One of the most noteworthy features of the Sri Lankan peace process was the extent to which it was accompanied by a well articulated post-conflict economic strategy which enjoyed the strong ‘ownership’ of the government and the support of the donors. In the years prior to the initiation of the peace process, the Sri Lankan economy entered a period of crisis and contraction, due in part to the effects of the war, and aggravated by political instability. In early 2001, Sri Lanka was forced to seek an IMF bailout that set stringent conditions for fiscal austerity, particularly with respect to a number of politically sensitive issues such as the fertiliser subsidy. The crisis spurred both donors and influential business groups to lobby heavily for the emerging post-conflict economic policy agenda to include a
strong market reform component, including the privatisation of a significant number of state-owned enterprises, such as the banking sector.

The promotion of this agenda alongside the evolving peace process by the government, donor agencies and leading domestic corporate groups was explicitly based on a two-fold, inter-locking rationale: faster economic reforms and privatisation would spur a rapid post-conflict economic bounce-back; the cease-fire and peace process in turn, would lift the economic burden of war on the economy. Together, these two factors would be mutually synergistic, and lead into a second stage, where economic growth would provide the peace dividend necessary to consolidate and expand public support for further progress in the peace process.8

On the part of the aid donors, particularly the World Bank, this kind of strategisation of the conflict-development relationship paradoxically emerged as part of the transformation in attitudes and practices towards a more conflict-sensitive approach. As with the business community, many donors felt that they could no longer work around the conflict and pretend it did not exist, but would have to address it more directly through their programmes, through policy dialogue with the government, and perhaps even through conditionality (Frerks and Klem 2006; Goodhand 2001). The World Bank’s 2001 internal evaluation audit on Sri Lanka remarked self-critically that the bank’s activities needed to be far more directly conflict-sensitive. But in the same breath, the document asserts without any apparent contradiction, the need for such conflict-sensitivity to go hand in hand with market reforms:

Completion of the structural reform agenda and a resolution of the conflict in the North and the East are the key missing elements for Sri Lanka to accelerate growth and achieve further poverty reduction. Bank assistance should help overcome both these constraints.9

In reality, many of the assumptions in this model proved to be flawed. The reform agenda generated deep anxiety among an increasing number of social groups, for whom privatisation proposals involved vital decisions relating to their livelihoods. The government’s cut backs on social expenditures, rural infrastructure, fertiliser subsidies and public sector employment meant that there was very little in the way a peace dividend to distribute.

As direct political negotiations with the LTTE opened in late-2002, the government’s break-neck pace of reform, the domestic effects of the fiscal compression, and the spreading concerns that the government was about to announce a wave of privatisation began to cause a wave of public unease. Over the course of the government’s second year in power, an increasingly vigorous opposition to the reforms emerged from trade unions, farmers groups and welfare recipients by mid-2003. Although there was no explicit ethnic element to this new mobilisation, state-owned enterprises had typically employed the majority Sinhalese community to a disproportionate extent. Largely as a result of this factor, the Sinhala nationalist opposition to the peace process was able to capitalise on the unease that many Sinhalese felt at the compression of state employment through privatisation.

The peace process and the brief pause in conflict that ensued between 2002-2006 certainly did have positive economic consequences and led to a brief spurt of economic

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8 For more details see Venugopal (2009).
growth. But the material benefits – apart from the immediate relief that it briefly afforded to the population of the war-torn north-east – accrued in a direction that aggravated the existing axes of economic mal-distribution, favouring the richer, more globally connected, Colombo-based segments of society at the expense of poorer, fixed-income groups of the Sinhalese majority living in the rural hinterland and urban periphery.

Not only did government policy not correct, mitigate and compensate for these extant tendencies that were largely the result of a spontaneous private sector-led bounce-back, but in the wake of a fiscal austerity programme implemented as a condition of an IMF rescue package, it actually worsened the problem. Furthermore, the government’s ambitious plans to reform labour law, rationalise poverty alleviation schemes and privatise large segments of the public sector extended the sense of insecurity to larger segments of the population. In essence, the theorisation of ‘development’ as an abstract antidote to conflict proved to be near-sighted and counter-productive. There was indeed a surge of post-conflict development in Sri Lanka during the brief peace process, but it was clearly a case where the benefits for the few appeared to come at the expense of the growing insecurity of the many. As a result, development gave rise not to a reversal of conflict, but in a reversion to conflict.

5.3 Mozambique

After three decades of violent conflict, Mozambique emerged into post-conflict status in 1992 as the poorest country in the world, with the lowest level of GDP per capita, very low levels of infrastructure and productive economic assets, both human and physical. Yet within a decade, Mozambique had been transformed into one of the more successful cases of peace-building and post-conflict reconstruction. The two main parties to the civil war, Frelimo and Renamo, had undergone a successful transition from violent rivalry to peaceful political competition under a devolved, liberal democratic framework.¹⁰

Mozambique’s post-conflict economy also grew at high rates, with GDP growth at levels of 8 per cent per annum over 1994-2007, buoyed by high levels of foreign aid and private foreign investment. As Castel Branco et al (2001) describe, ‘Privatisation, together with liberalisation and deregulation, constituted the core of economic demobilisation’ (p.1.). Around 1,400 companies were privatised in Mozambique, mostly during the decade of the 1990s, in what constituted the largest privatisation programme in Africa (Cramer 2001).

Prior to the outbreak of war and independence from Portugal, Mozambique’s economy was characterised by very high disparities in regional development, a racialised segmentation of the economy, and very low levels of income and public expenditure for the vast majority of the indigenous African population. The relatively small formal private sector was entirely dominated by entrepreneurs of European and Asian/Indian ethnicity, with a heavy concentration in urban enclaves, and particularly in the far south around the capital Maputo, due to its proximity to South Africa. Following independence in 1975, a significant part of the formal private sector effectively collapsed when most Europeans and Asians, who comprised the majority of the country’s business owners, as well as the managerial and technical elite, left the country. Formal sector private enterprises were further heavily constrained during the socialist period of 1977-83, when many were nationalised or subject to heavy government regulation and intervention.

It is in this context of colonial era ethnic/regional imbalances, post-colonial socialist policies and destruction due to the war that Mozambique offers a case study in understanding how privatisation and post-conflict reconstruction affects the composition and geography of a newly re-created private sector. It is important, however, to bear in mind that market reforms were initiated in Mozambique in 1987, five years before the end of the war, and seven years before the first post-conflict elections in 1994. Furthermore, the continuation of the ruling Frelimo party in power during the war and the post-war periods has meant that the impact of the end of the war has not signified a change in policy direction or leadership as much as an increase in the level of aid and private investment.

Privatisation was a key item on the donor agenda in the post-1987 period, but there was also considerable internal pressure for privatisation from domestic investors. As Hanlon (2002), Pitcher (2002), and Castel Branco et al (2001) describe, domestic investors wanted a faster pace of privatisation to occur prior to the conclusion of peace negotiations, which would give them an opportunity to acquire control of state enterprises before the arrival of larger and better financed foreign investors. Between 1990-2000, the government authorised the sale of nearly 1000 SOEs, the large majority of which were small/medium sized companies located in Maputo Province (Pitcher 2002). Until 1996, 90 per cent of the buyers of SOE’s were domestic Mozambican buyers, who were given very generous and extended payment terms (Castel Branco 2001). Many of these new entrepreneurs were closely linked to the Frelimo-controlled state, and included former or current government officials, ruling party members, military personnel, and state enterprise managers (Pitcher 2002; Castel Branco 2001; Hanlon 2002). Cramer (2006) reports how the Frelimo government reserved some public sector companies to retired officers outside of the normal bidding process in order to reintegrate them into civilian life and politically appease them. Overall, this process resulted in the significant expansion of business ownership and affluence to new strata of black Mozambicans. As Cramer describes:

Even where state enterprises were sold to foreign investors, there were Mozambicans who either formed joint ventures with these investors or took up seats on the boards of enterprises that retained a state stake. To a large extent the state took control of assets during nationalisation and then influenced their allocation through privatisation: it created and managed the allocation of rent.\footnote{Although, as Cramer et al (2001) notes, ‘Given the country’s history, if there was any intent to sell state-owned enterprises to people with experience and knowledge and some money, this would necessarily translate into beneficiaries being largely Frelimo members, but it does not translate into a complete conspiracy of the nomenklatura to take all such assets into their own private hands. Indeed, the majority of assets did not go to party bosses.’}

Under the overlapping circumstances of post-conflict and post-socialist transformation, the state became an important vehicle for the accumulation and re-allocation of assets. This created the possibility for expanding business ownership on the one hand, but this went together with a manifold expansion of opportunities for corruption, rent-seeking, and the establishment of predatory and counter-developmental forms of state-business relations.

Data from the RPED enterprise survey in Mozambique conducted in 2002 shows that almost half of the sampled manufacturing enterprises were privatised companies. The data also demonstrates the clear ethnic segmentation of the business community, and provides information that suggests the predominance of Asian and European owners in larger enterprises, and of African owners in smaller companies and in privatised companies. Due

\footnote{Cramer (2006), p.271.}
to data limitations, it is not possible to evaluate the regional and ethnic composition of the African ownership category any further, but the clear dominance of non-Africans among owners suggests that these are relevant categories for understanding the composition of business ownership. Furthermore, there are comparable pattern of ethnic ownership in the other southern/eastern African countries (Kenya, Tanzania, Zambia and Zimbabwe), which have comparable RPED data.

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Moz.</th>
<th>Kenya</th>
<th>Zimbabwe</th>
<th>Zambia</th>
<th>Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>53%</td>
<td>45%</td>
<td>29%</td>
<td>38%</td>
<td>47%</td>
<td>41%</td>
<td>61%</td>
<td>74%</td>
</tr>
<tr>
<td>European</td>
<td>20%</td>
<td>29%</td>
<td>42%</td>
<td>37%</td>
<td>0.5%</td>
<td>40%</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>Asian/Indian</td>
<td>25%</td>
<td>24%</td>
<td>29%</td>
<td>21%</td>
<td>52%</td>
<td>16%</td>
<td>26%</td>
<td>24%</td>
</tr>
<tr>
<td>% privatised</td>
<td>44%</td>
<td>52%</td>
<td>53%</td>
<td>48%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


The data shows that black Mozambicans control and manage less than half of all manufacturing enterprises, and that their participation is greatest in smaller sized firms, and decreases steadily with size. This relationship of size to ethnic ownership structure is replicated in Kenya, Zambia, Zimbabwe and Tanzania, although the situation in Mozambique compares favourably to some extent with Kenya, where as much as 96 per cent of all large sized firms sampled were owned by Asian/Indians, who comprise just 1 per cent of the population. Importantly, the proportion of black Mozambican owners of small and medium enterprises corresponds closely to the proportion of the surveyed enterprises which were privatised in the sample. This suggests (but requires greater confirmation) that although black Mozambicans have extraordinarily low representation in business ownership compared to their 99.6 per cent share in the population, the structure of the privatisation programme in its early phases may have had a critical impact in enabling the creation and support of black Mozambican entrepreneurs in a situation where very few, if any, previously existed.

It remains however, critical to further decompose the African ownership category, largely because of the close association of privatisation with the ruling Frelimo, and the dominance of Frelimo leadership by the southern Shangana-Ronga and northern Makonde groups. Although Mozambique was not a case of ethnic conflict as such, and although Frelimo has since its inception explicitly promoted a supra-ethnic, pan-Mozambican identity, it remained the case that networks of mobilisation, support, and territorial control during the war followed the contours of ethnic and regional identities. Although there is no data to evaluate the ethnic composition of black privatisation recipients or enterprise owners, the regional concentration of existing enterprises, and new foreign investment proposals do provide important insights and sources of concern.

In the colonial period, industry, commerce and finance were concentrated largely in the far south of Mozambique, due to the location of the capital Maputo, and also because of its proximity to South Africa. These pre-existing regional disparities have continued and have become exacerbated since the early 1990s, for three main reasons. Firstly, Maputo has experienced greater economic growth in general because it is the capital city, with a large portion of government salaries and population concentration. Secondly regional disparities have been exacerbated along rural/urban lines, with the largest cities and ports, Maputo and Beira, receiving a larger portion of government expenditures, and private investment. Thirdly, regional disparities have occurred largely in the context of greater economic integration from South Africa, and along the ‘Maputo Corridor’, the 50km stretch of road that links the capital to the South African border, and on towards Johannesburg (Nuno 2004).

Table 5.2 Mozambique: regional distribution of foreign and total investment 1996-2000

<table>
<thead>
<tr>
<th>Region</th>
<th>Foreign</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabo-Delgado</td>
<td>15,338</td>
<td>1.30</td>
<td>71,268</td>
<td>1.40</td>
</tr>
<tr>
<td>Niassa</td>
<td>628</td>
<td>0.10</td>
<td>36,603</td>
<td>0.70</td>
</tr>
<tr>
<td>Nampula</td>
<td>124,670</td>
<td>10.30</td>
<td>364,365</td>
<td>7.30</td>
</tr>
<tr>
<td>Zambezia</td>
<td>33,329</td>
<td>2.80</td>
<td>223,232</td>
<td>4.50</td>
</tr>
<tr>
<td>Tete</td>
<td>2,471</td>
<td>0.20</td>
<td>98,829</td>
<td>2.00</td>
</tr>
<tr>
<td>Manica</td>
<td>23,230</td>
<td>1.90</td>
<td>100,868</td>
<td>2.00</td>
</tr>
<tr>
<td>Sofala</td>
<td>60,647</td>
<td>5.00</td>
<td>259,284</td>
<td>5.20</td>
</tr>
<tr>
<td>Inhambane</td>
<td>16,550</td>
<td>1.40</td>
<td>67,343</td>
<td>1.30</td>
</tr>
<tr>
<td>Gaza</td>
<td>18,192</td>
<td>1.50</td>
<td>55,830</td>
<td>1.10</td>
</tr>
<tr>
<td>Maputo</td>
<td>893,390</td>
<td>73.90</td>
<td>3,639,004</td>
<td>72.80</td>
</tr>
<tr>
<td>(of which Mozal)</td>
<td>(500,000)</td>
<td>(41.40%)</td>
<td>(1,340,000)</td>
<td>(26.80%)</td>
</tr>
<tr>
<td>Multi-province</td>
<td>20,250</td>
<td>1.70</td>
<td>75,875</td>
<td>1.50</td>
</tr>
<tr>
<td></td>
<td>1,208,695</td>
<td></td>
<td>4,992,501</td>
<td></td>
</tr>
</tbody>
</table>


Table 5.2 shows the scale of regional concentration of private sector investment in Mozambique: Maputo city and province, which contain about 15 per cent of the population, received 73 per cent of total investment over the 1996-2000 period. A significant portion of this investment came in the form of a single ‘mega-project’ investment in the Mozal aluminium complex near Maputo, which alone accounted for 27 per cent of total investment.

14 Hodges and Tibana (2004) demonstrate that there are large regional differences in budgetary allocation such that the capital Maputo City receives twice the per capita the amounts allocated to Zambezia and Nampula.
15 See Bowen (2000). Especially part 3, describes how socialist and post-socialist development in Mozambique has been biased in favour of urban areas and urban elites at the expense of the rural majority.
in the country over this period. But even excluding Mozal, there remains a sharp imbalance towards Maputo at 63 per cent of total investment.

Such imbalances in development continue to feed into perceptions that the central regions in particular, where Renamo has its strongest support, are deliberately being neglected. This perception is likely to be enhanced if regional elites linked to Renamo are conspicuously under-represented in private sector participation. As Vaux et al (2006) identify in Mozambique’s Strategic Conflict Assessment (SCA) report, regional differences, particularly between the centre and the south, or between the capital and the rest of the country are a major threat that might underlie future fragility and conflict.

5.4 Bosnia

Bosnia-Herzegovina suffered a devastating conflict between 1992-1995 in the context of its declaration of independence from Yugoslavia, and the competing claims and contradictory aspirations of statehood held by its three constituent ethnic groups: (Muslim) Bosniaks, Croats and Serbs. In the course of an exceptionally violent war, in which between 100,000-200,000 people were killed and up to half the population were displaced, the formal sector almost completely collapsed, both because of the massive war-time dislocations within Bosnia, and also because the Bosnian economy, which was one of the poorest components of Yugoslavia, became unhinged from the economic geography that it was long part of.

As a result, Bosnia took twice as long as most formerly socialist economies to recover from the early shock of transition. While income levels in most Eastern European countries had by 2000 returned back to 1990 levels, it will take Bosnia until 2011 or two full decades, to return to its 1991 level of income. Ten years after the Dayton peace accords, a period referred to as the ‘lost decade’ of development, the World Bank review of Bosnia’s post-conflict reconstruction experience was stark and pessimistic:

_Time lost during the war, combined with subsequent difficulties in coping with the double challenge of post-conflict reconstruction and the transition to a market economy have left BH far behind the most successful countries of central and eastern Europe (CEE). While post-conflict reconstruction has been successful, mainly because of large aid flows, the analysis in the report shows that BH lags on many of the structural reforms that have accompanied economic transition in the region. These include strategic privatisation, product and labor market liberalisation and enterprise restructuring._ World Bank (2005, p.ii)

After more than four decades of worker-managed market socialism, Bosnia-Herzegovina had at the eve of the war in 1991 low levels of income inequality, high levels of unemployment, few legal avenues for private enterprise and private accumulation, and no sizeable class of domestic entrepreneurs (Woodward 1995). This changed almost overnight during the 1992-95 war, when nationalist militias funded their political and military activities by controlling

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the movement of arms, fuel, tobacco, alcohol and foodstuff (Pugh 2002). New entrepreneurs, who used their links to the ethnic militias, and powerful nationalist politicians came into being through the mis-appropriation of aid, violent dispossession, illegal trade, and other such forms of what Marx describes as ‘primitive accumulation’.17

In a short period of time, they became the richest people in the region, and consolidated their war-time accumulation and the political links forged in that period into post-conflict networks of informal, semi-legal and illegal economic activities that thrived on the weak post-war Bosnian state, and the tight links with nationalist political parties that gained control of the post-war state. As Donais (2005) describes, ‘a new post-war symbiosis emerged between those at the top of Bosnia’s largely criminalised political economy and the country’s political elites’ (p.69). As a result, the privatisation process was much more complicated, and problematic in Bosnia than most post-conflict or post-socialist states.

The most important factor in this process was the institutional structure of the Dayton Accord, which created a thin shell of a central Bosnian state, in which real power rested within two constituent ethnocratic statelets, the Bosnian Serb-controlled Republika Srpska (RS), and the Croat-Muslim Federation of Bosnia-Herzegovina (the Federation). The Croat-Muslim Federation in turn had many powers devolved to the level of cantons – smaller geographical entities many of which were also designed as mini-ethnocracies. As a result, the nationalist parties that led the conflict remained in power for years after the civil war, presiding over a devastated formal sector economy that operated at perhaps 20 per cent of the pre-war level, and a vast array of crumbling, and often completely non-functioning state enterprises.

Under these circumstances, the privatisation process in Bosnia became a contentious agenda item promoted overwhelmingly by the IC, the donors, and the OHR, and vigorously resisted by local political leaders (Donais 2005). In a situation where there were extremely high levels of unemployment among all three ethnic groups, and inadequate efforts at employment creation on the part of the international community (Woodward 2000), the ethnic control of state assets and state employment opportunities were critical sources of influence and power by nationalist parties that came to power in both the entities. Under the terms of the Dayton accord, privatisation was effectively devolved down to the constituent ethnocratic political units, with separate and parallel privatisation agencies and processes underway in the RS, the Federation, and to some extent, in the constituent cantons of the Federation. What this meant was that the micro-politics of privatisation in Bosnia has revolved around two closely related factors (i) the neo-patrimonial interests of ethnically divided state elites seeking to control sources of patronage; (ii) the compulsions of preserving ethnic control of enterprises, and particularly ethnic employment patterns.

As a result, the pace of privatisation was very slow in the first five years after Dayton, as mono-ethnic parties empowered in the statelets preferred to retain tight control of their assets. However, following heavy pressure from the donor community for greater speed and transparency in the privatisation process, domestic state elites sought to find new ways through which their interests for patronage accumulation and ethnic control might still be served through privatisation. This was, as Michael Pugh describes, a process of ‘ethnic privatisation’:

‘ethnic privatisation’ was a compromise that emerged after a phase of resistance until about 1998, when nationalist elites sought to control the

17 See Divjac and Pugh (2008); Pugh (2006).
Between 2001-2004, the large majority of smaller and medium sized SOE’s in both entities were privatised through a voucher system. The state privatisation entities handed out vouchers, technically to all residents, who then reinvested those vouchers with designated fund management companies (Donais 2005; Bayliss 2005). Voucher privatisation provided an easy way out for state elites to respond to pressure from above (donors who demanded more privatisation), below (electorates who resisted privatisation), and within (state elites who wanted to retain patronage and ethnic control of enterprises). There would be privatisation, but this would be done in a non-threatening manner, and such that the state still retained a substantial degree of control over enterprises. In doing so, voucher-privatisation not only did nothing to address the stagnation, low-growth, and absence of employment creation that had characterised the pre-privatisation period, (due to continued under-capitalisation and out-dated equipment), but the absence of investment and employment generation in the new SOE’s perpetuated the status-quo of high levels of unemployment, and hence the exacerbation of ethnic tensions over scarce jobs.

Following the voucherisation of small and medium scale enterprises, there has been a separate process whereby larger and more strategically valuable companies have been reserved for outright sale, and have attracted buyers from Austria, Switzerland, Russia, and the former Yugoslav republics. Many of these privatisations have been largely transparent and fair, and have resulted in commitments to protect employment, and increase investment and technological capability. But a significant number of high profile privatisations during 2007-08 have come under scrutiny, both for the non-transparent, and potentially corrupt nature of these transactions, and also for the clear ethnic/political implications they bear.

For example, the Bosanski Brod oil refinery, which was sold to the Russian state refiner and three Russian private investors, has been the subject of significant controversy, both for its below-market valuation, and also for the fact that it was sold by the RS to Russia, a friendly pro-Serbian country. Similar concerns were raised in 2007 when the state telecom monopoly of the RS, Telekom Srpska, was sold to the Telecom monopoly of Serbia, Telekom Srbija, for 650 million Euros in the largest privatisation and foreign investment in Bosnia to date. The concerns raised by Muslim and Croat Bosnians were that these massive deals were manipulated to engineer the sale of Bosnian assets to Serbian companies, and were thus part of a quiet economic re-integration of the RS into Serbia.

Indeed, despite the fact that accession to the EU and integration within the larger European economy remains one of the most important policy goals for Bosnia, there are distinct signs of an economic regional integration of pieces of Bosnia back into parts of the former Yugoslavia, with companies from the much larger economies of Serbia and Croatia using their links with the RS and Croatian controlled cantons of the Federation to buy Bosnian economic assets. In Croat majority areas of Herzegovina, the ruling nationalist party encouraged co-capitalisation from companies in Croatia, but the process of economic disarticulation goes beyond the active role of state entities. Although Austria is currently the single biggest foreign investor in Bosnia, with cumulative FDI of $1.3bn, Serbia and Croatia are the second and third largest investors respectively, who together surpass Austrian investment at $1.4bn.

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18 Pugh (2002).
The fact that many Serbian investments are directed at the RS, and that many Croatian companies invest in the Croat cantons of the Federation suggest that privatisation is becoming a factor in the disarticulation of a nascent pan-Bosnian economy. As Donais argues, 'overall, the way the privatisation process has unfolded ... has done more to entrench the economic positions of the country’s nationalists and to reduce the prospects of ethnic reintegration. (Donais 2005: 119)

5.5 Cambodia

After two decades of violent conflict, and the extremely traumatic Khmer Rouge period during which one million out of a total population of eight million died, Cambodia emerged into ‘post-conflict’ status with the Paris Peace Agreements of 1991. As in Mozambique, the colonial economy in Cambodia was structured along strictly ethnic lines, such that a tiny minority of European and Chinese entrepreneurs controlled an overwhelming number of business enterprises, while the vast majority of ethnic Khmers were tied to the peasant economy. This structure was almost entirely dismantled during the war, and particularly during the genocidal Khmer Rouge period, so that the post-conflict period was also a period when private enterprise and entrepreneurs were created anew.20

Under the circumstances of heavy militarisation and weak institutional development, the slow emergence of capitalism in Cambodia since the late-1980s has resulted in a massive expansion of illicit forms of ‘primitive accumulation’, with members of the Cambodian People’s Party (CPP)-governed state, using their positions of state power and military control to systematically ‘privatize’ land, natural resources, and a vast array of state and collective property (Le Billon 2002; Global Witness 2007). This process began in the prelude to the Paris peace accords, when the anticipation of a diminution of party-state links and executive arbitrariness as a result of power-sharing and a UN peacekeeping mission caused a speeding up of the privatisation process.

The scope of the privatisation process per se was smaller in Cambodia than in Mozambique or Bosnia because of the smaller size of the public sector as a whole. But what is remarkable in comparison to these other countries is the extent of secrecy and almost complete lack of information available about the number of companies, and the identities of the buyers. The sparse available information suggests that there were about 30 companies privatised between 1991-2004, all to Cambodian nationals, for fairly low amounts of around $100,000 per transaction. There were in addition 139 SOE’s which were leased out to private investors in the early 1990s, and about which little further data exists.21

In a country which, at the time of the Paris peace accords was overwhelmingly dominated by one single ethnic group (Khmers or ethnic Cambodians), the main issues that arose from the nature of the privatisation of SOE’s, and the broader ‘privatisation’ of state assets such as land and natural resources related less to the ethnic composition of the private sector as such, but the extent to which the process was clearly corrupt and at times extremely predatory and even violent. As a result, the composition of Cambodia’s newly emerging business elite in the early 1990s in effect came to resemble that of the ruling

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21 This data is obtained from the IMF Statistical Appendix to Cambodia over 1997-2004.
political elite very closely, including many ethnic Khmers where there were previously very few.

Since then, the ethnic composition of post-conflict Cambodia’s business community has undergone considerable change. Following the end of the conflict and the growth of private sector economy in 1991, many Cambodian-Chinese, including those who were in exile during the war, were, often alongside close association with the CPP government, able to return and re-establish their traditional pre-eminent position in commerce and industry.22 This resumption of ethnic Chinese domination over business ownership has undergone a significant transformation with the influx of new waves of ethnic Chinese entrepreneurs from mainland China and south-east Asia in the context of regional economic integration.

In response to the granting of MFN/GSP trade privileges by the US and EU, Cambodia’s garment export grew explosively in the decade between 1996-2006, causing a significant transformation of the Cambodian economy in the process. By 2006, the garment sector amounted to 14 per cent of GDP, with $2.5 billion in exports, or 80 per cent of all Cambodian exports. The sector employed 330,000 people or 10 per cent of the whole labour force and 45 per cent of the manufacturing workforce (World Bank 2007c), supporting 1.7 million people, or around 12 per cent of the total population.

An analysis of garment investors, based on membership data of the Garment Manufacturers Association of Cambodia (GMAC), the leading industry lobby group, reveals that the sector is dominated by investors from East Asia. With company size estimated by number of employees, it appears that 85 per cent of garment factories in Cambodia are owned by ethnic Chinese investors (from Hong Kong, Taiwan, Malaysia, Singapore and China, in addition to Cambodian-Chinese), and another 9 per cent by investors from South Korea. Moreover, these data do not include the significant numbers of mainland Chinese entrepreneurs who have established a presence in various parts of the Cambodian economy.

Relations between ethnic Khmers and Chinese minorities have historically been cordial, and marked by high rates of inter-marriage, integration and the cross-fertilisation of cultural and religious practices. In contrast to many other south-east Asian countries, which have experienced anti-Chinese sentiments and even violence, this has not been the case in Cambodia, where it is the ethnic Vietnamese minority that has traditionally been the subject of hostility. Nevertheless, in conditions of increasing inequality (World Bank 2007c), and with the widespread appropriation of logging and natural resource wealth by individuals closely linked to the Hun Sen government (Global Witness 2007), it is not inconceivable that dissatisfaction against the political dispensation becomes articulated in ethnic terms, particularly given that there are large number of high profile ethnic Chinese in positions of authority.

5.6 Conclusions

This paper has explored some of the diverse social and economic effects that privatisation and private sector development have had upon post-conflict countries, particularly with relation to ethnic and regional divisions. Indeed, the effects that are manifest are so varied and context-dependent that it they are not conducive to generating abstract, generalised policy conclusions on how post-conflict privatisation policies might be improved. Nevertheless, there are important similarities and common threads that are visible across

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the four cases, and that can be taken into consideration in understanding and re-evaluating the role and consequences of privatisation in post-conflict societies.

Firstly, business ownership is an important dimension of horizontal inequalities that deserves greater attention in its own right, and also for the extent to which ethnic domination of business perpetuates population-wide economic horizontal inequalities. This is a subject that requires greater empirical research, particularly with regards to questions such as the ethnicity of privatisation recipients in post-conflict countries.

Secondly, regardless of how technocratically they have been conceived, and how impartially they have been executed, the effects of privatisation policies are widely perceived, evaluated and acted upon in terms of their impact on inter-group inequalities. This is particularly so in cases of ethnic conflict, such as Sri Lanka or Bosnia, where ethnic politics are closely tied with opposition to privatisation and to perceived changes in the ethnic control of state employment ratios.

Thirdly, privatisation is not necessarily a useful vehicle to remove patronage-able assets from ethnically-biased states. In Bosnia, ethnically-oriented state elites used privatisation as a way to lock-in ethnic ownership in ways that perpetuate divisions and that are counter-productive to peace-building. Similarly, the widespread allegations of corruption that have accompanied the privatisations of SOE’s in Mozambique and Cambodia suggest it can worsen problems of governance and corruption, creating and strengthening clientelist and predatory behaviour on the part of both state elites and business owners.

Fourthly, post-conflict private sector development is blind to concerns of horizontal inequalities, and can supersede the impact of HI-sensitive policies implemented by donors and governments. It can, within a relatively short period of time, lead to the overwhelming domination of business ownership by small ethnic groups, and to highly unequal geographical patterns of development.

Fifithly, and to conclude, the possibilities of using targeted policy action and an ethnicity-sensitive approach to address inequalities in private sector composition is often extremely complicated to conceive, administer, and control, and is, even where successful, likely to have only limited, transitory and even counter-productive effects. In Mozambique it had some effect in altering the composition of business ownership towards black Mozambicans, but could not significantly transform the overwhelming dominance of middle and larger sized enterprises by non-blacks, who account for less than 1 per cent of the population. More problematic is the case of Bosnia, where an ethnically conscious approach to privatisation has served only to preserve and consolidate ethnic divisions. But the most serious problem with any activist approach to engineering private sector ownership ratios along ethnic lines is the distinct possibility that it will become intensely controversial and corrupt, and serve as the basis on which predatory, rather than developmentalist forms of state-business links are forged (Evans 1989). While this can be addressed through more indirect mechanisms, or through greater transparency and competitive procedures (Gomez 2005), it is also important to be conscious of the great difficulty in implementing and monitoring such mechanisms in the post-conflict context.

Privatisation and private sector development, as such, remain at the heart of understanding the success or failure of post-conflict reconstruction. As this paper has sought to argue, the problems are many; the solutions are as yet few; and there are as such important gaps that require further research and fresh empirical work.
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